Laying the odds

Forecasting is a key Job for sales and marketing, according to Duncan Alexander

Ask anyone in sales and marketing what a forecast is, and you will get a wide range of responses. For some it will be a prediction of future sales, others will talk about it being a request to manufacturing to make products available, others will see it as a target, and yet others will start talking about software and processes.

The Collins Concise Dictionary offers these definitions:

Forecast *vb.* –casting, -cast or -casted. *1.* to predict or calculate (weather, events, etc.), in advance. *2.* (tr.) to serve as an early indication of. ~n. *3.* a statement of probable future weather calculated from meteorological data. *4.* a prediction. *5.* the practice or power of forecasting.

For our purposes, a forecast can be defined as 'a projection into the future of expected demand for products or services, given a stated set of assumptions.' This is different from a sales target which is an aspirational goal designed to motivate salespeople to sell more. Similarly, the forecast is not the budget – the budget is a stretch target for the business and the forecast should tell you whether you are likely to hit the target or not.

"The good news is that you can do something to help improve forecasts, because you bring a unique contribution to the forecasting process"

In forecasting, we strive for accuracy, because an accurate forecast enables us to make the perfect amount of stock to satisfy customer demands using the least amount of resources possible. In target setting we strive to meet or exceed the target.

The forecast is also different from the operational plans of the business. Plans for manufacturing, warehousing, and administration are informed by the forecast; they are the actions to be taken to make achieving the forecast possible.

Forecasts can be produced in numerous ways, using combinations of salespeople, demand planners, forecasting software, historic sales, and external data sources, so the forecasting process will look slightly different in every company.

Take a manufacturer of tinned soup, for example. They might start off their monthly forecasting process by using forecasting software to look at historic sales trends and produce a first-cut forecast. Then the account managers for major retailers or wholesalers might be asked to build on the base data with customer-specific knowledge about listings, promotions and rates of sale.

The new product development group might be asked to provide an overlay for the new recipes and pack sizes they plan to introduce later in the year. Then the sales and marketing directors might apply their experience and knowledge of overall market conditions to adjust the forecast up or down, perhaps in specific customers and brands to finally arrive at a consensus forecast: the projection into the future of expected demand for their soups, given their stated set of assumptions (listings, new products, competitor activity, and so on).

Do you recognise any of the following behaviour?

- Saying: "I can't forecast… my business is different!"
- Putting in low forecasts to get low targets or budgets
- Snowploughing the forecast back to the year end to avoid the inquest when you're below plan at half year
- Thinking: "The factories never make what I forecast anyway, so why should I bother?"
- Getting fed up with your supply chain people nagging about forecast accuracy.

If you have experienced any of these, then you are not alone. Most salespeople dislike forecasting – it's an administration task and they prefer to be out selling. Rightly so – that's their main job. However, in most organisations, forecasting is becoming more and more important as the penalties for being out of stock or having the wrong stock get more severe.

"You might be wondering why it is the job of sales and marketing to own the forecast. After all, doesn't supply chain manage the process?"

As a salesperson, you have a vested interest in better forecasts, as you bear the brunt of the customer reaction when you can't supply. The good news is that you can do something to help improve forecasts, because you bring a unique contribution to the forecasting process.

Why do you need a forecast?

Simply put, to give yourself the best chance of having what your customers want when they want it. In a make-to-stock business like a packaged foods manufacturer, ensuring that the right raw materials, packaging, labour and equipment are in place to build enough stock for a promotion with a retailer is dependent upon the forecast.

Even in an engineer-to-order business – for example making one-off valves for oil refineries – a forecast is critical so that materials can be ordered and to ensure that the people who can run the specialist lathes are not on holiday or double booked.

What happens when your sales and marketing activities have created demand that can't be supplied? You may experience customer service failures and cancelled promotions. There may be wasted advertising or trade promotion spend and your company could face costs to shift what stock you've got around the country. On top of these, you may see higher costs for last-minute purchases of raw materials and high manufacturing costs due to unplanned schedule changes.

This could lead to very unhappy consumers switching to competitors, new product launch failures, missed sales bonuses and some unpleasant discussions with the buyer!

On the other hand, if the forecast is too high, there is a different set of problems:

• Storage costs for the excess inventory
• Write-offs of obsolete stock
• Discounting your margin away to reduce the overstocks
• Potentially seeing your business run out of cash to pay suppliers or salaries!

At this point, you might be wondering why it is the job of sales and marketing to own the forecast. After all, doesn't supply chain manage the process?

Many salespeople would happily leave forecasting to supply chain people – given the opportunity. They think rightly that supply chain staff are always interested in improving forecasting accuracy, but wrongly that they are the best people to do it. Even if your business uses sophisticated forecasting software and it's main users sit in the supply chain organisation, sales and marketing personnel should always 'own' the forecast. The reason for this is simple – sales and marketing people are closest to customers and consumers

and know things about their plans and decisions which supply chain people and the best forecasting software in the world never can.

Salespeople work with customers to develop customer plans, execute new product listings and promotions. Marketing personnel are close to the consumer and understand market dynamics, develop marketing plans, plan advertising campaigns and develop trade and consumer promotions.

This is not to say that supply chain and manufacturing people – together with forecasting software – do not add significant value to a forecasting process

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– they do, but sales and marketing departments together are best placed to have the final say on what they think they are going to sell and when. Sales and marketing personnel have primary responsibility for volume and profit. Manufacturing and supply chain staff have primary responsibility for ensuring that the products are available in the right quantity, in the right place, at the right time.

Helping you to sell more

Remember the nightmarish list of problems encountered when supply can't keep up with demand? Who really enjoys being beaten up the buyer about delivery performance? Would it have been easier to sell in this year's range if they didn't have vivid memories of being chased by their store operations people over problems with supplies of last year's new product success? How long will it take the consumer to return to your product, now they've been forced to switch to the competitor's product because you were out of stock?

Selling is difficult enough without handicaps like these. Improving your forecasting process so that all your customers can buy what they want from you when they want is the easiest way to sell more.

Improving the forecasting process

1 Focus on the assumptions, not the number. How many times have you sat in a meeting arguing about the number in the forecast? The discussion usually goes along these lines:

"I don't think your forecast is high enough"

"Yes it is. I've spent a lot of time working on it."

"No it isn't. Make it match the target."

A much better debate would be based on assumptions:

"Competitor X is cutting its price, which means -8 per cent to us. We're launching our new product two months early which means +5 per cent, and we've gained distribution in 70 new convenience stores which means +7 per cent. I calculate the new forecast to be X."

People generally understand words better than numbers, and so can have a sensible debate about the assumptions. Agreeing on the assumptions should drive quick agreement on the number, because that should be a fairly mechanical exercise. Documenting the forecasting assumptions also lets us manage change to the forecast better. A few months later, when we've established that the impact of the competitor's price cut was actually -3 per cent, we can justify our new forecast, rather than just saying that "the number is different this month."

2 Consensus forecasting works best. Your marketing department will have a view on market growth and the effect of promotions. They might be able to tell you that despite your business being in the fizzy soft drinks market which is declining year over year, your forecast shows 15 per cent growth! Unless you know something about customers or price that they don't, this is priceless information. Predictions

What is sales and operations planning?

Sales and Operations Planning (S&OP) is a forward-looking business planning process which joins up the views of marketing, sales and supply people so that decisions such as how to balance the new demand forecast with constraints in manufacturing are taken in a co-ordinated and timely manner.

Typically, a monthly process consisting of meetings, deadlines and events (such as forecasting)

will review the future over an 18-month horizon, looking for significant changes in assumptions since the previous month.

Decisions are then taken to resolve potential issues. For example, to fulfil demand for a large promotion or new product launch, it may be necessary to buy new packaging equipment. The lead-time to specify, buy, install and commission this equipment might be many months so, identifying the need and taking the purchase decision as far in advance as possible, will minimise the chances of not being able to meet demand.

Many of the supply problems salespeople are experiencing today could have been prevented with the foresight gained from a simple but robust S&OP process, if you had been running one a year ago!

from forecasting software are another good input to the consensus forecast process.

3 Don't rely on forecasting software alone. Forecasting software can help predict the future and handle the numbers better than a spreadsheet, but it can only go on history. If the sales history you've fed it is wrong (perhaps the history was based on actual sales invoiced last year, which were depressed because of production problems, rather than the real demand), the forecasts it produces will be inaccurate. Even more important is the fact that you know more about your customers and your plans than software ever can. So, if you are planning a big promotion which you didn't run last year, you'll have to adjust upwards the system generated forecast.

4 Put the forecast to work by sharing it across the business in a sales and operations planning process. Creating a better forecast will be useful for planning purposes, but it will be of greatest value if shared across the business in a structured way. Manufacturing will be able to put in place plans to cope with increases or decreases in demand, and share with you potential problems early enough for you to change your plans before you commit them to customers. The finance department won't come to you for an updated forecast for the year end, as you've already done it. Marketing will be able to see your forecast for new products rather than chase you for an ad-hoc one. See *What is sales and operations planning?* on page 28 for an introduction to the strategy which a future article will cover in more depth.

5 Make it important – measure forecast accuracy and bias. Forecast accuracy or error is how far away actual sales were from the original forecast. Forecast bias is when actual sales are persistently above or below the original forecast. Measuring forecast accuracy and bias will firstly show people that forecasting is important and, secondly, help identify where more training is needed or where you are using the wrong forecasting techniques.

6 Forecast what you can profitably sell, not what you think manufacturing can make. A key way to improve forecasting is to be clear that you are forecasting what you want to sell – unconstrained demand. Not your best guess of what manufacturing might be able to make. You are asking for certain volumes of products to be made available at certain times. It is up to manufacturing to work out how best to supply your request.

There may be times when they cannot supply or can only supply at huge incremental costs, in which case you would jointly agree whether to constrain demand later in the sales and operations planning process. Second guessing the manufacturing department's capabilities – by constraining your forecast too early – guarantees that they won't plan to make what you need to sell!

7 Seek help from your customers and suppliers. Your customers know more about their purchase intentions than you do, so tap in to this valuable resource. Share your forecasts with your customers and ask for their input. With major retailers this may be fully automated, in other industries more informal, but there are clear benefits in both cases. Your customers are just as interested in getting good service from you as you are in supplying it.

At the other end of the supply network are your suppliers. They may have a view on your likely purchases which may assist your forecasting effort, and seeing your forecast will, in turn, assist theirs.

Forecasts can always be improved

Benjamin Franklin is famously quoted as saying: "Nothing in life is certain except death and taxes." We might say: "Nothing in life is certain except that forecasts are always wrong." Just because forecasts are always wrong (or lucky) doesn't mean we should give up, however. There are always ways to improve them. ■

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