IBM

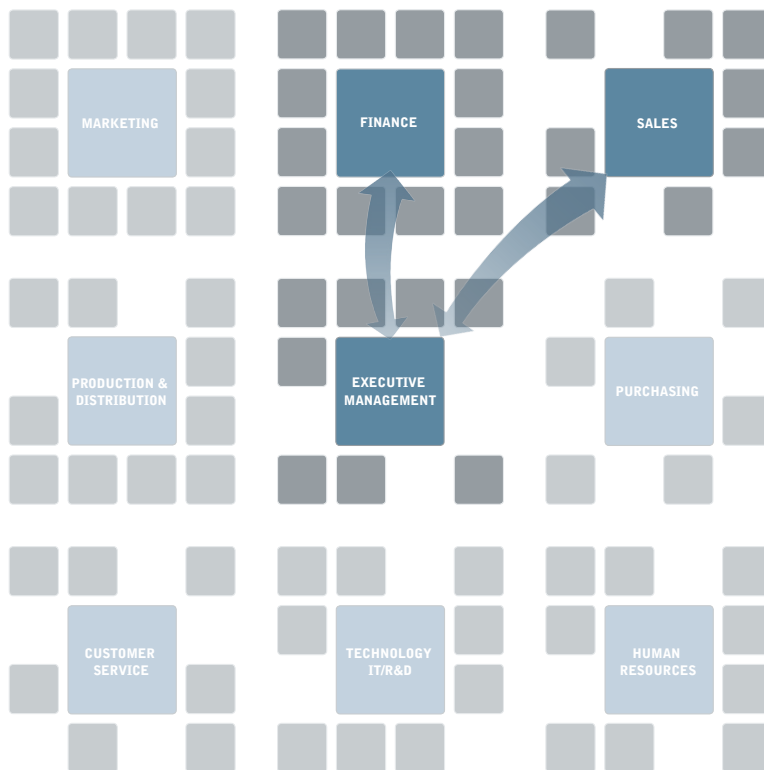# Sales Planning and Forecasting Performance Blueprint

Cognos software

Sales Planning and Forecasting helps companies update operational and financial action plans and revise near-term sales targets in response to actual or anticipated market events.

For most companies, the Sales Planning and Forecasting process is their life-blood—it helps them manage corporate revenue expectations. Every corporate department and function uses sales projections to determine action plans and resource investments—like headcount or capacity—required to achieve individual objectives.

Consider the planning and forecasting process for a sales model that offers a broad product line through distribution channels and/or strategic customers.

The process is characterized by the need:

- To establish a consensus forecast between sales, finance, marketing, and operations.

- To understand customer and product profitability as parts of the sales planning process.

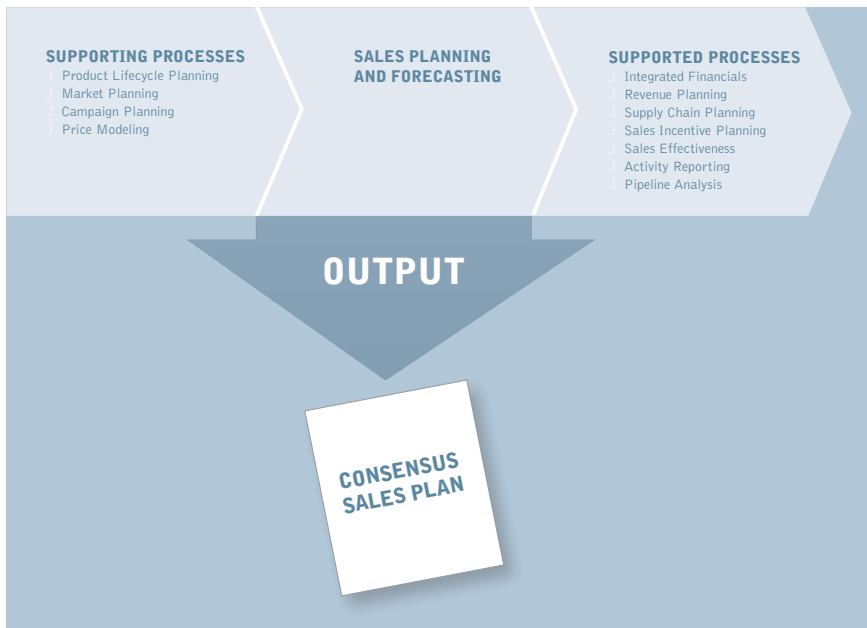- To synchronize a revised sales forecast with the corporate P/L.

The key output of the Sales Planning and Forecasting Process is a consensus sales plan.

The sales planning and forecasting process does not exist in isolation. Marketing and R&D plan for new products that replace existing products in order to grow revenue in support of the business plan. Marketing campaigns generate leads to help create a sales pipeline, while adjusted pricing strategies improve product differentiation and boost sales.

In turn, sales planning and forecasting supports a number of sales management, operations, and finance activities:
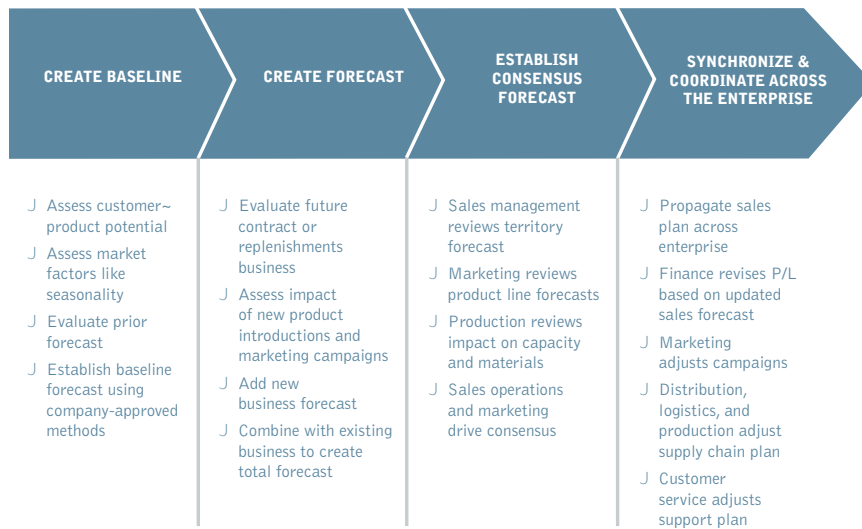
- Finance creates revised revenue plans based on the latest consensus sales forecast and updates corporate income statements.

- Distribution, logistics, and manufacturing adjust inventory levels, capacity, and resource plans in order to support the revised sales projections.

- Sales operations performs pipeline analysis to assess forecast uncertainty.

- Sales management determines variable compensation outcomes based on sales attainment.

SUPPORTING PROCESSES
- Product Lifecycle Planning
- Market Planning
- Campaign Planning
- Price Modeling

SALES PLANNING AND FORECASTING

SUPPORTED PROCESSES
- Integrated Financials
- Revenue Planning
- Supply Chain Planning
- Sales Incentive Planning
- Sales Effectiveness
- Activity Reporting
- Pipeline Analysis

OUTPUT

CONSENSUS SALES PLAN

A baseline forecast is adjusted according to specific customer dynamics. Sales operations drives a consensus sales forecast between sales, marketing, finance, and operations. The revised sales plan is propagated cross-enterprise.

Companies that sell a broad range of products to a limited number of distributors or strategic customers forecast for each customer by product. A sales representative evaluates customer demand potential for the forecast period, taking into account market factors such as new competitive products or pricing tactics or seasonality. The representative then creates a forecast baseline, using company-approved forecasting methods, often based on statistical techniques.

• Sales uses its understanding of existing or replenishment business and the impact of new product introductions and marketing campaigns on new business to adjust the baseline and submit a revised forecast for review.

• Sales management reviews the forecast to ensure it meets territory or team objectives.

• Marketing reviews the forecast to ensure it meets product line objectives.

• Logistics, distribution, and production review the sales forecast to validate it against capacity or materials constraints.

• When a final consensus sales plan is propagated across the corporation:
   – Finance creates a revised P/L.
   – Marketing adjusts marketing campaigns or new product introduction plans.
   – Operations adjusts resource plans.

| CREATE BASELINE	CREATE FORECAST	ESTABLISH CONSENSUS FORECAST	SYNCHRONIZE & COORDINATE ACROSS THE ENTERPRISE
⌐ Assess customer~ product potential	⌐ Evaluate future contract or replenishments business	⌐ Sales management reviews territory forecast	⌐ Propagate sales plan across enterprise
⌐ Assess market factors like seasonality	⌐ Assess impact of new product introductions and marketing campaigns	⌐ Marketing reviews product line forecasts	⌐ Finance revises P/L based on updated sales forecast
⌐ Evaluate prior forecast	⌐ Add new business forecast	⌐ Production reviews impact on capacity and materials	⌐ Marketing adjusts campaigns
⌐ Establish baseline forecast using company-approved methods	⌐ Combine with existing business to create total forecast	⌐ Sales operations and marketing drive consensus	⌐ Distribution, logistics, and production adjust supply chain plan
			⌐ Customer service adjusts support plan

Multiple organizations participate in the Sales Planning and Forecasting Process to arrive at a consensus sales plan.

The sales and operations planning teams typically update forecasts on a weekly or monthly basis. A baseline is established with an eye towards overall sales targets. Historical forecast information by customer and by product can be a key resource for baseline definition.

Market factors such as new product introductions and marketing campaigns play a role. Adjustments based on new and current business help shape the total forecast.

- Sales management uses its judgment to validate forecasts—particularly important when customer relationships are shuffled between individual sales representatives.

- Marketing reviews the forecast to ensure alignment with product line objectives—asking for example, does the revised monthly forecast align with a new product introduction?

- Operations reviews the forecast to ensure there is sufficient capacity and materials to meet projections. The consensus sales forecast leads to a revised revenue plan and a revised P&L forecast.
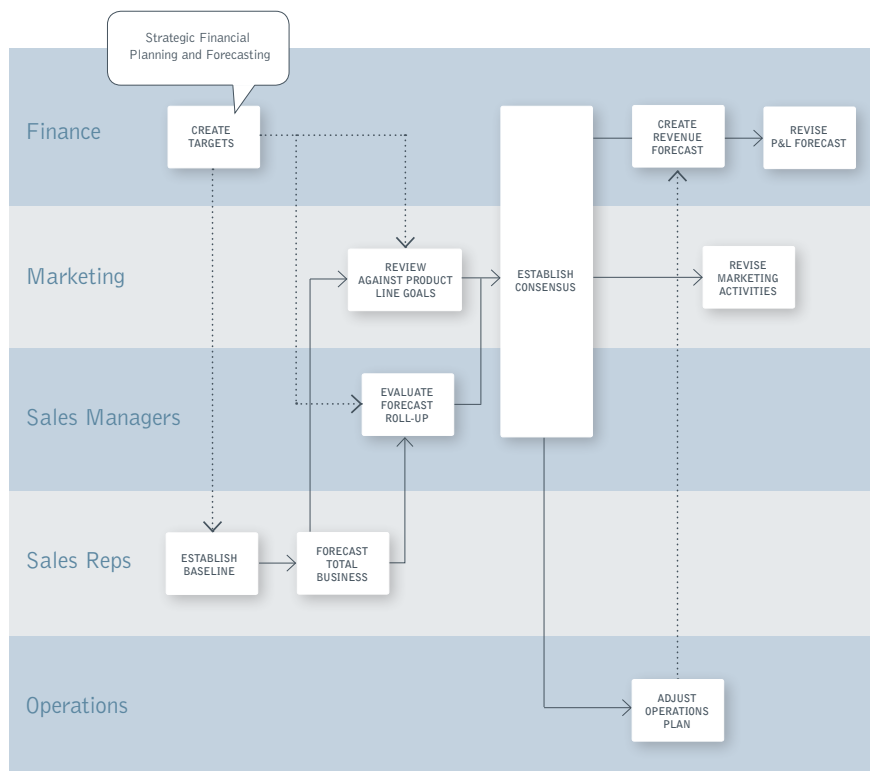
Most companies plan sales forecasts using CRM and spreadsheet systems. Consensus plans are error-prone and lack relevant inputs from the people closest to the business. Result: unacceptable forecast accuracy.

Customer Relationship Management (CRM) systems ably capture customer information and aggregate sales forecasts. But CRM systems do not help the people closest to the business establish a baseline, evaluate internal and external market factors, and arrive at a revised consensus forecast. This is particularly the case where the business requires forecasting a broad range of products for each major customer.

Many companies use spreadsheets to help capture relevant sales projections at the point closest to the customer. The result is a disconnected, manual process spanning sales, marketing, finance, and operations. But most forgo the pain and simply forecast at a higher level (product families) using dollar amounts instead of units of product models. They leave it to marketing to disaggregate the high level forecasts into views that can be used by other functions in the organization. However, marketing is typically too far removed from the actual customer dynamics to forecast reliably.

Furthermore, spreadsheet-based planning inhibits consensus. Version control and accuracy issues impede productive collaboration. While companies can complete the process in a month–or even a week–plans lack critical sales insights from the people closest to the customer base. The result is low forecast accuracy.
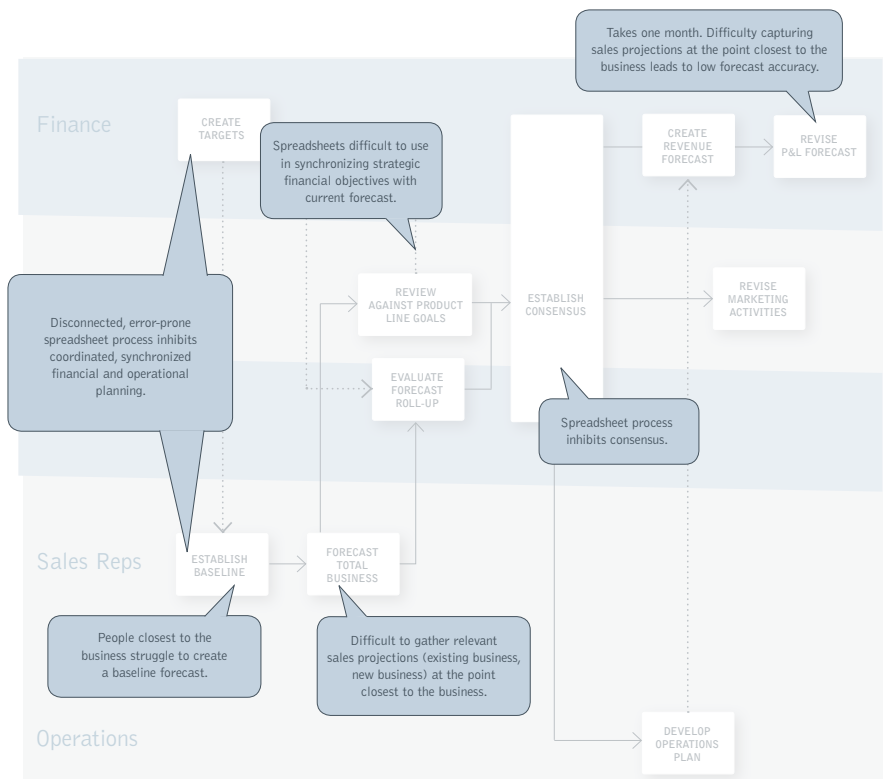
High-performance companies replace manual spreadsheet process with driver-based planning and integrated workflow capabilities to reduce errors, improve control, and increase accountability.

Enterprise planning lets sales representatives view CRM information alongside historical forecast data by customer and by product. Company-approved forecasting methods—like trend forward based on past three-month forecast—support baseline creation. Sales staff can forecast a broad product line for each customer effectively—a difficult process with spreadsheets.

• Management by exception is enabled. Market events—like special promotions or new product introductions—can be viewed quickly to help adjust the baseline.

• Sales management can evaluate profitability by customer to see which customers should get preferential service.

• Marketing does not need to guess at product forecasts. Those closest to the customers—sales staff—are easily able to forecast by product and by customer, greatly improving forecast accuracy.

• Integrated workflows allow operations to view updated forecasts quickly to check capacity and material constraints.

• Finance can easily create a revised revenue plan and P/L. Enterprise planning solution completes the process in a month or less with increased forecast accuracy.
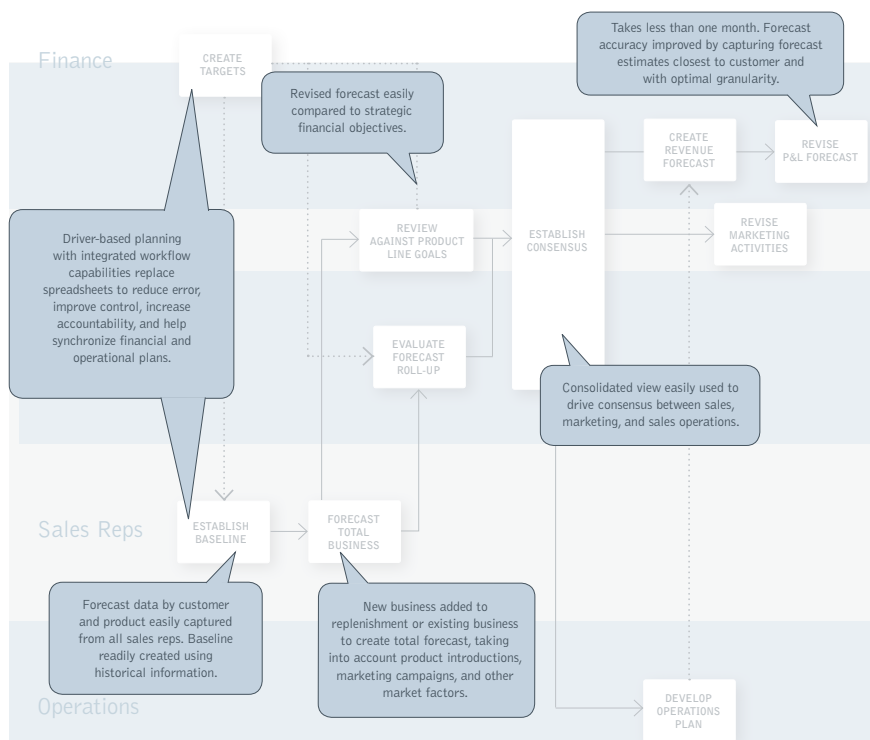
The IBM Cognos Sales Planning and Forecasting Blueprint enables an integrated sales planning process that aligns sales targets with corporate objectives.

IBM Cognos Plan-to-Perform Blueprints are pre-configured solution components that allow companies to jump-start enterprise planning implementations. Blueprints are pre-defined data, process, and policy models that encapsulate best-practice knowledge from leading customers in specific business process areas and the IBM Cognos Innovation Center for Performance Management.

In the hands of IBM Cognos Implementation Services Consultants, Certified Implementation Partners, or experienced customers, Blueprints streamline implementation schedules and boost project success rates.

The Sales Planning and Forecasting Blueprint enables sales and marketing to focus on the most profitable customers and products through an effective, intuitive, integrated planning process. The Blueprint resolves the business challenges of:

• Difficulty capturing sales projections from people closest to the customer–helping sales representatives create forecast baselines based on historical data, and helping them incorporate market factors to create revised sales projections

• Difficulty managing potential sales shortfalls

• Difficulty aligning sales forecasts with supply chain processes across the enterprise

The Blueprint provides the structure for sales and marketing to ensure that plans are aligned with corporate targets.
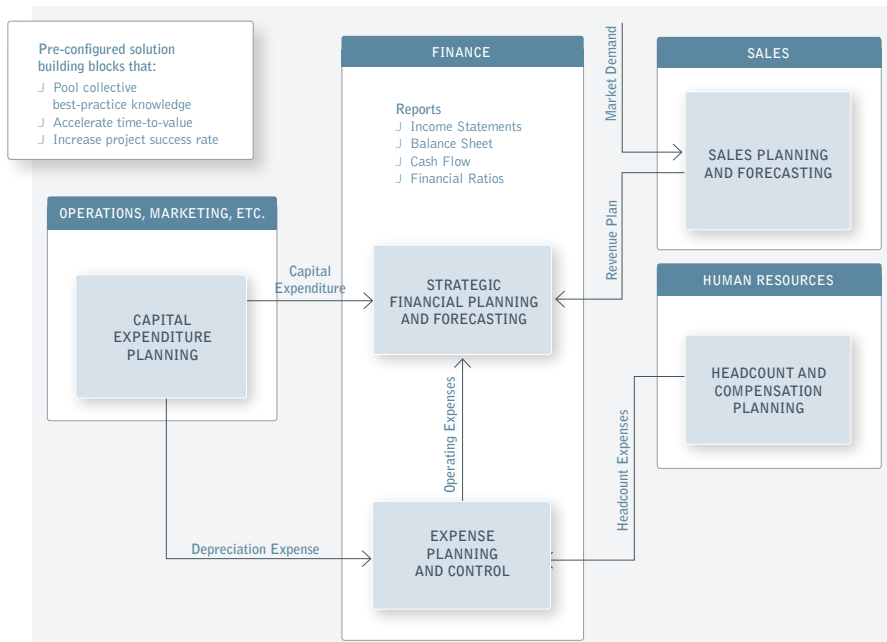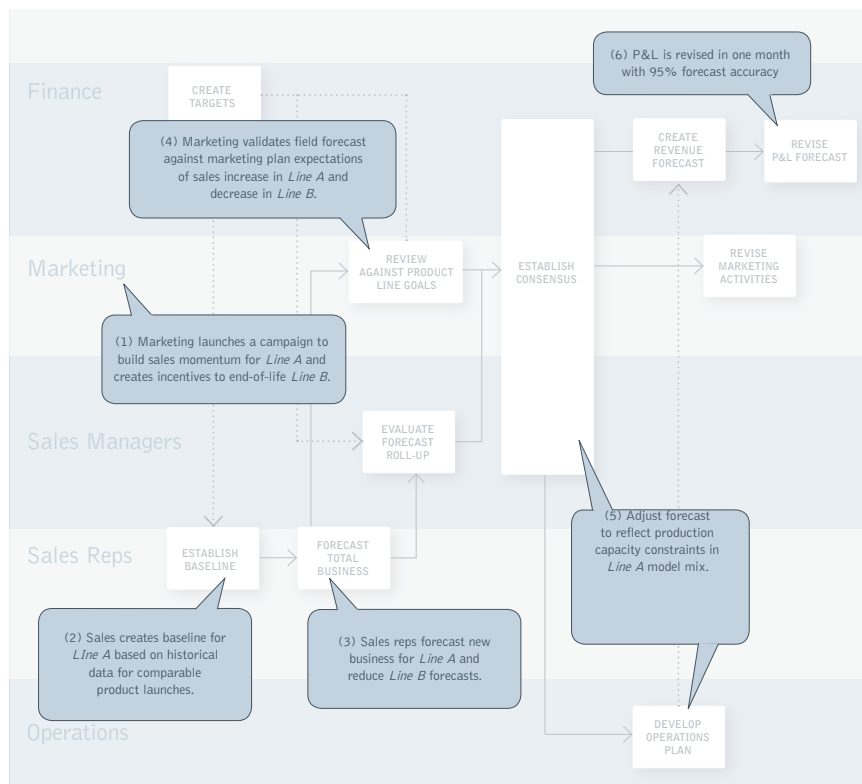
A best-practice workflow enabled by the IBM Cognos Blueprint quickly captures detailed sales forecasts at the point closest to customers and improves forecast accuracy.

A company launches a new product–Line A. Marketing anticipates end-of-life for Line B. During the forecasting period, sales representatives create a baseline forecast for all products for each customer. For some products, the baseline arises from trend projections of the prior three-month forecast– a fairly simple process.

Sales also creates a baseline for Line A using historical forecasts for similar product launches, then adjusts specific Line A model forecasts based on individual customer requirements. Some customers desire a greater mix of high-end models than other customers. At the same time, sales representatives reduce Line B forecasts to reflect end-of-life planning. The entire sales forecast is rolled up for review by sales management.

Marketing validates field forecasts against the product line business plan. Production reviews the forecast for Line A and notices that projections for high-end models exceed planned capacity. Production decides to add an extra work shift in order to meet two-month projections. Finance quickly creates the current month's revenue forecast based on sales projections. Forecast accuracy runs at 95 percent due to appropriate market insights captured at the point closest to the customer.

Finance

CREATE TARGETS

(6) P&L is revised in one month with 95% forecast accuracy

(4) Marketing validates field forecast against marketing plan expectations of sales increase in *Line A* and decrease in *Line B*.

CREATE REVENUE FORECAST

REVISE P&L FORECAST

Marketing

REVIEW AGAINST PRODUCT LINE GOALS

ESTABLISH CONSENSUS

REVISE MARKETING ACTIVITIES

(1) Marketing launches a campaign to build sales momentum for *Line A* and creates incentives to end-of-life *Line B*.

Sales Managers

EVALUATE FORECAST ROLL-UP

(5) Adjust forecast to reflect production capacity constraints in *Line A* model mix.

Sales Reps

ESTABLISH BASELINE

FORECAST TOTAL BUSINESS

(2) Sales creates baseline for *LIne A* based on historical data for comparable product launches.

(3) Sales reps forecast new business for *Line A* and reduce *Line B* forecasts.

Operations

DEVELOP OPERATIONS PLAN

The IBM Cognos Sales Planning and Forecasting Blueprint is built upon proven best practices from companies like Hollister, Inc.

Hollister, Inc. is a privately held, mid-sized manufacturer of surgical appliances and supplies, with more than 2,000 employees and distribution in over 90 countries on six continents. In the intensely competitive medical appliances market, companies must combine successful research and development with high-quality, low-cost manufacturing.

Hollister struggled to drive a consensus forecast between marketing, sales, and production that was aligned with corporate objectives. The company's reliance on a manual spreadsheet process created inconsistencies across functions with diminished accountability and control.

IBM Cognos® Planning allowed Hollister to establish an integrated sales planning and forecasting process and realize tangible business value.

Improved forecast accuracy led to reductions in inventory, as more of the right product and less of the wrong product was kept in stock. Manufacturing costs were also reduced as better marketing~ production coordination led to improved new product introductions.

Hollister

- Medical/Healthcare Products
- Revenues $200 million
- 1,400 employees globally

BUSINESS CHALLENGES

- Spreadsheet planning created inconsistencies across sales, marketing, and production
- Lack of confidence in plans and forecasts
- Difficulty keeping pace with growth
- Low ownership and accountability

SOLUTION APPROACH

- Cognos Planning implemented to automate and integrate the sales planning and forecasting process

BUSINESS VALUE DERIVED

- Increased forecast accuracy
- Reduced manufacturing costs by improving marketing-production coordination
- Increased inventory turns because of integrated sales forecasting with production

IBM COGNOS SOLUTION MAP

	FINANCE	SALES
	EXEC. MGMT.	
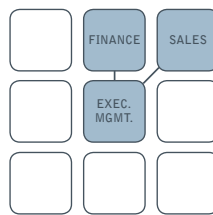
"Previously, we made forecasts based on an individual's subjective assessment. Now we make them based on several years of historical data including seasonal patterns. Senior management reviews the methodology to validate the approach. For manufacturing, having a clearer picture of demand by product by months made a difference in trimming costs and lowering inventories — improvements that have been growing each year."

– Senior Financial Analyst
  Hollister, Inc.

About the IBM Cognos Innovation Center For Performance Management

The IBM Cognos Innovation Center for Performance Management is dedicated to the understanding, adoption, and implementation of next-generation practices in planning, analytics, performance management, and business intelligence competency. It is a consortium of industry leaders, practitioners, thought leaders, forward-looking executives, and technology experts experienced in, and committed to, the advancement and successful application of technology-enabled performance management best practices. The Innovation Center seeks to assist organizations in optimizing the alignment of their plans, processes, and resources with corporate goals and strategies.

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

For further information or to reach a representative: www.ibm.com/cognos

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