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*Next-generation  
sales and  
marketing  
planning*

**&**

**Running consumer  
products companies  
by the numbers**



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## About the author

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**Hans Van Delden** is a Strategy& partner in the Dallas office. His focus is sales and marketing effectiveness, and he works with companies in the consumer products industry.

# Executive summary



**The sales and marketing planning processes in consumer products** companies can be very chaotic and contentious. The root cause of these issues can often be tracked to the lack of a unified set of analytics and an end-to-end system that automates and integrates key steps into a top-down, bottom-up approach to planning. These limitations lead to inefficient process and organizational fixes designed as “workarounds.” And their impact cascades through companies, negatively affecting revenue generation and profit margins.

A new planning paradigm is needed — a next-generation planning process that is already emerging with the help of advances in analytics and planning tools along with a set of guiding principles. This next-generation process yields more accurate and effective plans, greater confidence in and commitment to plan execution, and faster, more effective responses to market surprises.

A few leading consumer products companies are pursuing next-generation planning processes now. Those companies that are successful will capture a significant competitive advantage.

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# *The consequences of poor planning*

If you have ever been involved in the annual sales and marketing planning processes at a consumer products company, you know how chaotic and contentious even a well-run process can be. In part, this is by design — these planning processes are meant to push the sales and marketing organizations to strive for stretch goals, to challenge conventional thinking, and to take some calculated risks. Sound planning processes must also be grounded in facts and informed by sound analysis and insights.

Too often, though, the sales and marketing planning processes have a dark side — characterized by gaming, political infighting, and unproductive debates. These activities do not add value to the processes and are not necessary to stimulate the constructive tension that characterizes good planning. In fact, they are divisive and counterproductive.

The impact of poor sales and marketing planning cascades throughout the organization and the year. Its ramifications can include the following:

- Instead of yielding a single plan and forecast, a poor process often results in the two functions (as well as others, such as manufacturing) creating their own versions of the plan featuring conflicting forecasts. This complicates managerial decision making and creates a serious impediment to demand planning.
- Even when a single plan is adopted across the company, it unlikely to be optimal or reliable if the process that produced it did not allow for productive and constructive discussion. As a result, targets are missed and other plans that depend on it, such as the supply chain plan, will be flawed.

*The impact of poor sales and marketing planning cascades throughout the organization.*

- Inefficiencies in planning processes often result in a lack of timely commitment to campaigns and budgets, which prevents sales and marketing organizations from locking in strategically important dates for advertising and promotions.

When volume shortfalls do occur during the year, lack of confidence in the plan often results in the need for an extraordinary effort to explain them and decide what, if any, corrective action to take.

Outcomes like these plague many consumer products companies, but they are not inevitable. There is a better way to conduct the annual sales and marketing planning processes from end to end — next-generation planning processes that leading companies are already beginning to develop.

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# ***Addressing the root causes of poor planning***

Next-generation planning processes must address the three root causes that enable the dark side of planning to flourish and are chiefly responsible for the negative outcomes that today's processes generate. They are as follows:

- The lack of a unified set of analytics to ground planning discussions and build confidence in the process and its outcomes
- The lack of an end-to-end system that automates and integrates key steps in the annual planning process to facilitate efficient plan creation, sell-in, and execution
- The use of inefficient and often ineffective process and organizational fixes designed to “work around” the two gaps described above

## ***Limited analytics***

From a statistical perspective, consumer product sales are highly predictable, and the vast majority of consumer products companies already have an abundance of sales, advertising, and promotion data. The problem is that companies are not properly utilizing this data in their sales planning processes.

Typically, companies misuse analytics in their sales planning in one of two ways. Some shy away from analytics altogether or use them in a far too limited way, instead relying heavily on the collective intuition of the organization. Other companies embrace analytics overenthusiastically but don't actively manage them; the result is dueling analytic models that have often been developed for niche purposes and produce conflicting numbers. Whether the problem is too little or too much, the impact of improperly applied analytics on the planning process is the same: far too much energy expended in debating whose analysis is right, to the detriment of more constructive dialogue.

*Whether too little or too much, the impact of improperly applied analytics on the planning process is the same: far too much energy spent debating whose analysis is right.*

## ***No end-to-end planning system***

Tools for bottom-up planning have been available for a decade, but tools that support the end-to-end planning process are a much more recent development.

These new tools fill three important technology gaps in sales and marketing planning. First, they enable the automation of a unified set of analytics. Second, they embed the analytics in the planning process in a way that supports concurrent top-down and bottom-up planning. Third, they provide full transparency into planning assumptions.

## ***Process and organizational workarounds***

Without the proper analytics and end-to-end planning tools, consumer products companies have little choice but to jury-rig their planning processes. This results in workarounds that undercut the processes, sometimes leading to the abandonment of the systematic use of analytics or even top-down, bottom-up planning as too tedious and costly. Often, these workarounds require the use of brute force to bridge process gaps, resulting in unnecessary expenditures in terms of human resources.

# 9 guiding principles for next-gen planning

If consumer products companies can free themselves from the limitations of their existing planning processes, they can begin to transform planning into a truly differentiated capability in the fullest sense of the word. Sales and marketing planning can be one of the explicit set of three to six mutually reinforcing capabilities that consumer products companies develop and use to create business models, products, and services that their competitors can't easily beat.

Toward this end, and based on our experiences working with leading consumer products companies, we have developed a set of principles to guide companies as they seek to design and build a next-generation planning capability.

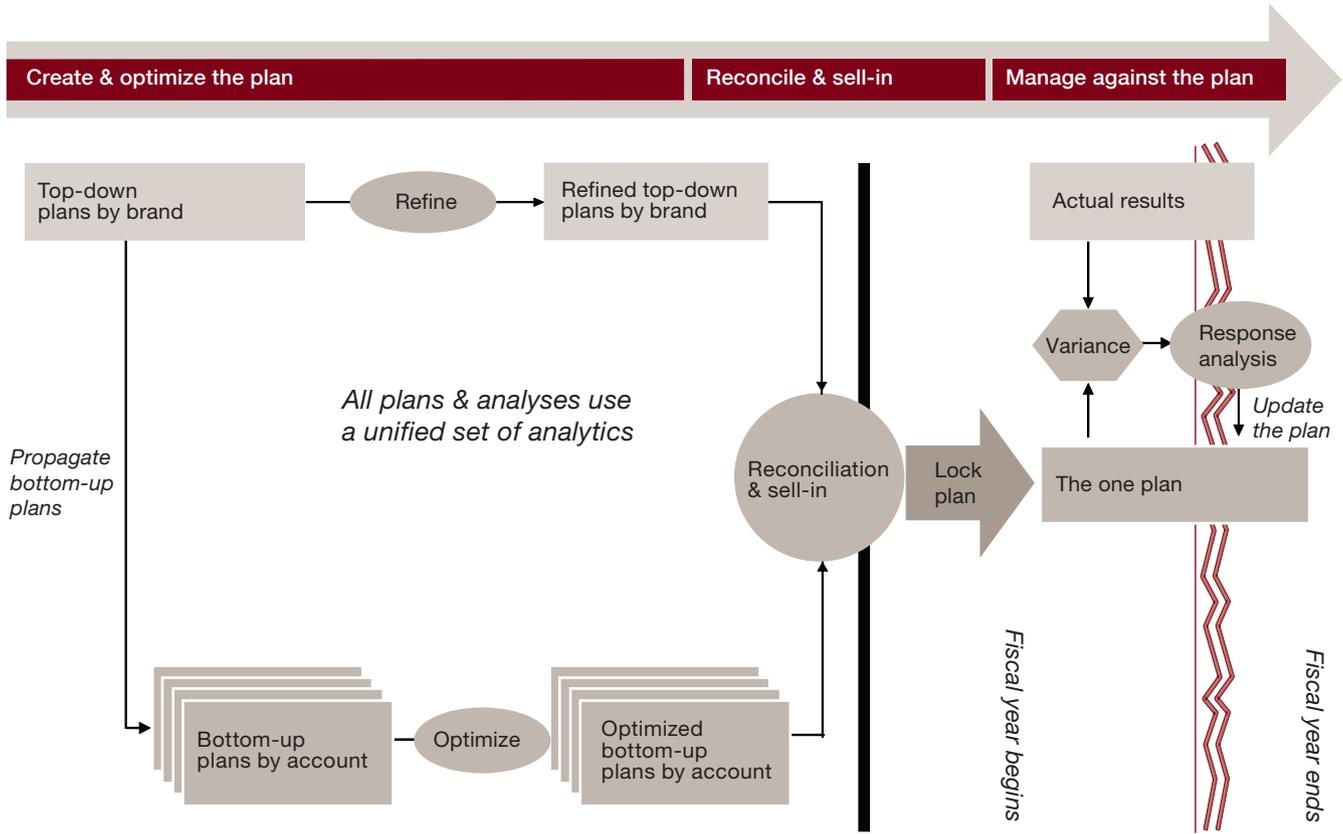
## **1. Integrate planning processes end to end.**

A full planning cycle in consumer products companies typically begins well in advance of the fiscal year when corporate financial targets are set. Sales and marketing teams then develop plans designed to meet those financial targets. Throughout the fiscal year, as new information — about customer actions, competitive activity, volume shortfalls, blockbuster new products, etc. — becomes available, rounds of replanning are required to adjust the course forward. Finally, after the fiscal year has ended and the next has begun, the final results are weighed against the plan and the cycle ends.

An end-to-end sales and marketing planning process should be capable of supporting activities at each stage of the extended planning cycle (such as results tracking, variance analysis, and top-down, bottom-up replanning). Furthermore, each step in the cycle should have a well-defined purpose within the context of the overall process (*see Exhibit 1, next page*).

*Sales and marketing planning can be one of the three to six mutually reinforcing capabilities that consumer products companies develop and use to differentiate themselves.*

*Exhibit 1*  
**An end-to-end planning process**



Note: The four colors of blocks represent independent sets of numbers for the full business (i.e., volume and financials for all brands and customers for a year). The activities shown in circles leverage the same unified set of analytics used to create the individual plans.

Source: Strategy&

## ***2. Leverage statistical models to predict everything that is predictable.***

Today, the statistical models needed to predict the vast majority of a consumer products company's sales at a highly granular level are readily available. Stimuli to sales (such as trade promotions, advertising campaigns, and FSIs — freestanding inserts) typically produce a clear volume response that can easily be modeled.

Good statistical models produce mean absolute predictive errors of approximately 5 percent at an event level and less than 1 percent when aggregated to the customer or national level.

With this level of accuracy widely available and easily automated in a planning tool, it is difficult to make a sound argument for second-guessing predictive models or overriding them based on intuition. For this reason alone, statistical models are an essential element of a next-generation planning process.

## ***3. Anticipate the unpredictable and have a plan for handling it.***

There will always be parts of your business that are not predictable. New products are a prime example. Absent extensive sales history, success with new products is notoriously hard to predict. Dramatically new marketing campaigns are another example. The planning process should be designed to handle these “known unknowns.” For example, in the case of new products, use “best guess” estimates of volume, initially, and then transition to statistical, model-based predictions once enough history is available.

Another class of the unpredictable is the set of “unknown unknowns.” This includes events such as product recalls, unanticipated shifts in consumer behaviors, outbreaks, etc. These events tend to be rare, and in general, they cannot be precisely

predicted, but they can have a significant impact on your business. Your planning capability needs to be robust enough to deal with these realities.

One major benefit of keeping a close pulse on the numbers of your business is that you will know when your business is changing and you will know how much it matters.

#### ***4. A unified set of analytics is a prerequisite for successful planning.***

Predictive models can be built for many different niche purposes, such as base pricing, category management, and trade promotion optimization. In each case, some factors are ignored in these specialized models because they are tangential to the purpose at hand. Though this is expedient, it results in a set of models that are internally inconsistent; they predict different results under the same conditions. Sometimes these results are slightly different, sometimes significantly so. This reality presents a problem for management and can cause great confusion and turmoil, especially when competing interests use their own numbers to support different recommendations.

This is why next-generation planning processes should leverage a unified set of analytics. It takes marginally more work up front, but that work will pay dividends throughout the year — and year after year — by providing everyone in the company with a single number, the best number to use for important decisions.

This is not to imply that a unified set of analytics means using only one modeling format for all customers and all products. In fact, it is very likely that consumer products companies will need multiple models. For example, many companies need one model for Walmart and one for customers that participate in data syndicates. What companies should avoid is using different models to develop predictions about the same customer, product, and time period.

*Next-generation planning processes should leverage a unified set of analytics.*

## **5. Automate analytics whenever possible.**

The analytics that support the sales and marketing planning processes need to include a volume model for predicting consumption, shipments, etc., and a financial model for calculating contribution, return on investment, retailer margin, etc. The computations that power these models are usually straightforward, but they are extensive. What a computer can do in milliseconds would take a person many hours.

To be practical in the end-to-end planning process, the analytics need to be highly automated and invoked automatically. Moreover, to be most useful, the calculations should be integrated into the planning tool where they are needed. A next-generation planning process should free sales and marketing employees from routine work and enable them to use their time more productively, in optimizing the plan and creating compelling sell-in stories.

## **6. Integrate marketing and sales planning processes.**

Marketing and sales share a common objective: to drive demand. But although they are seeking to create profitable volume by influencing the same sets of customers and consumers, each has its own set of levers to achieve that goal. For this reason, marketing plans and sales plans cannot stand alone — neither can provide senior management with a comprehensive demand forecast. Further, if marketing and sales do not integrate their calendars, they run the risk of deploying conflicting plans that will confuse the organization and the marketplace.

In a next-generation planning process, marketing and sales planning calendars, roles, responsibilities, and decision rights should be explicitly and thoughtfully integrated. This is not to say that marketing and sales organizations cannot start planning independently, but to optimize their collective results, they do need to come together early in the planning process, discuss investment trade-offs between advertising and trade vehicles in a fact-based way, and coordinate their activities.

*Marketing plans and sales plans cannot stand alone — neither can provide senior management with a comprehensive demand forecast.*

## ***7. Automate the top-down, bottom-up reconciliation.***

Integrating marketing and sales planning is a simple idea in theory, but it can be an enormous undertaking in practice. Typically, the most daunting task is the reconciliation of marketing's top-down plans with sales's bottom-up plans. Even with standard spreadsheet templates for planning (which are not widely used in and of themselves), the task is a challenge.

In a next-generation planning process, with its unified analytics and the right planning tool, reconciliation can be highly automated. A properly automated process can identify exactly how the top-down and bottom-up plans differ and to what degree these differences will affect the forecasted volume. This saves huge amounts of time, which can be reinvested in improving the plan.

## ***8. Start with one, and only one, plan at the beginning of the year.***

Dueling plans past the early planning stages are usually a symptom of underlying process or organization problems, not an explicit design intent. It is a needlessly complex task and a waste of the organization's effort to try to manage the business against multiple, and usually redundant, plans.

In next-generation planning, the outcome of the top-down, bottom-up reconciliation process should be a single demand creation plan that encompasses both marketing and sales, and that the entire company is committed to executing. This plan serves as sales and marketing's input to demand planning for supply chain production. It is likely that the plan will change during the year, but there should always be only one plan.

## ***9. Evaluate variances from expected results against the plan, and with the same analytics used to create the plan.***

There are always variances to the plan during the fiscal year, and they occur for a variety of reasons. But often, how companies respond to these variances has more of an effect on delivering to the plan than the variances themselves.

Going into the fiscal year with a single plan based on a unified set of analytics is an enormous asset in this regard. In many cases, definitive answers to variances can be generated as soon as the causal data is available. For syndicated data, this can be as little as three weeks after execution; for point-of-sale data, it can be less than a week.

A next-generation planning process should enable companies to quickly diagnose a wide variety of variances in areas such as new product distribution and performance, competitive pricing and promotions, and merchandising levels, and to craft and execute responses in a timely fashion.

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# *The next generation is emerging now*

The next-generation planning process is still in the early stages of its evolution. Nevertheless, the technology and tools needed to power these processes already exist, their guiding principles are known, and a few leading consumer products companies are building new planning processes based on them. These companies recognize the benefits that a next-generation process offers and the competitive advantages it confers. Those who embrace this new planning paradigm now will be among the first to transform their planning processes from a necessary evil to an essential element in a truly differentiated planning capability.

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