



**WARNING: ANNUAL PLANNING MAY BE HAZARDOUS
TO YOUR PRODUCT DEVELOPMENT HEALTH**



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Year after year, the cycle continues. A few months before the end of the fiscal year the meetings start. Strategy documents are tweaked. Operating plans are generated for the next year. What's the sales number? What can we spend on R&D to make the bottom line plan? The top-level numbers are approved. Make sure engineering gives sales what they need. Make it fit. *Sound familiar?*

An over-emphasis on detailed annual planning often leads to some dysfunction. In addition to strategy changes, product development portfolio changes should be driven by customer needs, market opportunities, resource availability, and new technological capabilities. These things typically operate with a much different cadence than a fiscal year. The best product development situation is when there is a continuous flow of products moving through the pipeline with a mix appropriate to meet both the sales targets and longer-term strategy. Often, fiscal year 'big bangs' and continuous flow don't mix well.

If you recognize one or more of the following seven syndromes in your business: think about the price you pay for it.

1. FULL STEAM AHEAD; SLAM ON THE BRAKES

Companies that have an annual hockey stick for sales and try to match expenses to it are very prone to spending in Q4, then cutting way back in Q1. They bake it into the plans. Some functions absorb this well; product development typically doesn't. The ability to spend early when you've got it, or cut back (and make it up later) when you don't, is limited if you want to have any predictability in your product plans.

2. HITTING THE VISIBILITY WALL

Early in the year you can see the whole year's plan in detail, but by Q3 the sales forecasts and business plans seem to only last through next quarter. By late Q4 when you finally have new sales forecasts for Q1...*oops*. Going from 12 month visibility down to one is never a healthy thing. It's a disaster after the dust settles from Q4 if Q1 is not good news.

3. DEATH BY DATA

Many companies want the detail about resources and expense levels for the year. That's reasonable, but be careful with the backup you ask for. Just because it's a fiscal planning cycle doesn't mean that future product development projects can all be planned to the dollar. There's a big difference between work in progress from last year (should already know what needs to be done), work that has a planning team (reasonable idea after they've had time to plan), and unknown work that you anticipate will hit later that year. If you need project backup data, backing-up this last category of work with hastily inserted detail is a colossal waste of valuable time and energy.

Another data issue occurs when there is animosity between the business and engineering folks coupled with a plan that doesn't fit. One weapon that this distrust breeds is the 'rock fetch'. The business side refuses to believe the data and asks engineering to fetch more and more detail. They start pulling on a thread and find they can't stop until the whole jacket is unraveled. Pretty soon, C-level folks are asking why individual engineers have to work on particular tasks. Engineering may fight back with requests to sales and marketing for more detailed business plan justifications and guarantees of customer sales. Whether the lack of credibility was earned or not, you have been sucked into a black hole.

4. *THE BIG SQUEEZE*

Product development has rolled up the plan and (*surprise!*) they can't get it all done. Those responsible for bringing in the business understandably don't like that answer. Product development may accept extra work that doesn't seem to fit as a challenge to stop all this unpleasant talk or everyone sharpens their pencils and trims a little from here and there until all the important stuff is mathematically possible. The result is collective agreement on a plan that has little chance of succeeding. The most insidious problem in many development organizations is over-commitment. It's insidious because you can't pin down any one solution to it. The staff tries to cover all of the work. Everything is making progress so, of course, it's all covered. Unfortunately most of it is late and there may be symptoms of other cracks in the system; like quality issues resulting from taking shortcuts. Being an inch thin and a mile wide just does not work.

5. *MAKE ROOM FOR 'THE BEST DEAL SINCE SLICED BREAD'*

This is a variation of the big squeeze that happens asynchronous to the annual plan. Between 'big bangs' a new opportunity comes up that you've got to fit into an already full development plan. There is no energy to go through another 'big bang' and everything that was already in the plan is important. You are forced to try to squeeze it in with a small tradeoff or two.

6. *APPLES, ORANGES AND PEARS*

If you are only planning once a year then it makes sense to cast a wide net on potential projects you could do and throw it all in the bucket to decide on the best. You ask sales, you ask marketing, and you ask the engineers. Pretty soon, you've got product development work-in-progress mixed with core technology ideas and new platform developments and IP development and customer specials and research and it goes on and on. That bucket may be several times larger than you can ever work on. Just unraveling the mess when you dump it out on the floor is a massive undertaking. You have to do it since these are strategic, once a year choices after all.

7. *TOO BUSY FOR THAT, HAVE TO PLAN*

A side effect of the annual 'big bang' planning is that participants are often sucked into weeks or even months of work. Other normal business activities like employee feedback or project oversight are put aside to get all this planning out of the way. The opportunity costs are huge. At least it's only once a year.



There has to be a better way.

It is safe to assume that fiscal years aren't going away.

Product developers also know that detailed project planning should be staffed properly and is best done during early phases of the project when you know enough to do it well. We'd love a system that reconciles these perspectives and keeps us from suffering from the dysfunctions of annual planning.



Here are seven things your organization can work on to get there.



1. LIMIT THE FICTION WRITING

The amount of detail you generate should be proportional to the amount you know about what has to be done. Invented detail not only saps energy but also winds up causing poor decision-making. On both the sales and expense side, if you have a rolling six quarter outlook think about implementing two quarters of highly detailed plans followed by two more of somewhat detailed plans; then have plans for two quarters that are less detailed but better than guesses.

On product development projects that are expected to start late in that time horizon, keep it at a high level. If you want to itemize those sorts of projects think of a category like “placeholder.” Alternatively, you may opt to put anything that is not already in progress or committed into a different category called ‘uncommitted capacity’ which is essentially what’s left after you’ve accounted for the work you’ve already committed to do. This can then be offset by ‘fiscal adjustments’ to account for growth (or decline) that helps make the operating plan whole.

Sales outlooks that extend beyond the existing (or at least safe and committed) product set should be done with great caution. If your sales outlooks are generated bottom up based on opportunities then they often suffer the same problems as fictitious product development projects. You may want to start thinking about filling in with top-down market projections and competitive analysis. With all these techniques, if you keep track of how you did – and learn from it – you tend to improve more quickly.

2. WHEN IT'S TIME TO PLAN PROJECTS - DO IT WELL

If product development doesn't have the capability yet to plan a project well, they sure can't plan a portfolio of projects well. Get good at project planning – *fast*. Get help if you need it. This is an important precursor to having credibility with any project estimate or commitment. When your portfolio is full of poorly planned projects, it becomes a ‘house of cards’ just waiting to fall.

3. PRIORITIZE

This is often one of the hardest things for top teams to do proactively, especially if you have the *apples, oranges* and *pears* problem. You pit vertical market against vertical or incremental changes versus game-changing breakthroughs. First, don't allow product development to accept huge resource challenges in order to avoid having to prioritize. You have tough decisions to make.

Next, if your portfolio has any real complexity to it, think about starting at a different place than the one big bucket. Create several smaller buckets. Categorize the items in your portfolio according to a strategic set of criteria that works for your business. It may be by market, or by project type (like core technologies, platforms, new products, sustaining changes) or some other categories. Once you have categories you like, assign resources (dollars, scarce people, whatever works for you) to each bucket so the buckets themselves represent the investment required to create a desirable strategic portfolio for your business. Then prioritize the projects vying for the resources in each bucket. This still requires hard decisions but it is much more manageable. You may even be able to divide the work up.

4. GET THE TOP TEAM ON THE SAME PAGE

Tapping into functional expertise and getting different perspectives is vital to planning. Having functions actively compete for the scarce dollars to be allotted is often counter-productive. When you layer this



political motivation with other factors that cause distrust between groups you get game-playing like the 'rock fetches' or functional groups which begin to think in terms of winning and losing. It is important to recognize that at the end of the day, there is only one side - the side of driving the business forward. Strategic planning represents a great opportunity to ensure high-level alignment. Then, as you turn that strategic plan into an operating plan, make sure there is still a *team* in the top team.

5. SHIFT FROM WORKING ON AS MANY AS YOU CAN TO DOING FEWER, FASTER

A philosophical point in planning decisions is whether you choose to work on as many things as your resources allow, or you work on fewer things by staffing for success, getting them done and then moving on to the next one. Most companies do the former while the latter approach winds up producing a higher overall throughput in your pipeline.

6. EXTEND YOUR PLANNING HORIZON

We know that as we approach the end of the year, we shouldn't have our future visibility end at Q4. Performing annual fiscal year planning with between a five and an eight-quarter outlook can help that problem a lot and has the positive benefit of not having folks game the system with a free pass when the reset button is hit for next year. For companies that have a habit of pulling shipments into Q4 from Q1, this planning also highlights the consequences of those choices from a longer-term perspective. If done well (in part by limiting fictitious detail) adding several quarters to your outlook can be incrementally more effort than the one-year outlook. The mindset changes are often the tough part – especially for sales forecasts.

7. CREATE A ROLLING OUTLOOK

Your world moves quickly. As you extend your outlook the details become more nebulous. Try plan adjustment cycles every one or two quarters. Even if your horizon includes only four quarters, by mid-year you have enough visibility to avoid running into the wall. Of course this includes sales forecasts, not just expenses.

If this move toward continuous refinement is a new and different approach for your business, it may be the most important shift you should consider. In fast moving businesses, predicting the future and depending on perfect execution of long-term plans is a losing strategy. Getting good at steering is vital and a move towards more continuous plan updates is a big step in moving the organization in that direction. It is a proactive approach to dealing with a dynamic environment.

Critics complain that, given how much work the 'big bang' annual planning is, doing it two or four times a year is inconceivable. I agree. A wonderful thing about a more continuous approach is that it actually enables you to kill the 'big bang'. Since you just refined the plan one or two quarters ago, your planning for the next fiscal year becomes a further refinement of previous work. There is still extra work for investors, boards of directors and other constituencies that march on a fiscal year cadence, but those are incremental, predictable efforts.

Instead of casting a wide net for all of the new things R&D could work on for the next year, think about developing ways of generating and vetting ideas in a more continuous way. Beyond the challenges of the wide net approach, why should good ideas have to wait half-a-year on average to be considered?

There are occasions when a 'big bang' may be needed. When there is a sudden fundamental market, technological or other strategic shift, then you may choose to go ahead and throw it all up in the air – hoping that you can manage through it efficiently and effectively.

On the other hand, a new fiscal year is not one of those events - since it is as predicable as the sun.