Sales Forecasting in Pharma Industry

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1. BACKGROUND

Companies in all industries work out their Sales budgets at the beginning of each financial year. This is normally done, bottom up, and in detail for all the products, and by geography or hierarchy. This is also broken down into monthly targets, which, then, the sales force is accountable for.

Once the year starts, companies monitor the actual Sales Vs the budget. It is not an ideal world, and there are bound to be variances across hierarchies, geographies and also products. It is to be expected that, after due analysis, steps are taken to bridge the gaps, and then, in the next period, the exercise is repeated. Is this, in itself enough? Is the Pharma industry more prone to having variances due to unanticipated factors? What else does a company have to do, to mitigate the impact of a variance? How can Information Technology help in improving analysis? These are some of the points that we will address in this paper.

2. A GOOD SALES FORECAST

In addition to Sales Budgets, and on-going analysis of actual sales and variances with

Budget, we believe that companies need to do Latest Sales Forecasts (LSF). In fact, many companies have this practice.

Before we go into how this is useful, and what methodology to use, let us look at a typically useful presentation of LSF (Figure 1)

There are a few key points to note in the LSF presentation:

a) For a holistic analysis all the components in the presentation are required.
b) There should also be no compromise on the products and SKU s to be presented.
c) The level of detail in Geography or Hierarchy axis, depends on what a company may want to do. Every month, to do a LSF at the HQ level may be impractical. At the same time, if just the National Sales Manager does this exercise at a country level that may be too approximate. We would suggest that this exercise is perhaps best done at a Regional Manager level.

While presentation can all be in Values, "SKU quantities" used in the calculations should be available.
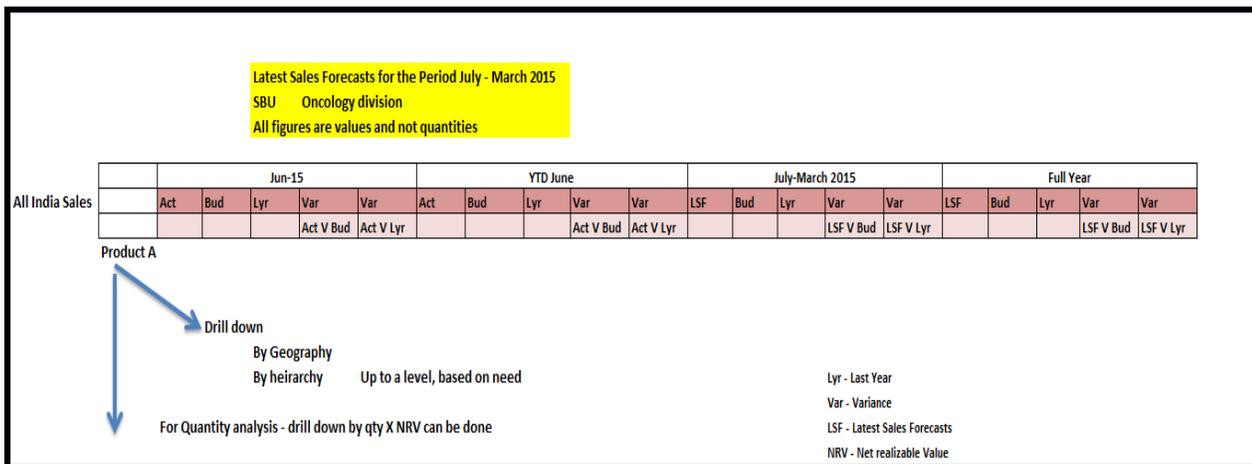

Figure 1: Typical Latest Sales Forecast template

3. WHY FORECASTS IN ADDITION TO BUDGETS?

The purpose of doing periodic LSFs is multi-fold. Normally, in any Pharma company, when Sales budgets are done, it goes with "effort" budgets. By "effort", we mean all the short term, medium term and long term inputs that would go into the strategy to achieve budgets. But then, markets do not always react to all the "efforts" the way we have planned and budgeted. Do we then go through with all the inputs exactly the way budgeted or do we make course changes? Obviously, we need to make course changes, in order to effectively address the dynamic nature of markets.

And therefore, getting a good handle on Latest Sales Forecasts will help in multiple ways:

a) **Sales Force Sizing and Effort**: If in one Therapeutic area, one region is reacting well to a strategy, and another is not, a call needs to be taken on whether to further increase investments, or tone them down, to align with results. LSF will help decide steps to mitigate the impact.
b) **Marketing inputs**: Similar to the above, all the marketing inputs also need realignments
c) **Production planning**: There is a clear impact through changes that will be needed to plan future production. (Product A may have to be increased-and B cut down)
d) Investments in the **distribution channel** will need adjustments
e) And finally, even **top management focus** will need dynamic realigning.

The above points emphasize the importance of LSF ideally to be done on a monthly basis.. However, it must be pointed out that, we are not advocating that budgets need to be changed every month! LSF is a third data point, in addition to budgets and actual.

4. METHODOLOGY

We are aware that most companies would be doing latest forecasts from time to time. What we are discussing in this paper, is the need and the means of doing this process in a structured and "regular" manner. That alone will yield intended benefits.

To do LSF in a streamlined manner, it is important that there is a consistent methodology and all those involved in the exercise, follow the same methodology. Such discipline is best achieved through using a standard IT driven process. Companies will need to look beyond *USE of EXCEL.*

Step 1: Have a clear definition of ownership and at what level. We believe that for each SBU, LSF is best done at a Regional Level.

Step 2: Work out a base LSF purely based on trend analysis. Trend analysis will include, at an SKU level

> YTD variance Vs Bud
> YTD variance from Last Yr
> "Relevant" YTD variance from Budget

By "relevant" YTD, what we mean is that-in some specific cases, a Regional Manager may feel that the future periods are likely to follow actual of, say, Jun-Sep and not April-Sep.

Step 3: Do a computation of LSF based on a combination of the above at the RM level.

Step 4: Allow the RM to take into account any new variables that may play a part. For example, a Campaign that is planned or a large new account that has been won.

Step 5: Consolidate and present to a Country Level Manager for his comments

Step 6: Publish the data

Note: Organizations need to be "culturally" ready for this exercise. Middle level and senior managers must have the maturity to understand and appreciate the difference between Budgets and LSF. We are not taking away the relevance of efforts to meet budgets. It is just that, in addition, we are stating a new position through LSF that will drive short term or medium term course corrections.

5. ROLE OF IT IN SALES FORECASTS

In a mid - sized Pharma company operating two or more SBUs, having country wide sales and distribution channels, and a good number of SKUs, using Excel for this exercise will have multiple challenges and will lead to inconsistencies. A software application to help in LSF will reduce these inconsistencies.

A good LSF application will comprise of 6 components:

A. A good data warehouse of required data
B. Hierarchy mapping
C. LSF rule definitions
D. Computation and aggregation engine
E. Work flow and

F. Presentation layer

A. Data Warehouse

This will carry all the Sales budgets and actual sales and LSF figures. All other data may be drawn from other applications as needed.

B. Hierarchy Mapping

In the Pharma industry, which typically has frequent organizational changes and also high sales force attrition, a dynamic mapping module is a pre-requisite for LSF to work well.

C. Rule definitions

This is a repository of rules that will have the three basic tenets described in Step 2 under "methodology" namely, calculation of LSF on YTD Act Vs Bud Variance, Act Vs Last yr Variance, and "Relevant" period Act Vs Bud variance. This is built in such a way that the RM can use the rules that are applicable for a specific period and SKU.

D. Computations and aggregation engine

This is the engine that will allow computation based on data presented and application of rules as defined in C. Exceptions are also handled

Work flow and presentation layers are quite self explanatory.

6. CONCLUSION

As a conclusion, we believe that Pharma companies need to be aware that markets are dynamic and will need to adopt a robust LSF process.

a) A good LSF process should be practical, and implementable
b) There should be consistency of approach
c) Companies with large data must do way with Excel and adopt a good IT application enabled process
d) Companies must develop the maturity to use LSF data in association with Budget data in order to derive the right benefits