The yearly budgeting exercise– an opportunity for the alignment of strategy (forecasting) and tactics (resources)

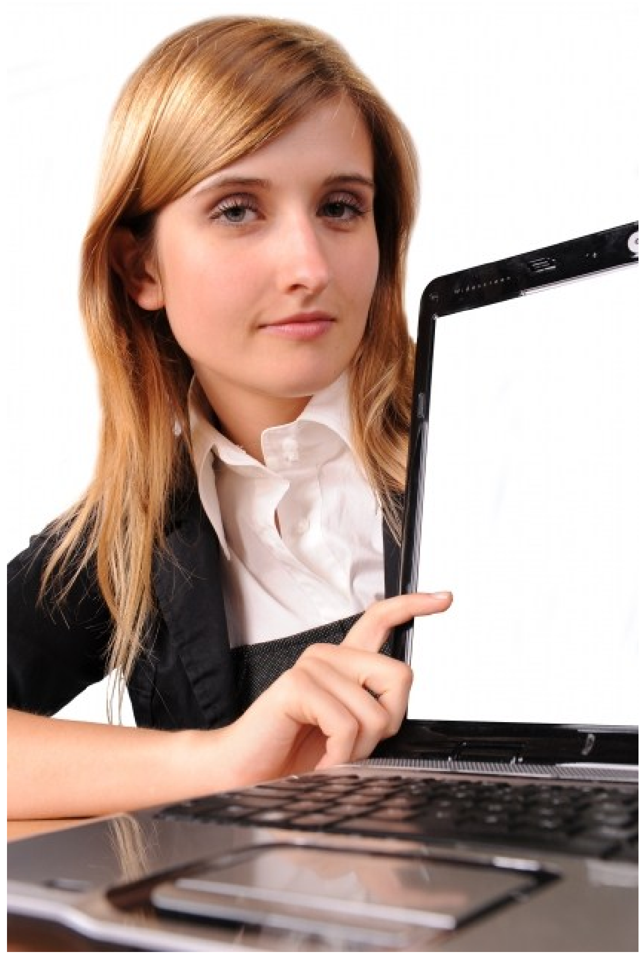
Structure follows strategy. That is, at least, what Chandler said in the sixties. At least once per year this 'mantra' is intended to be followed, that is, during the budgeting period. At that time, at least, in theory, resources are allocated to achieve a vision, in the form of revenues, profits or minimization of danger. But, is the mantra really followed?

Forecasting, the first step of budgeting

The budgeting process should start with a good, solid forecasting exercise. To be the first step of a complicated process, it does not make the kick-off of the procedure easier. Forecasting is both an art and a science, which needs strong quantitative analytical skills, a thorough understanding of the market dynamics, and a good dose of gravitas to break free and independent from internal pressures and politics.

This forecasting exercise is no other thing that predicting, in a first instance, the behaviour of the relevant market, and then, the behaviour of the products within this market. The prediction process of the market conduct in volume (and value!) on the coming 24-36 months should consider as much the core dynamics, as well as the impact of substitutes, new entrants and actions of current incumbents –including the own company's. Until here, the structure could very much be aligned with Porter's analyses, but the key difference on the pharmaceutical sector, is that this exercise should also look at potential governmental and regulatory actions, and also to the shift of treatment and prescription paradigms in and out of the therapy class.

Once the market forecasting exercise is finished and agreed, the next step is the forecasting of the



product dynamics within the already profiled market. Here is where the real fun starts – how should this product forecast be performed? Based on resources pulled behind the product? Based on a sound company, division or TA strategy? Maybe the PM has a vision? Proactively responding to the market, defending from potential moves or just being a sitting duck? Does the product forecasting contain a risk spread and contingency planning for it?

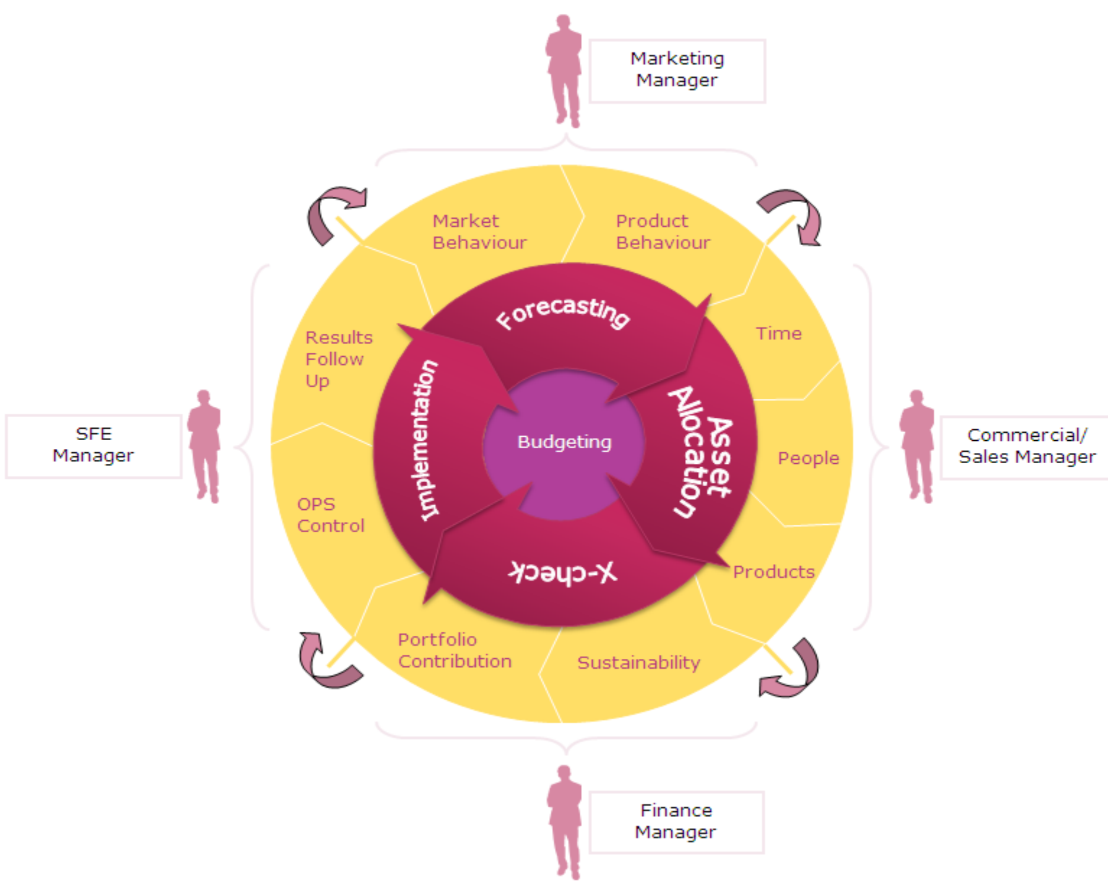
The product forecasting exercise is a vicious (or virtuous) cycle; sales can always grow more, the more resources are put behind – at which moment it is worth considering, what is the objective of growth, top- or bottom-line? There is a fine line that moves from top-line growth to bottom-line diminishing returns on investment, if the product forecasting exercise is not accurately performed.

On multiple pharma- sector forecasting exercises studied during various types of projects in WE & CE, we have observed consistent mishaps. Two of them appear without fail (and almost compulsively) every time, regardless of the organization type or size. The first 'glimpse' to good forecasting practice is a complete disregard for the market dynamics – either by ignorance or by interest, before performing the product forecast. The second 'mishap' is a total disconnection between the team that delivers the forecast and the functions that set up the resource utilization… with devilish impacts on long term final company results.

Resourcing: Tactics and the utilization of assets aligned with the forecasting outcome

We have dealt until now with just the first part of the yearly planning, forecasting, that aligns with the growth strategy of the company. Let's turn now the attention to the other large contributor to the budget headache – and the largest contribution to the diminishing returns on the P&L: the costing and utilization of the sales force.

Assuming that the forecasting exercise reflects upon the capability of the company to align assets to reach to the desired vision, it is time now to decide what type of assets should be put in place, when and how. There are three different assets that need to be considered in a concurrent manner as resources: people (as sales force), time (as universe, reach, frequency and utilization rates) and products (as promotional grid and position).



And they do not follow a linear, simple equation that derives in results.

The allocation of resources must take into consideration a myriad of small details, internal in the large extent, but also external, and for each different product. Just to enumerate some of them related to, and specific to a given product; factors to consider with direct impact are promotional grid, targets visited, mirroring impacts, position of the product in the grid, frequency of visits per target group, reach within the universe, value of visited segment, utilization rates, carryover…

Are these factors routinely calibrated and observed for the optimal utilization of the sales force? The answer is "no exhaustively", "not always", "not all of them", not to let alone "at all". The main issue is the complexity of the relations and the impact between all of them; this impact is not always transparent, not always proportional or constant in all situations, and not always intuitive. If we add to this that this needs to be made for each product, and then for the combination of all of them, it is easy to understand that these factors are dismissed by operational teams usually stretch on the responsibilities and daily firefighting.

Alignment of forecasting and asset utilisation – quick low hanging fruit results guaranteed

The complexity of the budgeting process is something well known –and commonly suffered by all the levels of the organization; nevertheless, it is almost considered as part of the fate. This does need to be the case, though; the good news is that the complexity of the process can be minimized by taking one step at a time, and carefully observing some basic rules and step-wise process. This staged process builds bottom-up the status quo, and aligns with a top-down audited forecasting process, highlighting the 'dislocation' points. The bad news is that, without a solid knowledge on the bases, it is difficult to realize the overarching process and the impact on the alignment of resources vs expected results.

An initiative that includes awareness of the common mishaps, education on the basic concepts and methods, re-alignment of the current budget and staged best-practices process only takes 6-8 weeks, and makes wonders for the whole organization, with immediate 'low hanging fruit' benefits to each of the stakeholders, and sustained results for 3 to 5 years

For further information on best practices, forecasting and resourcing alignment, check www.zarzia.com or contact us at office@zarzia.com