



Answering the Sales Forecasting Challenge
for Manufacturers

May 2010

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Executive Summary

A continuing conundrum in business is that the majority of companies are clear on the importance of a good sales forecast, yet only a minority are able to achieve a sales forecast they have confidence in. This white paper will explore the value that manufacturers place on sales forecasting, the barriers they encounter to achieving a good sales forecast, the impact to their business and the key challenges to be overcome.

This study clearly shows that leading companies are confident in their sales forecast and achieve favorable results vs. laggard companies who are less accurate and confident:

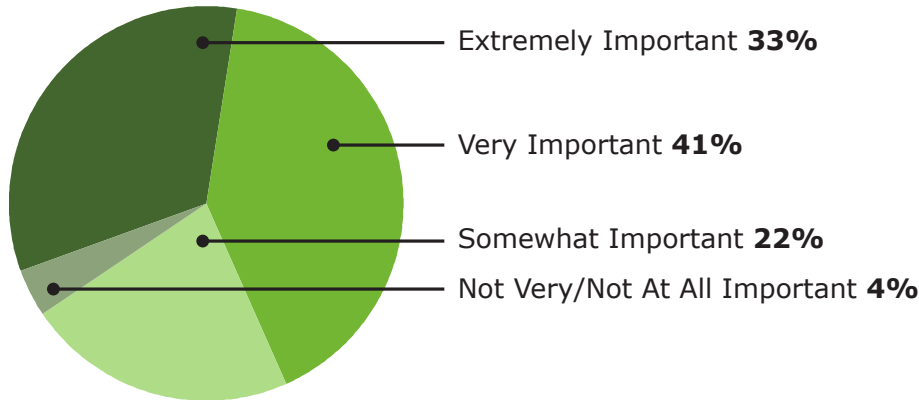
- Forecast accuracy is higher
- On-hand inventory, as a percentage of overall sales, is reduced
- Unfulfilled backlog, as a percentage of overall sales, is minimized
- Inventory obsolescence, as a percentage of overall sales, is lessened.

The findings in this white paper are based on a market research survey administered over the Internet in December, 2009. The study was conducted by RBInteractive Research Group on behalf of Right90, Inc, a provider of sales forecasting solutions. In total, 274 manufacturing executives and managers employed in their operations, sales, IT, supply chain or manufacturing production business units were studied. All respondents were qualified for being involved in decisions regarding their company's enterprise-level software applications.

The Value of Sales Forecasting

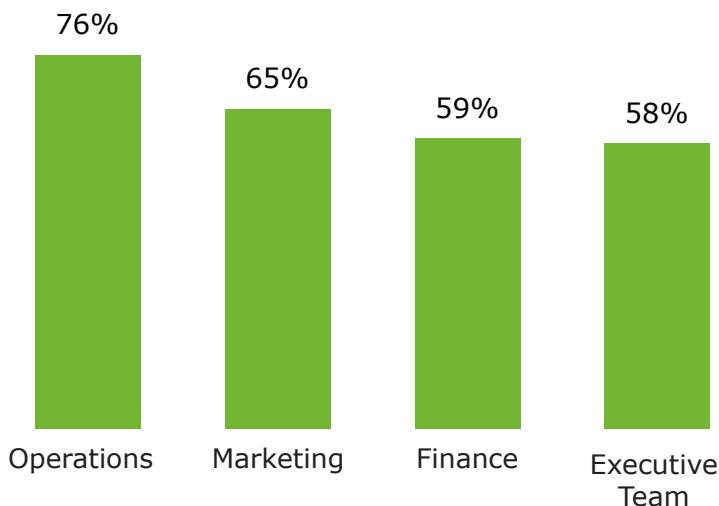
A full 74% of manufacturers surveyed consider sales forecasting critical to achieving their business objectives.

THE IMPORTANCE OF SALES FORECASTING



Sales forecast data is used in many business-critical decisions made by key operational areas such as Finance, Corporate management, Operations and Marketing. The sales forecast informs management decisions on nearly every aspect of a manufacturer's business, including budgeting, cash flow, expansion, investments for capital equipment and raw materials purchases, inventory management, product positioning and placement, production planning and manufacturing scheduling, and HR planning, for staffing and hiring.

BUSINESS AREAS THAT USE SALES FORECAST INFORMATION



"We use sales data to determine capital purchases, to evaluate facility expansion, for raw materials purchases and for capacity analysis..."

Operations Manager;
Semiconductors

"Forecasts are important for all budgeting elements, materials, personnel, capital expenditures, etc. Senior management optimistically depends on it for R&D investments."

Operations Manager;
Test Equipment

"For production scheduling, inventory management, promotional sales tactics, and revenue forecasting."

Supply Planner;
Rubber and Plastics

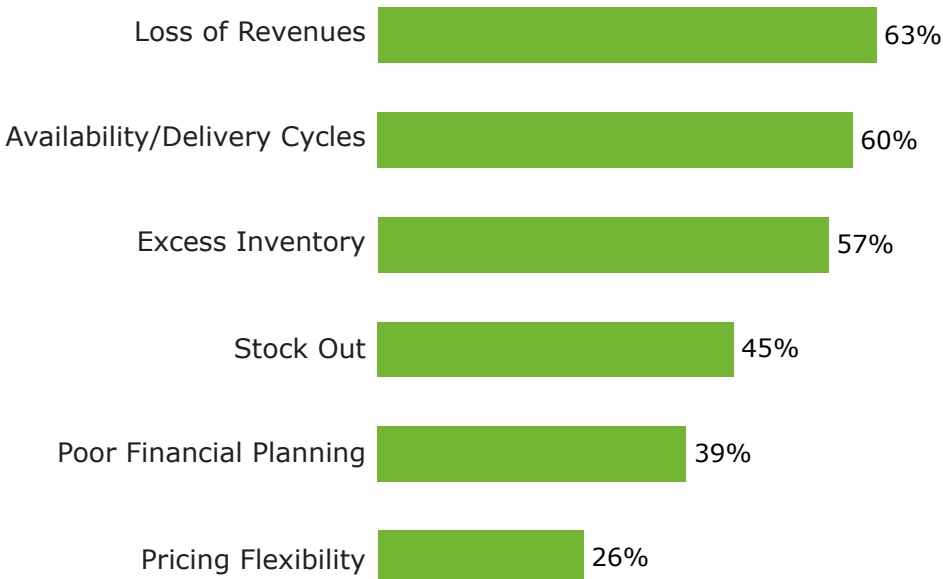
Answering the Sales Forecasting Challenge For Manufacturers

The consequences of not having a complete, reliable and timely forecast can be significant for manufacturers. Without a reliable sales forecast, management lacks the information needed to answer key questions, such as:

1. Will we be able to hit our revenue targets and ensure we don't lose business due to stock-outs?
2. Can we hit our customer commitments in terms of delivery dates, SLAs, etc?
3. Are we building the right product mix?
4. Are we investing in new products optimally?
5. Are we selling the right product mix to hit our margin targets?
6. How much goods inventory will I need without risking a potential write-off?

The manufacturers surveyed reported many consequences of a poor sales forecast. The biggest consequence, loss of revenues, was reported by nearly 2/3 of the respondents. Difficulties with availability and delivery cycles, and excess inventory were experienced by 60% and 57% of the manufacturers. Clearly, if manufacturers can't forecast accurately, they will have difficulty getting the right product to their customer in time to make their quarterly or annual revenue.

CONSEQUENCES OF HAVING POOR SALES FORECASTING DATA



If manufacturers understand the importance of a good sales forecast and clearly see the impact on their business of a poor sales forecast, what is holding companies back from achieving a good sales forecast for their business?

"We wish to ensure availability of stock at all outlets when it is required so that there is no loss of sale due to non-availability of stock. As a result of accurate size-wise sales forecasting data, we will plan our day-to-day shipments accordingly."

CIO;
Automotives and Transportation

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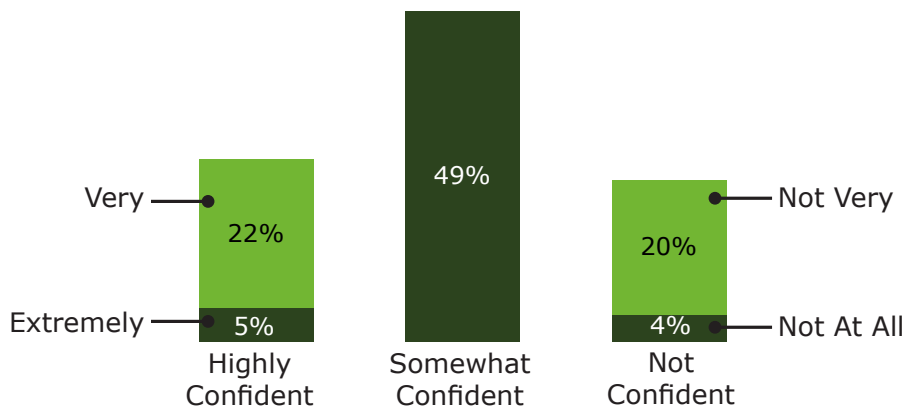
The Confidence Crisis

A clear story surfaced in the survey – there is a confidence crisis around the sales forecast that has significant impact for the various functional areas that drive both top line and bottom line performance.

While nearly three out of four companies view the sales forecast as a critical input to maximizing a company’s opportunity to generate revenue, *the inverse is true of executives’ level of confidence in their sales forecast.*

Only about one out of four executives has a high level of confidence in the sales forecast.

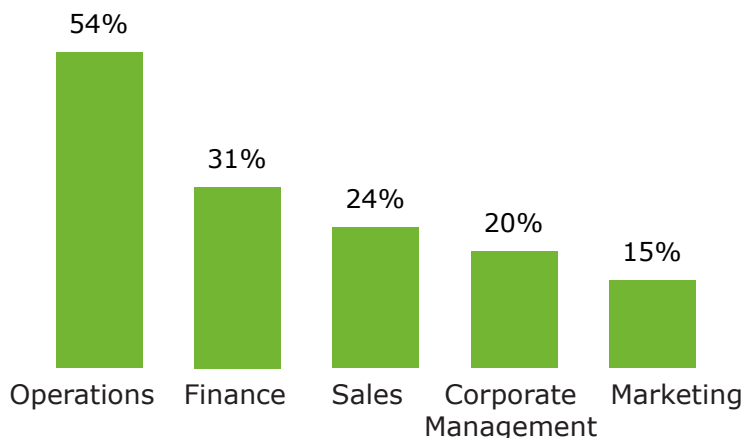
LEVEL OF CONFIDENCE IN THE SALES FORECAST



Not surprisingly, the two functional areas of a company that rely the most on objective data for their optimal functioning are the functions least confident in the sales forecast. Of the companies surveyed, Operations are least confident in the sales forecast, followed closely by Finance.

Clearly, companies would like to have a more trusted sales forecast as it is so important to their businesses and drives critical decisions across all functions.

BUSINESS DISCIPLINES MOST SKEPTICAL OF SALES FORECAST DATA



"We are looking to reduce our forecasting error and have a more accurate demand of our products so we can plan our inventory more effectively. The actions we are taking are to better utilize technology and labor so as to keep cost and waste down while at the same time increasing our revenue."

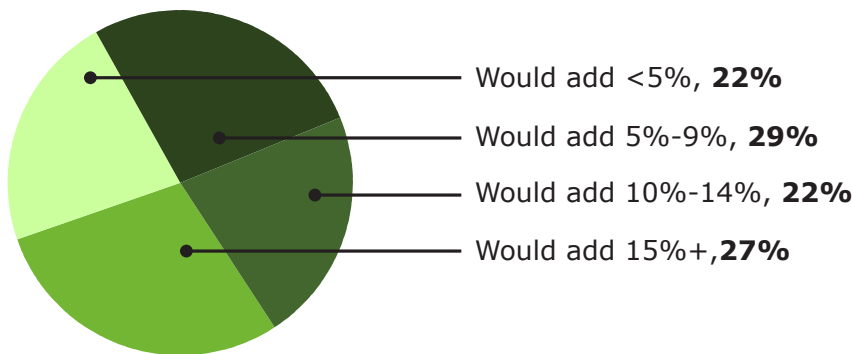
Sales Executive;
Computers and Peripherals

The Impact of a Better Forecast

These same managers believe that a sales forecast with greater accuracy could appreciably add to their company's bottom line performance.

Nearly 50% of respondents believe an actionable forecast would result in > 10% revenue increase.

EXPECTED ADDITIONAL REVENUE, IF THE SALES FORECAST ACCURACY WAS IMPROVED

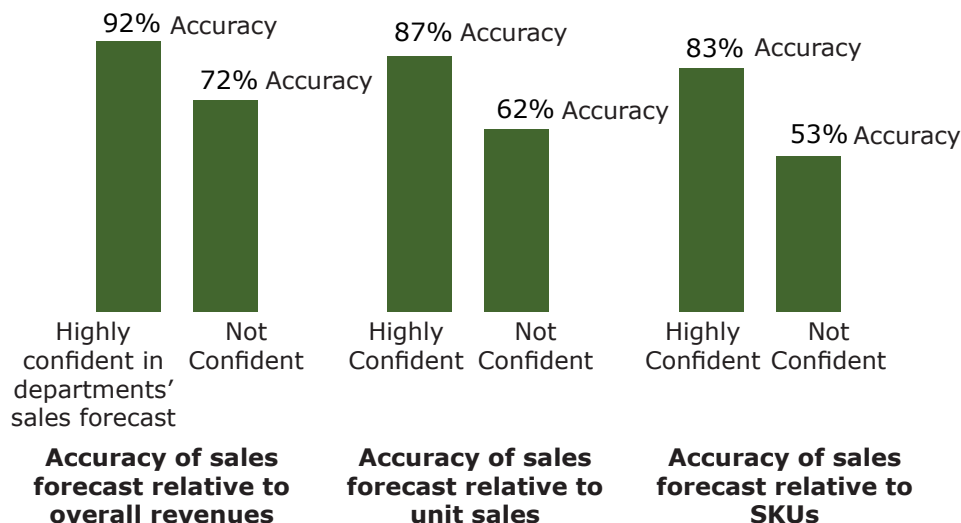


Top Line and Bottom Line Performance

Operations' and Finance's lack of confidence in the sales forecast is directly correlated to the accuracy of the sales forecast. The more accurate the forecast, the higher confidence the company has in it, and the more willing it is to take action that affects inventory and lead times.

Manufacturers reported in the survey that as their sales forecast's accuracy decreases, their inventory levels and lead times suffer. Those highly confident in their sales forecast correspondingly show greater accuracy in these measures. This results in reductions in on-hand inventory, a drop in unfulfilled backlog and diminished inventory obsolescence levels.

CONFIDENCE IN THE SALES FORECAST AS IT RELATES TO THE ACCURACY OF FORECASTS



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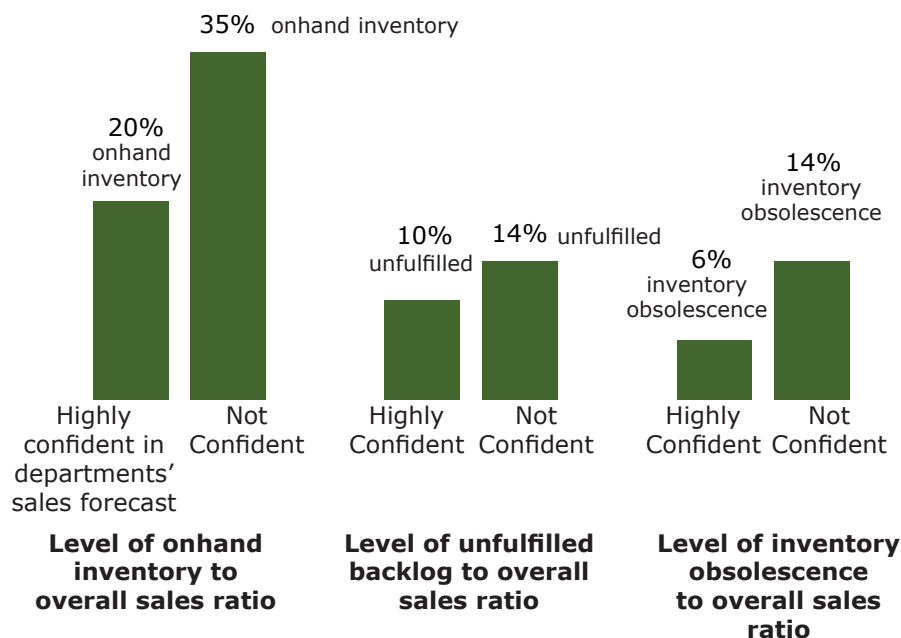
The data shows that even though the accuracy of the sales forecast declines as the level of detail increases, the gap in accuracy widens when comparing confident companies to not confident companies.

Next, we'll explore exactly what the respondents reported were the impacts of their sales forecast on inventory control.

Inventory Levels

The survey showed that companies' ability to optimize inventory is also tied to forecast accuracy and confidence in the forecast. Companies with greater confidence in their sales forecasts carry less inventory than those with a higher degree of imprecision in their sales forecast. The chart below compares the performance of the leaders (companies with high levels of confidence in their forecast) with the laggards (companies with low confidence in their forecast). Clear performance differences exist in on hand inventory, unfulfilled backlog and inventory obsolescence.

CONFIDENCE IN THE SALES FORECAST AS IT RELATES TO INVENTORY CONTROL



It is not by coincidence that companies attaining the highest levels of forecast confidence achieved:

- Lower level of on-hand inventory (20% vs. 35%) as a percentage of total sales
- Less unfulfilled backlog (10% vs. 14%)
- Reduced level of obsolete inventory (less than half).

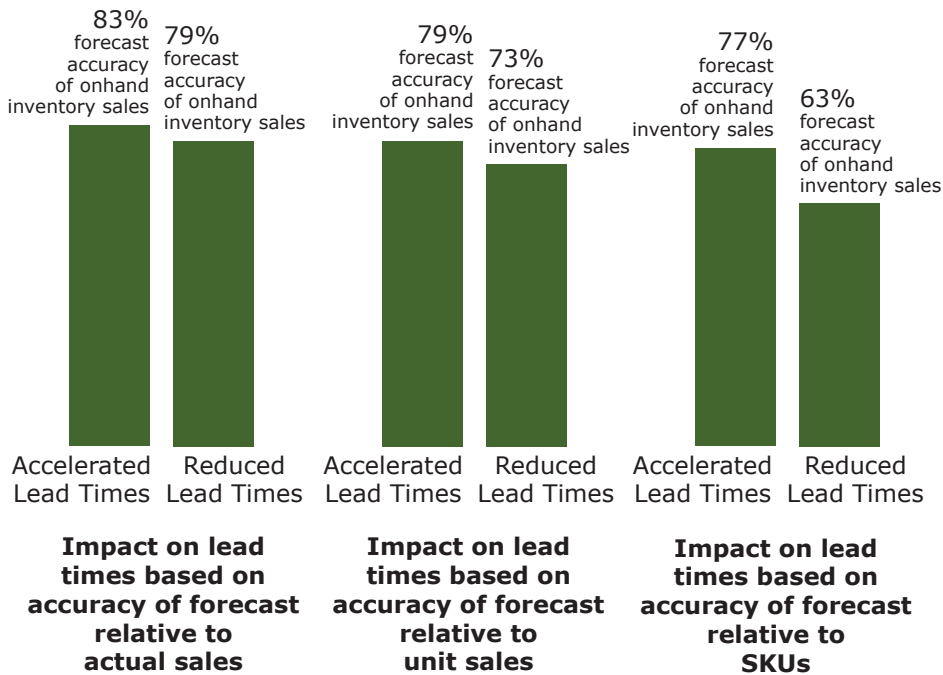
Accurate sales forecasts allow companies to confidently take the actions to impact key inventory metrics.

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Lead Times

More accurate sales forecasts can greatly improve companies' lead times. Again, survey findings reveal that businesses who achieve greater accuracy in their sales forecast reported better lead times, which then directly relate to improved revenues, unit sales and SKU projections. Again, a leader/laggard comparison showed that companies with higher forecast accuracy had superior lead times at the overall revenue level. The leaders' forecast accuracy resulted in more dramatic performance as their forecasts went from overall revenue forecasts to product forecasts to individual SKU forecasts.

LEAD TIMES AS IT RELATES TO INVENTORY AND REVENUES



Moving from a performance differential of just 4% for revenue to 14% for SKUs, leaders demonstrated the positive effect of forecast accuracy at a more detailed level. **Without a detailed, accurate sales forecast, companies may be able to come close to their forecast on overall revenue, but may not be able to provide the right product or SKU mix to fulfill orders optimally.**

Challenges of Sales Forecasting

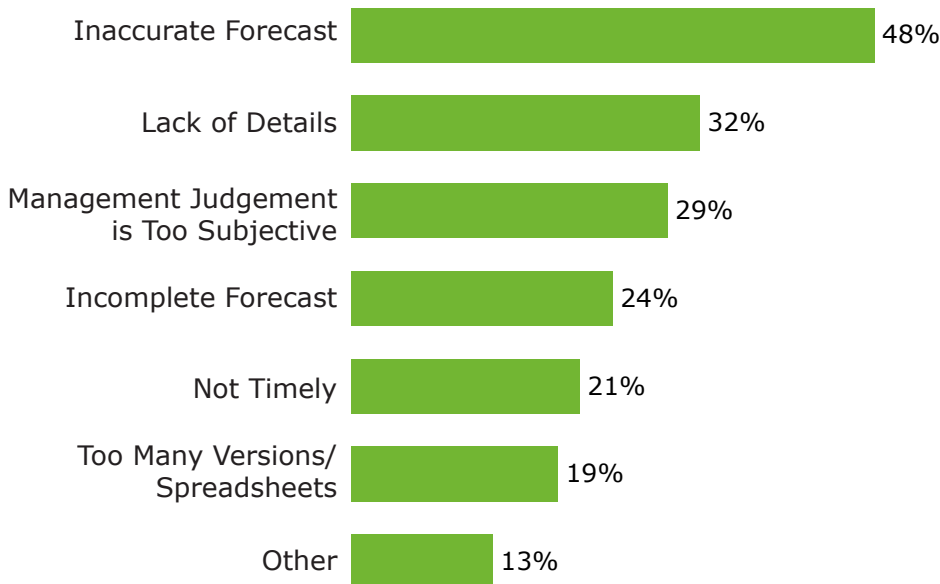
Why do companies continue to underperform with respect to sales forecasting? Our data indicate that there are several key challenges to overcome in driving a better sales forecast: (a) understand and address the root-cause drivers of lack of trust/confidence in the forecast data, and (b) adopt the right technology.

Lack of Trust/Confidence in the Sales Forecast

Not surprisingly, all areas of the company, including Sales, lack trust and confidence in the sales forecast. We found that Operations and Finance lead the functional areas that have the least amount of confidence in the sales forecast. Ops and Finance distrust the forecast for several reasons:

- They perceive the forecast to be inaccurate
- They believe it doesn't contain the right level of detail, and
- They see it as too subjective based on biased management judgment.

PRIMARY REASONS FOR DISTRUSTING SALES FORECAST DATA



With respect to accuracy, when comparing sales forecasts with actual results, revenues are predicted at 82% accuracy while unit sales and SKUs are calculated at 76% and 72% accuracy, respectively. Interestingly, as the focus of the forecast increases from revenue to units to specific SKUs, more of these companies are uncertain as to how actual results compare to their sales forecasts.

Ops and Finance have a high degree of confidence in objective data – this is the data that they operate on daily. On the other hand, they view the data in the sales forecast as being very subjective, not detailed enough, and often not available in a timely fashion. Nor do they have visibility into how sales management judgment was applied.

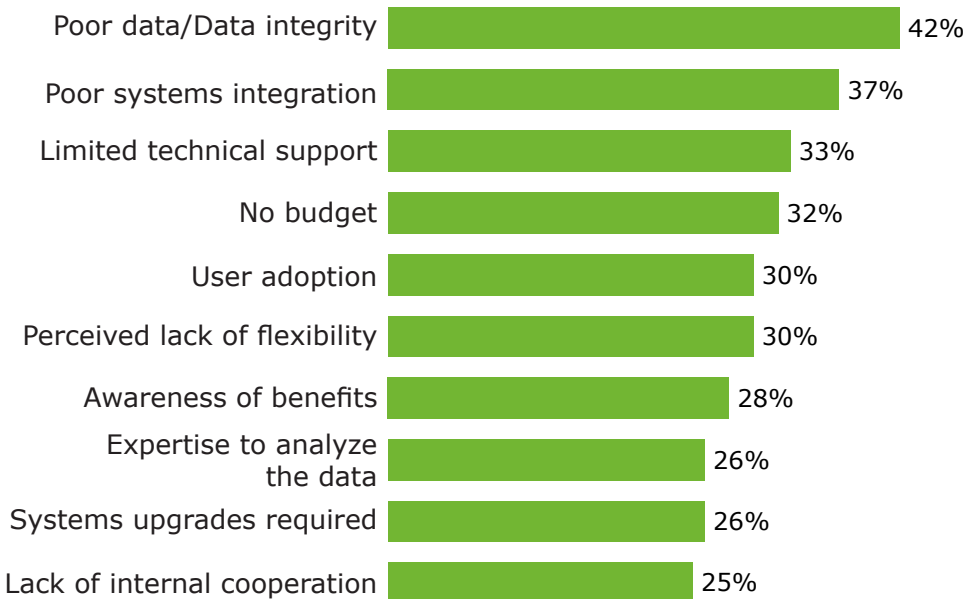
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Technology Adoption

While companies report difficulty in producing a quality sales forecast, they are not adopting sales forecasting technology and applications. Reasons companies cited for lack of sales forecast adoption include flawed data, technology and support-related issues, user acceptance, a perceived lack of adaptability and not fully understanding benefits. These issues presented significant hurdles to adopting sales forecasting solutions.

The companies surveyed indicated the top obstacles for not implementing sales forecasting tools are data integrity and poor systems integration. Many sales forecast applications today (like Excel) have no capabilities to check the integrity of the data, or to track who made the changes and why. Sales operations too often spend their time rolling up the data and reporting on it rather than taking action. Also, sales forecast applications can be isolated from the rest of the technology that runs the company. Sales forecast applications that are integrated into CRM applications have higher adoption. Furthermore, sales forecast applications that are informed by actuals and backlog from ERP and connected into demand planning systems will drive higher adoption across a company.

OBSTACLES/CONCERNS IN IMPLEMENTING SALES FORECASTING TOOLS



Many companies are hand crafting solutions based on a combination of CRM, ERP, BI and personal productivity applications to solve their sales forecasting needs. These solutions impact user adoption, flexibility and are difficult to support technically.

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Conclusion

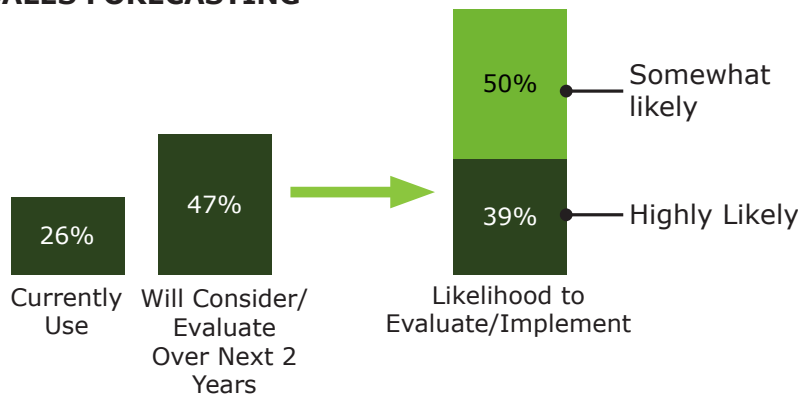
Back to our sales forecasting conundrum: the majority of businesses are clear on the importance of a good sales forecast, yet only a minority are able to achieve an actionable sales forecast they have confidence in. Why is that happening?

Companies with less confidence in their sales forecast have lower sales forecast accuracy which impacts top line and bottom line performance, inventory levels and lead times. This study clearly shows that leading companies are confident in their sales forecast and achieve favorable results vs. laggard companies who are less accurate and confident:

- Forecast accuracy is higher
- On-hand inventory, as a percentage of overall sales, is reduced
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Companies desire to improve their sales forecasts. Investments in the millions are made into improving the sales forecast process. Additionally, manufacturing companies are looking to improve their sales forecasting applications. Only one out of four companies now use sales forecasting software to help forecast sales, but the desire to have a best-in-class sales forecasting application is evident. Nearly half of all the manufacturers surveyed (47%) said they'll seriously consider or evaluate sales forecasting solutions over the next two years.

STATUS REGARDING USAGE/PURCHASE INTENT FOR SALES FORECASTING



The survey tells us that when a company has a complete, reliable and timely sales forecast they can positively impact revenue, availability, excess inventory, stock outs, poor financial planning and pricing flexibility. This white paper has shown the criticality of a trusted, actionable sales forecast for manufacturing companies. Companies with a best-in-class sales forecast achieve significant advantages in maximizing revenue, product availability and reducing inventory.

How do companies get to a better sales forecast? By using a well-defined sales forecasting process and sales forecasting applications to deliver a trusted, actionable sales forecast they can confidently act upon.

"We are looking to improve our system to do real-time comparison as demand becomes firm. We make all of our future plans based on the forecast information: expansion, manpower, machinery purchases, etc."

Operations Manager;
Small Engines

About Right 90, Inc.:

Right90 is a market leader in sales forecasting solutions. Right90 delivers a powerful suite of SaaS-based applications that enable companies to generate an actionable sales forecast that is used across the company to drive higher revenue, greater margins and increased sales performance. Unlike spreadsheets, ERP, BI, or CRM applications, the Right90 solution helps companies drive their actionable forecast by:

- **Increasing adoption** - Right90 makes it easy for reps to forecast so that you can get the most complete forecast in a timely fashion.
- **Eliminating subjectivity** - Right90 enables managers to objectively score the forecast based on past history. As a result, managers have an objective basis for assessing the reliable and unreliable portions of the forecast.
- **Enforcing accountability** - Right90 shows who and what is driving good and bad forecasts. In turn, managers can use this information to hold forecasters accountable for providing quality sales forecasts.

Right90 customers range from innovators like Bivio, to industry leaders like Sharp Microelectronics.

Contact Information

For more information, please visit www.right90.com, join the conversation at blog.right90.com or call 1-877-RIGHT90.