Trade Marketing & Demand Planning Alignment

for Improved Sales Forecasting

Consumer Products companies today have a wealth of information, capabilities, knowledge and technology to generate demand forecasts. So, why is it so hard to generate an accurate and agreed upon forecast?

There are typically two organizational groups within a consumer products company that have the visibility, insight and responsibility to create the sales forecast – trade marketing and demand planning. The two groups have unique processes, vantage points, organizational structures, data and methodologies, and therefore generate different versions of the forecast. Since the best forecasts leverage information from both of these groups, the key to success is to overcome the challenges that keep these organizational units out of sync.

The following pages outline four basic challenges that organizations face in aligning Trade Marketing and Demand Planning. Each challenge covers the perspectives of both groups and provides recommendations on how organizations can tackle these common challenges.

What is the forecast? The What & When of Selling

What the company will sell and when it will sell it is often defined differently between trade marketing and demand planning, and since they do not plan at the same levels, translating between the two cannot be solved by a simple math equation.

Who does what? Two Cooks in the Kitchen

The challenge is not that Trade Marketing and Demand Planning are duplicating efforts – it is, instead, understanding how each of their inputs can be best understood and leveraged.

How can we agree? The Consensus Number

Differences in levels of information, methods, timing, and how trade marketing and demand planning are organizationally aligned make creating a well-defined forecasting process complicated.

How do we merge it all together? Data, Data Everywhere

Different information, from different groups, from different systems at different levels can often make data feel like the enemy and not the answer.

The What & When of Selling

The Challenge

It is unlikely that anyone from Trade Marketing or Demand Planning would dispute that the ultimate goal is to generate an accurate projection of what the company is going to sell and when they will sell it. However, problems arise when the what and when of selling need to be defined and measured. Since each group plans differently based on their activities, and translating between the two cannot be solved by a simple math equation.

Trade Marketing

For commercial organizations, dollars are most often the preferred unit of measure for *what* the organization is going to sell. Depending on pricing, promotions, SKU mix, and other factors, the translation of these monetary sales numbers to shipped product can vary widely. Even when sales and trade marketing talk about demand in units to manage and analyze promotions, they are often talking about demand at a product family or promoted group level – rarely at a SKU or UPC level which is needed for demand planning.

The *when* question for trade marketing is also a bit complex. Trade spend is often based on the sale of product at the retailer, and therefore, many trade forecasts are based on point-of-sale data or other retailer information. Depending on the levels of stock carried by the retailers, these POS driven forecasts may or may not correlate with the company's sales and therefore the demand planning forecasts. Additionally, the periods used for trade promotion volume forecasts often do not correlate with the demand planning periods. When this happens, forecasts can be diluted for the period.

Demand Planning

For the demand planning group, the definition of *what* the company is going to sell is relatively simple – it is the number of units of each SKU the company expects to sell to its direct customers. This gets complicated, though, when a demand planner tries to incorporate input from other sources that are provided at a different level or with different units of measure. For example, when a demand planner receives promotional data in dollars, it is often very challenging to make this information actionable.

The *when* products are going to be sold question is also usually simple for a demand planner. They need to know when products should be shipped to meet customers' orders. Again, when grows unclear depending on the granularity of the forecast – whether in weeks, months, or some other time frame. The "right" time period is usually driven by the operational needs of the supply chain, but it is also important to understand for what periods forecast data is available.

Recommendation

The different ways that each group looks at a demand plan are important to the overall health of a company. **Understanding how to use the different forecasts together allows a company to generate a more complete and accurate demand plan**. Trade marketing and demand planning groups that do not define, understand and leverage these differences not only nullify their value, but create confusion and distrust between the groups. At the end of the day, the demand plan needs to be able to predict what the company is going to sell and when it will sell it. The following pages outline some of the tactical ways to execute these goals.

Two Cooks in the Kitchen

The Challenge

Both Trade Marketing and Demand Planning generate sales forecasts by using historical data, outside input, and their individual experiences, sales. On the surface, it might appear that these groups are duplicating efforts. However, in reality, these groups are not doing the same thing, but instead providing different inputs from different angles to improve the final output. The key is ensuring that the right group is responsible for the right inputs based on their organizational role, visibility and insight.

Trade Marketing

Trade marketing is typically part of the commercial or sales organization and is therefore closest to the customer and the competition. They are most connected to, aware of, or in many cases drive the factors that shape demand. Using this knowledge, their biggest contributions to generating the best forecast can come by focusing on the following:

- Providing account based forecast information (voice in the field)
- Predicting adjustments to base demand considering account changes (e.g., new stores)
- Reviewing aggregate brand or family forecast based on consumption data
- Generating demand impacts for trade activity (e.g., lifts, cannibalization)
- Forecasting other lift projections for marketing demand creation actions (e.g., new product introduction)
- Adding input based on new customers or new channels

Demand Planning

Demand Planning is traditionally part of a company's supply chain organization. They have knowledge of how factors within the supply chain can affect demand (e.g., supply shortages, satisfying demand through alternate DCs). They also have ultimate responsibility for the forecast that is used for supply chain planning. Demand planners can best contribute to the following areas:

- Generating initial statistical baseline forecast based on historical data
- Adjusting statistical models based on exceptions
- Setting-up new SKUs
- Leading the integration of inputs from all demand creation organizations into the forecast
- Validating significant changes in forecasted demand
- Communicating forecast changes and issues to appropriate stakeholders
- Driving forecast accuracy measurements
- Identifying customers with declining buying patterns

Recommendation

It is important to clearly define roles and responsibilities to prevent duplicate work and promote an integrated, not parallel, process. While there is not a right way to divide up responsibility, the goal is to use the best inputs from each group to drive the best forecast possible. For example, who can provide the most accurate changes in demand due to a change in customer base? Sales and trade marketing are typically good at forecasting demand increases generated by new customers, as they are working closely with the new accounts to predict demand. However, they are typically not as good at identifying customers with declining buying patterns, as customers rarely call sales reps to say they are going elsewhere. In contrast, a demand planner can analyze buying habits at the customer level and flag customers that have not bought anything for a period of weeks or months. The only way to manage these two cooks in the kitchen is to outline detailed inputs required for the forecast, consider the visibility of each group and assign responsibilities based on their insights.

The Consensus Number

The Challenge

Given the different reporting structures, accessible information and activities of trade marketing and demand planning, the process of generating a consensus demand plan is at best, painful, and at worst, completely dysfunctional. As outlined earlier, one step is to have defined roles and responsibilities. The other step is to establish a well defined process that ensures that those roles and responsibilities are put into action, with the right inputs, outputs, time constraints and business rules. The process should ultimately pull together the disparate pieces from various groups to be able to analyze and arrive at a consensus forecast.

Trade Marketing

Trade marketing is generally organized around channels and customers by business units. Normally trade promotion planning occurs on a yearly planning cycle in conjunction with the Customer Business Planning performed with key accounts. During this time, promotional calendars are created with macro events and programs, many of which are refined on a later basis for execution based on actual data and the account and market conditions. Channel plans are often created during this time that may encompass traditional customers (e.g. mom and pop stores).

Trade plans are developed at various levels, often based on customer structure between headquarters and retail outlets. The planning is either completed top down, bottom up or middle out. Promotions can be at various brand or product levels, and can be done at monthly, weekly or even daily levels.

After trade plans go through an approval process, typically with various reviews, each key account or channel can operate differently and have different planning cycles. These cycles may or may not be aligned with the S&OP planning cycles.

Demand Planning

The demand planning group is often organized around a brand or product line at a global level. Demand planners typically work on a monthly cycle to support the S&OP process while making sure any short term changes in demand are made visible to the supply chain in a timely fashion. In addition to providing their own forecast analysis, they usually are responsible for pulling together the data from all of the various input sources and providing data back to the various groups for further analysis and refinement. This can often be a challenge because they struggle to aggregate or disaggregate data to a consistent level to be integrated. Additionally, because of differences in organizational structures, demand planners often have to work across many trade planners to obtain the data that is needed. Therefore, the integration of the various inputs is often only done when needed – just once a month or less, minimizing the amount of cross-functional analysis that can be done.

Recommendation

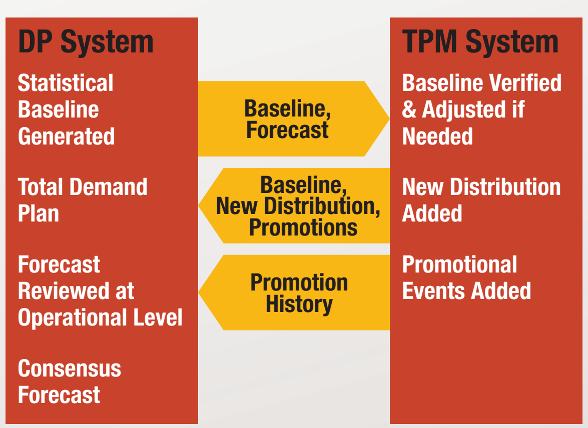
Many organizations facilitate demand planning by creating group-specific forecasts, and thereafter, hashing out a consensus demand plan. **A more effective approach is to have an integrated demand planning process where data is shared across groups throughout the creation of the forecast**. This involves having processes and tools (covered in the next section) to harmonize data that comes in at different levels of granularity. Each group can then review and analyze the data at a level that makes sense to them and provide meaningful and actionable data to others. All of this allows the team to *arrive at* a consensus number rather than *agree on* a consensus number. While this difference might be subtle, the integrated nature of the process leads to a more efficient process and better results.

Data, Data Everywhere

The Challenge

Multiple systems, with different information coming from different groups, at different levels is confusing enough. Figuring out what data is generated in what system, where it gets passed and how it is aggregated and disaggregated often feels impossible. Based on this complexity, is there a need for separate demand planning and trade promotion tools, and if so, how can all this data disparity best be leveraged?

A Representative Technology Landscape



Trade Marketing

Trade promotion systems encompass a variety of functions that can help Trade Marketing with budgeting and tracking; promotional planning and execution; settlements and deductions; and pre/post event analytics. At minimum, a trade system will allow the trade planner to input their budgets and plans, and then track program status. Enhanced trade promotion systems allow the planner to forecast baseline, lift and cannibalization based on past sales history or consumption data and compare different what-if scenarios. Leading edge technology will allow the planner to put in a goal and the system will optimize the trade plans to determine the maximum return.

Trade systems often integrate with other key systems including the demand planning system to share forecasts; ERP systems for pricing, orders, sales and settlement functions; Business Intelligence tools for analytics; and broker/retail execution tools for promotion execution.

Demand Planning

A good demand tool has statistical forecast modeling tools that allow the demand planner to generate and evaluate a forecast. It includes the ability to incorporate outside adjustments such as promotional lift or new product activity, and can aggregate or disaggregate data received from outside sources. When used most effectively, the demand planning tool can use a combination of these functionalities to automate the integration of data from various sources in near-real time, no matter the level of the data. For example, if the trade marketing group provides the forecast for a promotional event by brand and region, the demand planning tool can use the historical break down of that brand and region to disaggregate the promotional event down to the SKU-DC level. It can also roll other inputs up to the brand/region level to provide back to the trade marketing system.

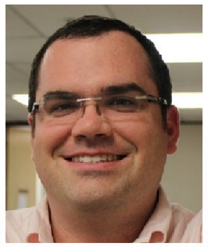
The demand planning tool is also usually integrated to, if not part of, the supply chain planning tool. This allows updated forecast data provided from other groups to be analyzed and easily passed through the supply chain planning group so they can respond to changes in demand as soon as they are available.

Recommendation

Demand Planning and Trade Promotion planning tools each have their own respective value. Like discussed above, their value when appropriately integrated is greater than the sum of their parts. **Having clear definitions of the roles of the systems, just like the roles of the organizations, allows the company to take advantage of the strengths of each tool.** It also allows for integration of different data elements and helps define the flow of information between those systems. Additionally, having robust Demand Planning and Trade Promotion Management systems makes the aggregation and disaggregation of data more straight forward. It also allows the planners from each respective group to work with the data at the levels that are most effective for them, without having to go to great lengths to make that data useful to other groups.

Join the Discussion

About the Authors



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Aligning Trade Marketing and Demand Planning for more accurate forecasting requires Consumer Products Companies to tackle four key challenges: facilitate forecast understanding between the two groups, integrate the forecasting process, define clear roles and responsibilities and establish tools that facilitate data integration and analysis. By taking steps forward in each of these areas, companies will improve the effectiveness, efficiency, and responsiveness of their demand planning processes, leading to more effective planning teams, higher forecast accuracy and quicker dissemination of demand changes to the supply chain.

Clarkston has helped many companies in the Consumer Products industry better integrate their supply and demand functions. Even with the sophisticated demand planning and trade promotion tools and techniques of today, we continue to see CP companies specifically struggle with bringing together trade marketing and demand planning groups to effectively contribute to the S&OP process. For further discussion on how to integrate these functions to improve your demand planning process, contact us at **info@clarkstonconsulting.com**

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- Cutting Costs with S&OP without Cutting Corners
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