Reliable sales forecasts - is it an Utopia?

In every commercial organization sales forecasts are the fundament for most crucial decisions. Based on sales forecasts, executives decide inter alia, on new launches, product market de-listings, marketing strategies and promotional tools (especially promotional effort behind different brands), but also take more operational decisions like logistics and stock management planning.

A good sales forecast has two main characteristics :

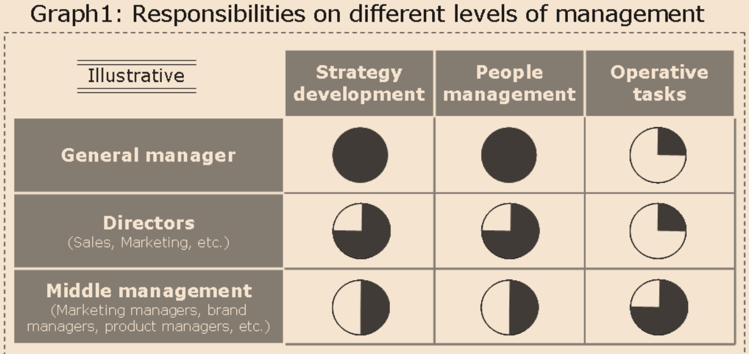
- Is based on sound market analysis and market insights,
- Its final figures are accompanied by the description of the assumptions taken.

The better the sales forecasts reflect the reality, the higher the chance of good managerial decisions and finally the chance of commercial success. On the other hand the better and deeper understanding of assumptions taken, the higher the chance of an effective contingency reaction to market changes.

Strategy development and planning are key tasks of executives and directors. Depending on the organizational structure of the company, executives and directors might get involved in different extend into operational processes, but in general, the lion share of their time is to be utilized in management and business development processes. (see graph1).

Why it is not always true, and so often the sales forecasting process is far from being perfect? Because of the "forecasting traps"

Graph1: Responsibilities on different levels of management



BEWARE (AND BE AWARE) OF THE 3 MOST COMMON FORECASTING TRAPS

Throughout our experience in different cultures, companies, geographies and business sectors, we have repeatedly observed the same pitfalls whilst preparing market prognosis and sales forecasts. Falling into them may lead into the vicious circle of poor performance effectiveness and negative sales results (graph 2).

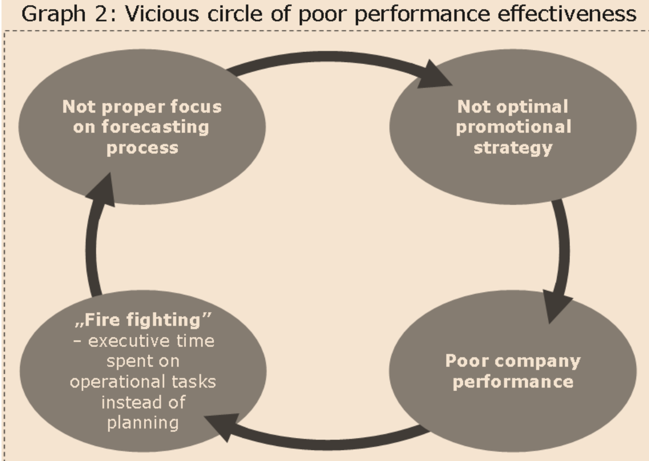
Trap # 1: Time management is vital

Proper forecasting is a time consuming activity, which can not be done "overnight". We observe that managers tending to procrastinate the activities involving forecasting until the last minute. Their agendas are full of other urgent tasks - more focused on the daily "firefighting", which makes them start working on the sales forecast after it becomes, itself, a burning issue. Such attitude results usually in not enough time for proper readiness, where and when the final forecasts are prepared (in the best case) without unbiased hypotheses set up, documentation of assumptions, and organized decision trees, which translates into a lack of transparency to other managers – and final forecasts that cannot be challenged for consistency and feasibility. This is just the "bad case" scenario -in the worst case the sales forecast turn to be prepared on the "+5%" basis.

Trap # 2: The Threat of the "+5%" forecasts

The same lack of time for conducting proper forecasting presented above, can turn into a more perverse and extreme situation, leading product managers and executives to base the forecasts solely on the historical sales level and business judgment, increased by a nominative rate, or by the corporate guideline expectations. This approach omits very often market changes, which could not only positively or negatively influence forecasts, but more important could be used as key insights for development of marketing strategy.

Graph 2: Vicious circle of poor performance effectiveness



Trap # 3: Subjectivity does not help

Sales forecasts development at product level is very often delegated to product managers, On the one hand, this is good news, as it frees up time of executives and puts the burden of responsibility on the people who knows the most about the product. On the other hand very often, product managers get only the task without any guidelines of how to approach it. As a result, the executive receives a set of sales forecasts which are not cross comparable and cannot be used as a base for portfolio decisions, like prioritization of promotional investment by brand or resource allocation .

THREE SIMPLE STEPS TO MAKE SALES FORECASTS ROBUST … AND LIFE EASIER

There are many alternative ways of preparing a solid product or market forecast, but as it is a complex process, there is an ultimate need of usage of a structured approach. For most pharmaceutical products, which are already marketed, the forecasting process may be organized into three staged steps.

Step 1. Market definition

The first question that needs to be answered is which is the market in which the product under analyses is competing. The market can be a single molecule, if the product is not competing with other molecules, or a whole class, if molecules within it are interchangeable, or a group of product's that have similar promotional message, or… each case should be considered individually.

The market definition is of paramount importance as the key driver the ranges in which the market forecasts will move. The market definition is not set on stone, and should be reviewed at the very beginning of every forecasting exercise as the market changes constantly, new products are developed and launched, and old ones may change indications.

Step 2. Thorough market analysis

The market analysis includes two main parts: general competitive assessment and marketing mix analysis.

The general competitive assessment must answer the following questions:

- What is the size of the defined market and how it evolved over the past several years?
- what are the characteristics and positioning of the competing brands within the defined market and the importance of the product for each manufacturer
- What are the historical and possible future changes in competitive landscape.

At the same time, marketing mix analysis is to be carried out. Information on all competing products is gathered regarding:

- available packs and formulations,
- prices and reimbursement status,
- promotion and resources behind competing brands,
- distribution penetration

Then, and only then, after all the necessary market information is gathered and conclusions are drawn, the person responsible for sales forecasts development is properly equipped to move to predicting the future.

Step 3. Forecasting

With all the historical analyses form the initial input for development of market and product prognoses, and based on the information and analyses conducted during the second step of the forecasting process, as well on international benchmarks and sound business judgment, it is possible to make reliable assumptions for the future market evolution. These hypotheses are included into the forecasting. This stage of the forecasting process is divided into three sub-parts: (a) market and product volume forecast, (b)price evolution and (c) product value forecast.

All these three sub-parts are developed simultaneously, as it is not possible to make assumptions on volume sales without setting prices of different products in the market, or guesstimate certain level of prices without considering number of players in the market, sales of competitive products and their market shares.

Once the forecasts are developed and assumptions are documented, the results may be challenged and validated by third party experts (e.g. Marketing Director, Sales Director, Medical Director, contractor economist, consultant etc.).

KEY TAKEAWAYS

Sales forecasting' accuracy based on best practices is paramount due to its impact in marketing strategy, operational processes and, last but not least, incentive and compensation for many employees.

Once the forecasting process is set properly the company can benefit from it for a long time and the executive just needs to keep the wheel spinning, so it is really worth to give it this initial momentum. No matter how the forecasting process is organized, the ultimate ownership of "final numbers" belongs to the key executives.

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Graph 3: Advantages of effective planning process