

The perfect forecast in the eyes of a rep

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Undoubtedly, one of the most imperfect aspects of today's business world is forecasting. It's one of the most complained about chores by salespeople. To me, forecasting and insanity have a lot in common. Reps are continually asked to submit forecasts using the same error-prone methodology, which results in the same inaccuracies. Insanity is repeatedly doing the same thing and expecting results to change! So **let's keep reading and get more sane!**

There is no question in my mind that it is virtually impossible to accurately forecast in the wild and wonderful world of electronics. The economy is highly volatile and the technology is changing dramatically. Furthermore, I do not believe that forecasting should ever be referred to as a science. When forecasts are accurate, it is often due to the laws of compensating errors. Your odds of hitting the "forecast bull's-eye" are greater than that of winning the lottery. So let's explore or, if you prefer, "deplore" the world of forecasting.

Some of our country's most brilliant business prognosticators never saw the recession coming. If they had, our customers would not have been caught holding billions of dollars worth of inventory. So, what happened and how could it have been avoided? I thought that there were computer models that took into consideration all of the economic factors and barometers that financial analysts monitor daily. To my point, sales forecasting is an imperfect science! Most salespeople in the electronics industry call on engineers and buyers. Are we knowledgeable of market conditions and trends—**obviously not!** Do we spend time with our customers' marketing gurus in the pursuit of more accurate forecasts? I don't think so! But these are precisely the guys who are chartered to study their customers needs and things like

building starts, GNP and currency exchange rates. These are all factors. Buyers are simply responsible for negotiating fair pricing and responding to requisitions. If they were perfect forecasters, they would be in another department. Engineers are chartered with the responsibility of designing the most functionally perfect products that the user would ever want. The demands on engineers can range from developing the lowest cost products to those that are full of features and benefits—notice I didn't say forecasting.

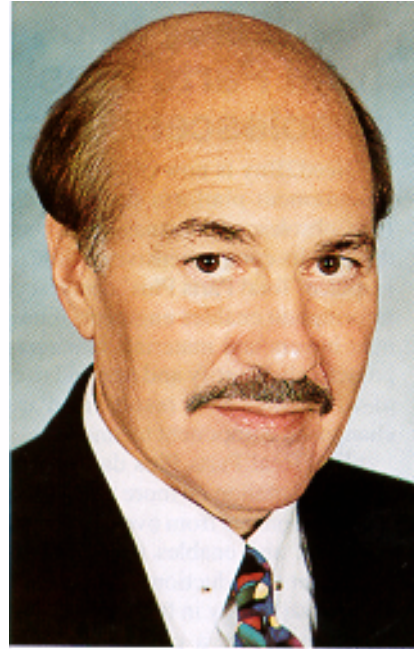
FORECAST DEFINITION

Let's get basic! Sales forecasting is the process of organizing and analyzing information in a way that makes it possible to estimate the future. Obviously, the better the database and account knowledge (user), the better the forecast. However, this does not take into consideration the multitude of outside economic influences that are not visible to the untrained eye. Also, it should be noted that market trends develop faster than ever before and manufacturers have to be "**change masters**" if they aspire to be industry leaders. Perfect principals are mindful that a forecast is a **prediction** and has limitations. Handicappers are also predictors - need I say more?

WHY REQUEST FORECASTS

Do field salesmen truly know what happens to the forecasts that they labor over for hours? Are they entitled to know? Absolutely! Here are some possible answers:

1. I keep them on my desk in case someone asks. (Plausible)
2. I turn them over to my boss (And they sit on his desk).
3. We have a management meeting and review each one of them. (Unlikely.)
4. I keep them and measure each rep's accuracy. (Nothing better to do?)
5. We immediately buy raw materials based on reps' forecasts! (No wonder you're overstocked!)
6. I really don't know why I request them, except that we have always done



it that way. (At last!) Perfect sales managers only request forecasts when they serve a purpose. That means that they are read and some action takes place. However, some perfectly honest regional sales managers **have** told me they do one of three things: pile them, trash them and sometimes read them.

IS FORECASTING ARCHAIC?

Isn't it amazing how many sales managers and their hierarchy complain about the continued inaccuracy of forecasts, but continue to request the same data in the same format with the same methods with the same results. When will manufacturers realize that you can't live or die by the risky, error-prone, frustrating practice of forecasting bookings, when in reality they are asking us to forecast our customer's customer-demand? Frankly, this is an area that even your most brilliant customers cannot anticipate. When the marketplace **demand**s a product they want it now! Isn't it more prudent to factor industry market segment "demand and fall-off," as opposed to putting so much emphasis on specific accounts!

PREPARATION TIME

Do principals think that reps are sitting in their offices thinking about their vegetable gardens and waiting for their next year's Burpee seed catalog! Get real! The perfect rep is always

planting business seeds and harvesting at the same time. They need at least 3 to 4 weeks to prepare a reasonably good forecast, since this will allow enough time to speak with their accounts. Giving 3 or 4 days notice is unfair, inconsiderate and poor business practice. Short notice is guaranteed to yield inaccurate results! Perfect principals are considerate of their representatives' time and schedules.

80/20 FORECASTING

Perfect principals only ask their representatives to forecast for the 20% of their accounts that are responsible for 80% of their total sales volume. This approach still results in the principal receiving well over 90% of total forecasted sales. This streamlines the process and helps everyone. Like the book says, "Don't Sweat the Small Stuff." The perfect principal has their marketing department maintain a vigil of their top accounts as well as a periodic dialogue. Incidentally, is there still a position called "market research manager?" If not, why not?

ADVANCEMENTS

I'd like to make a personal observation. I've been selling technology for more than 35 years. During this period I've seen innumerable technological changes and, more importantly, advancements. However, there is one common thread that is consistent among all of the companies that I've represented. Are you curious what this is? All of these manufacturers are still forecasting basically the same way! If you don't believe it, dig out the old files and you'll see. The sales managers have changed, but the system has not. **Something is wrong with this picture!**

DATABASING

Near perfect forecasts cannot be achieved without a database! With that in mind, how can a clear thinking manufacturer request a forecast without providing a sales history? Like it or not, most forecasts are based on historical data. Why? Because typically the salesperson asks the customer, "How much more business do you expect to place next month or next year?" The operative word is "more," because this is the way positive thinking salespeople express themselves. Unfortunately, when the question is posed to the buyer, he can only answer in generalities. He may have heard a general statement that his company expects to do 10% more future business. However, this

may have little or no bearing on the specific products that we sell.

WHAT CAUSED THE GLUT?

In the 10/1/01 issue of *Electronic News* there was an article headlined, "What Caused The Glut?" The author reported that some of it could be attributed to overzealous forecasts or downright dishonesty. I believe the reasons are far more deep-seated. The economy in 2000 was a steamroller of success. Salespeople weren't just meeting their forecast, they were exceeding it. Projections were easily met and sales and marketing types were in a state of euphoria. When reps were asked for their 2001 forecast, many of them submitted a "flat" to slightly down projection. Unfortunately, when the manufacturers (principals) received these forecasts, many of them sent them back to their representatives stating that their reps' projections did not conform to their own. In some cases, these representatives were singled out for their negativity and were viewed as pessimists. Ultimately, many were forced to condescend to their principal's budget as opposed to "their reps' forecast." This type of conduct hardly serves to keep the financial boat afloat. I believe that the perfect principal places faith and confidence in his representatives. He should trust his representatives with both the **sales and forecast responsibility**. There is far too much massaging of forecast dollars by sales management. Perfect sales managers do not add or subtract numbers to reach a goal. They submit it as their professional sales representatives see it. If principals spent more time strategizing with their representatives and less time on forecasting and reporting, I believe it would be reflected in increased sales and a healthier bottom line.

THE MONTHLY CYCLE

Why do so many sales managers put their reps through the same painful monthly cycle only to get the same imperfect garbage (oops, data) they've been receiving for years? It's a tremendous burden on the sales force and it makes little sense! More importantly, it often robs salespeople of precious selling time.

Whatever happened to market research departments? I don't believe that many of our principals, and certainly not reps, are performing this function. Perfect manufacturers/suppliers spend their time studying industry trends by market sector. Better yet, they

understand their customers' "supply line management system," MRP's, inventory management and how and when an order gets executed.

Keep in mind that distribution business is even more difficult to forecast. Just ask any distributor management person with whom you come in contact. They have an equally tough time.

PETER F. DRUCKER

Peter F. Drucker's book, "*Management*," states that the future is unpredictable and any attempt to mastermind it is foolish. Further to that point, he says we can only discredit ourselves by attempting it. This is very interesting! He underscores his point with, "If anyone still suffers from the delusion that man is able to forecast beyond a very short time span, let him look at the headlines in yesterday's paper and ask which of them he could possibly have predicted...". So much for medium- and long-range forecasts. Drucker is recognized as one of the giants in the world of business and I wonder why more people, especially sales management types, don't subscribe to his thinking. Could it be that they don't read his books or think he's a dummy? I seriously wonder.

THE PLEA

Mr. Sales Manager, you can't fight the laws of economics - the natural ebbs and flows. Please stop screaming at your reps for inaccurate forecasts. They do the best they can! It's time to stop the insanity and change the system. Most of you have been doing it the same way for so long that it's time for a change. Believe it or not, there are alternatives! Courses are offered in colleges and universities and they encompass more than the "field sales up" approach.

ALTERNATIVE TECHNIQUES

Most field salespeople only know one form of forecasting, that being the "sales force composite" commonly referred to as the "bottoms-up" technique. However, there are a plethora of approaches that I encourage sales management to consider. Some are: **1.** Analogous forecasting; **2.** Assumption base model; **3.** Atar model; **4.** Box-Jenkins models; **5.** Customer/market research; **6.** Decision trees; **7.** Delphi method; **8.** Diffusion models; **9.** Experience curves; **10.** Expert systems; **11.** Exponential smoothing; **12.** Jury of executive opinion; **13.** Linear regression; **14.** Moving average; **15.** Neural

networks; **16.** Nonlinear regression; **17.** Pre-cursor method; **18.** Scenario analysis; **19.** Simulation; **20.** Trend line analysis . . . and many more!

FORCING THE FORECAST

The perfect rep does everything possible to submit an accurate forecast. He speaks to the “people in the know” at his accounts. The resulting forecast is a reflection of the intimate knowledge that representatives garner from their OEM’s key contacts. That information is submitted to the principal as “**the way we see it.**” More importantly, it’s the way the customer sees it! So, why is it that so many principals come back and say that the numbers are unacceptable? Unfortunately, there are some principals who force the forecast down the rep’s throat. When the rep emphatically states that the customer only plans to build a specific quantity, too often the principal instructs the rep to add the dollars or units to base or miscellaneous business - **this is hardly forecasting!** If a principal needs to forecast from the top down, they should be open and honest about it. The perfect principal does not dictate forecast dollars. They collaborate with their representatives, look at the accounts as a team and develop strategy as to how they can win more business—without massaging. Believe it or not, perfect principals believe in **reality-based** forecasting!

SUMMARY

Can you imagine anyone saying that they have a perfect model for forecasting? Of course not! It just doesn’t exist. If it did, everyone would be using

it and there would be no complaints. With so much uncertainty in the electronics industry and our economy in general, why would any company place much credence in forecasts? More importantly, why would you criticize reps considering what you’ve just read?

FORECASTING HUMOR

1. It is difficult to forecast, especially if you are forecasting for the future.
2. As soon as you submit your forecast, you can be sure it is inaccurate.
3. Sales managers who live by the crystal ball must be prepared to eat ground glass.
4. The only thing less accurate than a weather forecast is a sales forecast!
5. If your forecast is accurate, never let your boss forget it!!!