

S&OP

Putting the “S” back into “Sales and Operations Planning” with Sales Forecasting

WHITEPAPER

EXECUTIVE SUMMARY

What has happened to demand planning? The demand planning process defined four primary inputs: run-rate sales forecasts, new business sales forecasts, causal factors (new product introductions, events and promotions), and algorithmic predictions. But, somehow, the first two inputs have never been adequately incorporated. The sales forecast has been conspicuously missing from “Sales and Operations Planning”.

This white paper will explore why sales forecasting is missing, what the consequences are of not having that key input, and why the algorithmic applications currently used will not solve this problem.

Finally, a solution for companies to obtain a trusted sales forecast that becomes an actionable input into the demand planning process is defined, and the benefits that companies can achieve with a complete demand planning process.

*How can this be done?
It may be easier than you think.*

DEMAND PLANNING OR ALGORITHMIC PLANNING?

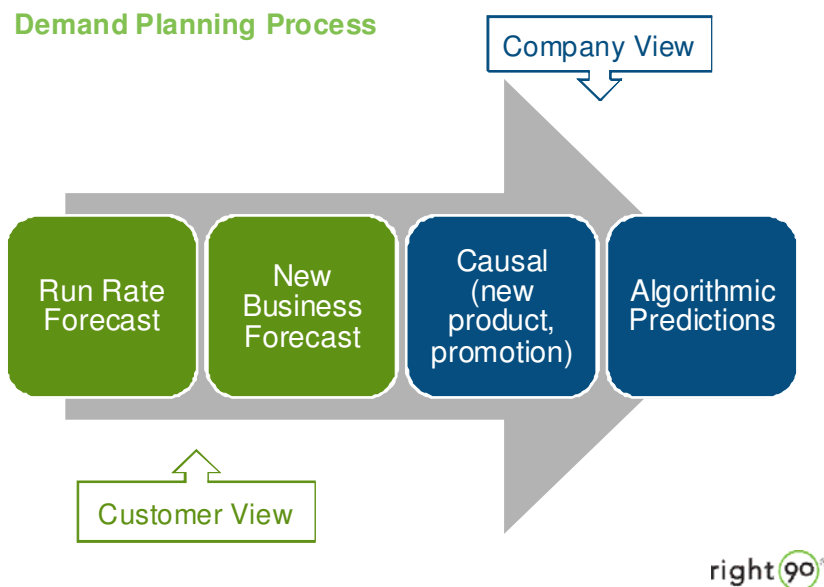
Demand planning applications assert there are 4 primary inputs to the demand planning process:

1. Run-rate sales forecasts.
2. New business sales forecasts.
3. Causal factors (new product introductions, events, and promotions).
4. Algorithmic predictions.

Applications like SAP APO and Oracle Demantra claim to provide functionality to enable these inputs and espouse the need of good sales forecasts. Recent SAP research stated “forecasts should be continuously improving to be more accurate. If this is not happening, it will hold back all other significant

improvements in supply and demand planning.”¹ If the sales forecast is so critical to demand planning, why aren’t sales teams using these applications to forecast? Why do these applications fail to capture the changes in demand coming directly from the customer?

Unfortunately, most demand planning applications have become ‘algorithmic planning’ applications that rely solely upon the algorithms to predict future demand. These applications have left out 2 critical inputs that reflect the most important view of demand: the customers’ view of demand. The results are evident across any number of headlines. Consider Cisco’s 2001 inventory disaster where the lack of market and customer demand visibility led to one of the largest inventory write-offs in history (\$2.2 billion), cutting Cisco’s stock price in half. Stock-outs can be just as harmful. For example, during the holiday season of 2004, Sony failed to meet demand for the PlayStation2 by hundreds of thousands of units—damaging credibility with retailers and customers.



Current demand planning applications focus on the company view (blue) and fail to capture customer demand through sales forecasting (green).

¹ SAP White Paper “Competitive Connection: Collaborative Demand and Supply Planning”

Demand planning applications fail to deliver sales forecasting

The sales organization’s lack of adoption of demand planning applications clearly shows that demand planning applications are not capturing the customers’ view of demand which comes from sales. On a recent article on www.demandplanning.net, the author of an article “SAP APO Demand Planning—Usability Versus Functionality” states “I have heard from consultants and business managers across many companies: very rarely there is user adoption of standard APO forecasting...” ***Where do demand planning applications fall short in meeting the requirements for a sales forecasting application?***

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1. Not built for sales reps.
 2. Not integrated with CRM systems.
 3. Rely solely on algorithmic forecasting for a complete forecast.
 4. Fail to rapidly capture and expose critical changes in sales forecast.
 5. Not built for constantly changing structures and business hierarchies that exist in sales.
 6. Offer no way for management to establish trust in the sales forecast.
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1. Not built for sales reps

Forecast entry in demand planning applications is extremely time consuming and cumbersome for sales representatives. For example, one high-tech manufacturer estimated that performing basic sales forecasting functions (e.g., forecasting units over time for its run-rate businesses) in SAP APO would take 45-hours a week for a single rep to complete.

2. Not integrated with CRM systems

These applications are structured based on production hierarchies, not the sales or customer view of demand, and hence cannot integrate

correctly with CRM applications. When data in CRM system fails to integrate with data in the demand planning application, sales reps do not adopt the demand planning application.

3. Rely solely on algorithmic forecasting for a complete forecast

Worst case, it can be the equivalent of driving a car by looking through the rear view mirror. For example, an advanced statistical model used to predict customer behavior for second half of 2008 based on the first half of 2008 would have completely missed the Q3 crash and subsequent recession.

4. Fail to capture and expose critical changes in sales forecast

These applications fail to capture the dynamic interactions that sales reps have with customers on a daily basis. A rep could lower a sales forecast due to a fickle customer, but if many sales reps lowered their forecasts, is it just fickle customers? Because the sales reps are not using a forecasting application, a major market demand change may not be recognized.

5. Not built for constant business change

They do not support large distributed, global sales and marketing teams where organizational structure constantly changes. Retrofitting demand planning applications to meet changing business structures is extremely costly and time consuming. Demand planning applications were not built with the idea that base business hierarchies would change frequently.

6. Offer no way for management to establish trust in the sales forecast

These systems do not offer a way for management to apply layered judgments to scrub the sales rep forecasts in the system. Furthermore, these systems do not present any performance measures to quantify the confidence in the forecast.

Leading industry analyst firm AMR Research has found that companies with best-in-class forecasting have 15% less inventory, 17% stronger fulfillment, and 35% shorter cash-to-cash cycle times.

A Purpose-Built Sales Forecasting System Puts the “S” back into S&OP

What would the ideal solution look like to capture the customers’ view of demand?

1. Purpose-built for sales folks.
2. Integrated with CRM and ERP applications.
3. Capture all relevant inputs for future demand.
4. Capture and provide visibility into critical changes in forecast.
5. Rapidly deployed and re-configurable.
6. Provide a quantifiable measure of trust in forecast.

1. Purpose-built for sales folks

It should be so easy for sales reps to use that it becomes part of their weekly or daily routine. Ideally, it would provide a flexible one-stop shop for reps to manage multiple accounts and offer a simple way to model common forecasting tasks like a ramp-up, price decay or quantity shift.

2. Integrated with CRM and ERP applications

The best approach should leverage opportunity and account information in CRM applications as well as shipment and backlog data in back-office ERP applications. It would minimize data entry and provide reps with all the relevant data they need to improve the accuracy of their sales forecast and reduce time spent forecasting.

3. Capture all relevant inputs

An ideal solution would capture all 4 key inputs (run-rate sales forecasts, new business sales forecasts, causal factors, and algorithmic predictions). It would incorporate forecasts for areas like new products or new business where no historical data exists and enable algorithmic predictions where that input is best used.

4. Capture and provide visibility into critical changes in the sales forecast

The ideal solution would identify the key drivers behind a change in the sales forecast so that management can focus only on the changes with greatest impact to the business, and take action in time to impact the quarter.

5. Rapidly deployed and re-configurable

It should be built on an architecture that simplifies software upgrades and let companies leverage new functionality immediately—without long or costly upgrade cycles. It should be based on a business structure that can change with the changing needs of the business.

6. Provide a quantifiable measure of trust in forecast

The optimal solution would provide a clear indicator of trust in the sales forecast, based on historical forecast performance measures (like accuracy, bias, and completeness). With a clear indicator of trust, management can take action to remove risk, bias, and inaccuracies in the forecast, and drive a more competitive business.

“Right90 has provided sales representatives with faster forecast input and sales management with near real time forecast visibility. We have significantly increased communication between our product managers, field sales, and sales management; using Right90 forecast data integrated with our SAP planning and sales reporting systems.”— Sharp

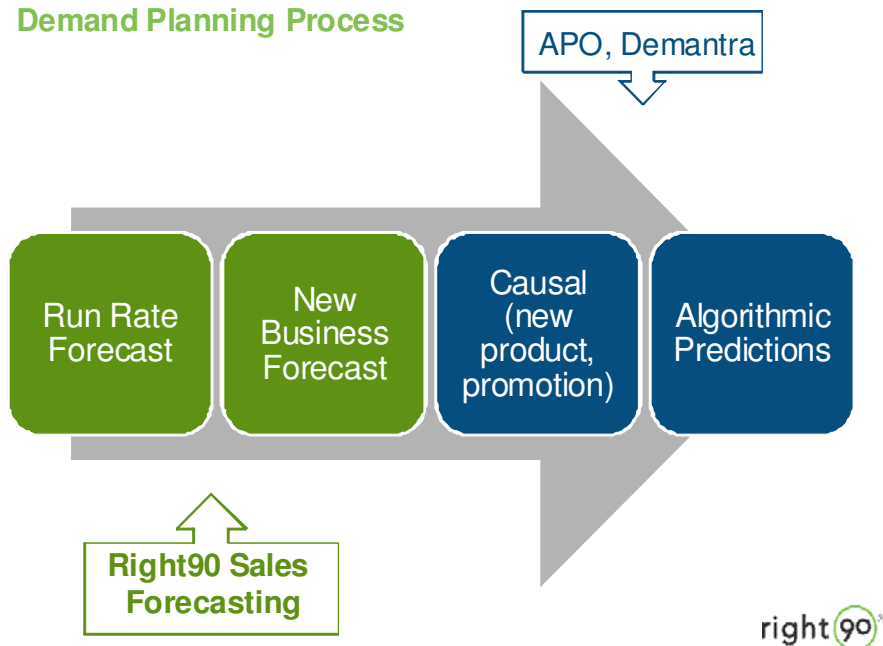
Right90 is the leader in sales forecasting and revenue performance management

Right90 applications such as **Right90 Sales Forecasting™** and **Right90 Change Analytics™** have been built from the ground up to address challenges in the sales forecasting process and help companies obtain a company-wide trusted, actionable sales forecast. It succeeds where demand planning applications have failed.

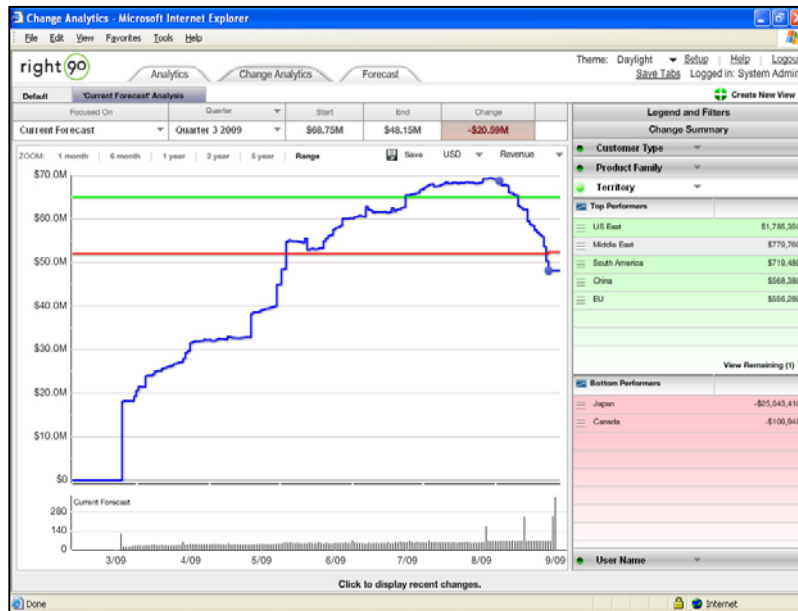
Built for Sales, integrated with CRM:

With a familiar Web-based, Excel-like interface and seamless integration to leading on-demand CRM applications like Salesforce CRM and Oracle CRM On Demand, Right90 makes it easy for reps to capture both new and run-rate business, increasing the reliability of forecast and also sales productivity.

Demand Planning Process



A complete demand planning process has both bottoms up forecasts of customer demand and top down historical projections from the company.



In Change Analytics, the sales forecast value as of any point in time is shown like a stock-chart – so that users can understand exactly what has changed in the forecast between any two points in time.

Capture all relevant inputs, expose critical changes: Through Right90’s multi-level and multi-plan forecasting, Excel integration, and Statistical Forecasting, all the necessary inputs (sales forecasts for new and run-rate businesses, causal factors, and algorithmic forecasts) are captured. Furthermore, capturing the sales forecast and causal forecasts in a single application dramatically improves the alignment between the sales, marketing, and operations teams. In addition, Right90 Change Analytics enables management to visualize how and why the sales forecast is changing in a revolutionary way. Management can rapidly take action on changes in demand that have largest revenue or inventory impact to the company.

Creates trust in sales forecast: Right90 enables management to vet the sales forecast and apply judgment to it to establish greater trust in the sales forecast. For example, sales management can view the accuracy of each sales region across multiple quarters to determine which region consistently provides a trustworthy forecast.

The Value of Trust

Bivio, a networking systems provider, adopted Right90 to add structure to their sales forecasting process and improve accuracy. Having visibility into customer demand from a sales forecast that Bivio’s operations team could **trust** allowed Bivio to better match orders to product demand. Since they have implemented Right90, their CFO, Keith Glover, has quantified the savings—the company has already reduced inventory by 20%. Over time, Mr. Glover believes Right90 will deliver a total inventory reduction of 40%.

Favorite: Regional Forecast Attainment (Accuracy) As of: 05/15/2009 12:02

Region	Comparing	Q2_08	Q3_08	Q4_08	Q1_09	TOTAL
Americas	Current Forecast As Of Today	\$7,018,800	\$6,761,300	\$5,538,300	\$6,548,300	\$25,866,700
	Actuals - ERP As Of Today	▲128% \$8,791,450	▲133% \$8,972,155	▲131% \$7,249,555	▲128% \$8,258,250	▲129% \$33,271,410
APAC	Current Forecast As Of Today	\$13,189,625	\$12,427,500	\$13,974,625	\$14,308,750	\$53,900,500
	Actuals - ERP As Of Today	▲101% \$13,362,620	▲101% \$12,589,370	▲101% \$14,166,325	▲101% \$14,386,450	▲101% \$54,504,765
EMEA	Current Forecast As Of Today	\$220,000	\$254,000	\$696,000	\$280,000	\$1,450,000
	Actuals - ERP As Of Today	▼63% \$151,200	▼87% \$171,230	▼63% \$481,430	▼70% \$196,200	▼69% \$1,000,060
All	Current Forecast As Of Today	\$38,480,975	\$40,095,800	\$39,211,975	\$37,732,850	\$153,501,600
	Actuals - ERP As Of Today	▲114% \$41,587,860	▲110% \$46,447,220	▲110% \$45,416,410	▲113% \$42,538,525	▲116% \$175,980,015

Top Variances

Positive Variance

- Products: Actuals - ERP is greater than Current Forecast by ▲ \$22,088,885
- Direct: Actuals - ERP is greater than Current Forecast by ▲ \$19,496,465
- US: Actuals - ERP is greater than Current Forecast by ▲ \$14,925,390
- Americas: Actuals - ERP is greater than Current Forecast by ▲ \$7,408,710
- Indirect: Actuals - ERP is greater than Current Forecast by ▲ \$2,991,950

Forecast Cycle: January, 2009 Stage: Sales Entry

Top 10 Lists

Product Family	Current Forecast As Of Today	Customer Type	Current Forecast As Of Today
Products	\$152,120,100	Direct	\$135,670,700
Services	\$1,381,500	Indirect	\$17,830,900

Reviewing accuracy across region (or any other dimension) is one way management can utilize historical forecast performance to establish trust in the sales forecast.

Rapidly deployed, re-configurable, fits within existing IT infrastructure: Right90’s on demand, patented DMC™ technology is purpose built for sales forecasting and enables business analysts to deploy the application in weeks without coding. Companies can easily re-configure the business structures as needed. By providing the application on demand, Right90 customers receive free quarterly upgrades and a platform that offers multiple integration options. At a basic level, Right90 customers can integrate ERP shipment and backlog data into Right90 through flat file integration. API integration is provided by the **Right90 Application Programming Interfaces (APIs)™**. The **Right90 Integration Suite™** includes prebuilt connectors for shipment and backlog information stored in Oracle or SAP. Customers may also utilize these integration technologies to feed downstream demand planning applications and S&OP tools to help companies create a trusted build plan, making Right90 the ideal front-end for demand planning applications.

The Value of the “S” in S&OP: a Trusted, Actionable Sales Forecast

Right90’s purpose-built application finally makes it possible for organizations to capture a complete view of demand including: sales forecasts for new and run-rate businesses, causal factors, and algorithmic forecasts. Companies that have utilized Right90 to capture this complete view of demand have seen significant benefits to the bottom line including:

1. 5% increase in revenue.
2. 20% decrease in inventory.
3. 60% reduction in forecasting cycle time.
4. 15% increase in forecast accuracy of the sales forecast.

Right90 puts the “S” back into S&OP by delivering a purpose-built sales forecasting solution that enables companies to run their business based on a complete view of demand.

Unlike demand planning applications that largely predict future demand based on historical data, Right90 captures all components of a complete forecast and enables organizations to create trust in the forecast. With a trusted, actionable forecast the company can build the right products, make the right business decisions, and take the appropriate actions to outperform the competition.

To hear more about companies who have successfully put the “S” back into S&OP, visit us at our website, www.right90.com.

About Right90

Right90 makes on-demand software that delivers a trusted sales forecast companies can confidently act on. Using patented technology, Right90 makes it easy to capture and consolidate sales forecasts while delivering actionable information that companies can rely upon. Companies in manufacturing, professional services, consumer goods and energy verticals have successfully deployed Right90 to increase visibility, commitment and accountability to revenue performance. For more information, visit www.right90.com or call 1-650-638-9090.

Putting the “S” back into S&OP

QuickLogic, a leading manufacturer of semiconductor platforms, utilized a complete view of the forecast to prepare for the downturn. When Andy Pease was serving as the VP of Sales, he started to observe the economic downturn two to three months in advance by viewing run-rate and new business forecast from his sales team in Right90. Because he could see the greater trend, Mr. Pease was able to take the right actions to guide the company through the 2008 economic downturn. With Right90, QuickLogic is in a strong, strategic position to capitalize on the upturn, and Mr. Pease has been promoted to President.

