Forecast Process Design & Change Management

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Joe Smith - Pragmatic Forecasting Associates
Simon Clarke
*Coca-Cola Refreshments* - *Forecast Center of Excellence*

- Durham University
  - BA Geography

Spent last 15 years working in Forecasting & Planning
  - Customer Logistics, Finance, Revenue Growth Management
  - Cross-functional focus across demand & supply

International Institute of Forecasters,
Co-Author of “Joe and Simon Says”
*Foresight: The International Journal of Applied Forecasting*
Joe Smith

Specializing in Forecasting and Strategic Sales Capability

Eastern Michigan University
  - BBA Finance, Investment Analysis Concentration

20+ Years Fortune 500 CPG’s, Private Equity & Consulting
  - Forecasting Standardization
  - Key Account Event Planning and Execution Communication
  - Strategic Sales Capability Initiatives

International Institute of Forecasters,
Practitioner’s Advisory Board Chairman for
Foresight: The International Journal of Applied Forecasting
Agenda

- Presentation Scope
- Why is Forecasting Important?
- The Goal of Forecasting
- The FRAM© Approach:
  - Sustaining Success Factors
  - Top 10 Process Design Considerations
- Evidence of Process Institutionalization
- Excelling at the Forecasting Assignment
Presentation Scope

- Change management
- Sustaining success factors
- Top 10 Process Design Considerations
- Business need centric and tool agnostic
- Sustainable process vs. model selection
- Sharing two decades of learning
Why is Forecasting Important?

- Strategic enabler driving
  - Waste reduction
  - Revenue generation

Cost to Revenue Continuum

- Procurement
- Manufacturing
- Delivery
- Safety stock

- S&OP
- CPFR

- In-stock levels
- Trade spend mgt
- Course correction
- Revenue mgt
Forecast Reliability

Supply Chain
✓ Procurement
✓ Manufacturing
✓ Delivery
✓ Safety stock

Sales
✓ Collaborative customer planning
✓ Execution communication
✓ Selling capability

Finance
✓ R/E support
✓ Course correction
✓ Message to the “Street”

Revenue Mgt
✓ Price & initiative modeling
✓ Trade spend mgt
✓ Yield mgt
✓ Campaign effectiveness
The goal of forecasting is reliability.

Reliability is the result of two components: accuracy and stability.
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Forecast Reliability Assurance Model

- Process design diagnostic methodology
- Assesses process design influence on sustaining success factor robustness and balance
- Assures forecast reliability

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What are Sustaining Success Factors?

- Three key indicators of healthy process change
- Common denominators of successful process change
- Affecting the SSF’s is done through creative use of the Process Design Considerations
- Focus on the SSF’s assures the process brings sustainable organizational value
FRAM® - Sustaining Success Factors

**Strategy Alignment**
- Design considerations affecting forecast initiative alignment to company strategy.

**Process Effectiveness**
- Design considerations that reduce process waste and increase effectiveness.

**Adoption Assurance**
- Design considerations that encourage and promote adoption by the process participant and process beneficiaries.
# Sustaining Success Factors

## Process Design Considerations

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## Sustaining Success Factors

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#1 – Organizational Focus and Commitment

**Priority A:** On-going alignment of the forecasting process with company strategy. Approved and reinforced by senior leadership.

**Priority B:** Develop and execute a change management plan involving all process participants and beneficiaries.

**Priority C:** Establish timeline and success tracking commitments from functional leadership.

*Rule of Thumb: Create and sustain high visibility.*
#2 – Benchmarking

**Priority A:** Involve functional delegates that are process participants and beneficiaries.

**Priority B:** Drive consensus with delegates and establish company wide success metrics and then publicize.

**Priority C:** Establish clear goals based on established metrics and publicize along with results.

Rule of Thumb: Begin with already established forecast industry standards.

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Bencharking Example

SKU Accuracy

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<th>Days of Inventory</th>
<th>SKU Accuracy %</th>
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Yr 1 | Yr 2 | Yr 3 | Yr 4

Implementation | Process Adoption | Process Stability | Process Adjustment

Average Accuracy

Source: Feb-08 Forecasting Summit
#3 – Volume and/or Financial Forecasts

**Priority A:** Create a comparison of benefits/risks and vision statement to drive organizational consensus.

**Priority B:** Gain closure with functional leadership.

**Priority C:** Define depth of income statement.

*Rule of Thumb:* Integration of volume and financial forecasts is a strategic reliability enabler.

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#4 – Forecasts, Budgets and/or Plans

**Priority A:** Create a comparison of benefits/risks and vision statement to drive organizational consensus.

**Priority B:** Gain closure with functional leadership.

**Priority C:** Pending outcome above, define requirements.

*Rule of Thumb: Integration of forecasts, budgets and plans is a strategic reliability enabler.*

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#5 – Data Metrics and Hierarchy Standards

*Priority A:* Research the current reporting metrics and hierarchies with all functional areas.

*Priority B:* Assess sources of volatility and predictability.


*Rule of Thumb: Start simple, but assure flexibility.*
Data Metrics:

1) Volume (standard, raw and equivalent unit)
2) Price waterfall metrics
3) COGS
4) Gross profit
5) SG&A
6) Income
7) Promotional event metrics (retail, ad, display etc.)
8) Time (day, week, month, quarter, Trimester)
9) Customer metrics (retail, gross margin, GMROI, markdown etc.)
Data Metrics and Hierarchy Standards

Hierarchy Standards:

1) What information is required for reporting?
   - Organizational levels
   - Functional levels
   - Business geography
   - Business channels
   - Customers
   - Products

2) What are the sources of volatility for each level?

3) Are the volatility sources material and predictable, or merely volatile?
Hierarchy Volatility Example: Product

Variance to Average Week by Product Group

Source: Feb-08 Forecasting Summit
### Enterprise Reporting
- a) Cans
- b) Large Bottle
- c) Small Bottle
- d) Fountain
- e) Other

### Sales Function Customer Forecast
- a) 12 Pack Cans
  - a) 12 Pack Cans
  - a) All Other Cans
  - b) 2-Liter
  - c) 24 oz
  - c) 500ml
  - d) All Other: Fountain Only
  - e) All Other Non-Fountain

### Supply Chain SKU Forecast
- a) 12pk Cola
  - a) 12pk Cola
  - a) 12pk Diet Cola
  - a) 12pk Lem/Lim
  - a) 12pk Orange
  - a) 12pk Grape
  - a) 12pk RootBeer
  - a) Etc...
What to Report

What to Forecast

Who Forecasts
#6 – Functional Collaboration

**Priority A:** Perform a constituent analysis with functional delegates: define information owners, input participants and information beneficiaries.

**Priority B:** Develop a role sort by function with functional delegates for process participants.

**Priority C:** Combine Functional Collaboration and Data Metrics/Hierarchy Standards for Efficient Process Flow discussion.

Rule of Thumb: Cross functional structured information sharing is a reliability enabler.

## Sustaining Success Factors

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#7 – Efficient Process Flow

**Priority A:** Combining what is known about metrics, hierarchy and participants. Draft a process flow for discussion with functional delegates.

**Priority B:** If possible, involve a LEAN process expert.

**Priority C:** Have delegates review process with several stakeholders before reviewing with functional leadership.

*Rule of Thumb: Efficient Process Flow includes efficient model selection.*

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Process Flow Examples

**Independent**

Accessible Information

Central Forecast Team

Financial Estimate  Supply Chain SKU Level  Customer Event Plan

**Collaborative**

Account Manager Universe

Central Forecast Team

Financial Estimate  Supply Chain SKU Level  Customer Event Plan

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#8 – Tool Selection

**Priority A:** Business client defines requirements and acceptable gaps to proposed solutions.

**Priority B:** Encourage a true partnership with the technology experts and business team.

*Rule of Thumb:* Support system speed and ease of use drive adoption (Includes input and reporting).

**Priority C:** Build and test a prototype to assure requirements are met.

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#9 – Reporting, Data Mining and Analysis

**Priority A:** When possible, select current and well received rearview reporting systems as a benchmark.

**Priority B:** Involve reporting and analysis thought leaders in creation of functional and service level requirements.

**Priority C:** Assess solutions objectively with cost/benefit trade offs. Consider standard and ad-hoc reporting.

*Rule of Thumb: Inadequate reporting and data mining will threaten process success.*

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#10 – Capability Development and Job Role

**Priority A:** Redesign forecast process participant job roles to best support the process.

**Priority B:** Employ a “High Touch” training curriculum, facilitated by the business team.

*Rule of Thumb: The more complicated the change, the higher touch the training needed.*

**Priority C:** Refresh the participants education annually and add advanced curriculum.

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= Process Design Influence on SSF
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Evidence of Process Institutionalization

- Steady improvement in forecast reliability
- Functional areas develop contingent process improvement goals (e.g., reduce inventory)
- Standardized enterprise reporting directly driven from the process data
- “Rogue” solutions are sunset
- Other process teams leverage the forecast data
Excelling at the Forecasting Assignment

- Build a business process change team that remains until adoption and institutionalization is secure
- Stay closely aligned with senior sponsors
- Build alliances among thought leading participants and functional leadership
- Track, rank and publish results and goals
- Champion quality build of tools and processes
- Stay in touch with forecast industry trends
- Debate and drive change with the facts
Peer Advice from a Change Agent

Expect a three to five year assignment

Become a student of change management

Never underestimate the need for reporting

Strive to make forecasting interesting to others

In spite of the technical nature of forecasting, it is an emotionally charged topic, so debate constructively with the facts
Questions
or
Comments