

Sales Forecasting Audit Protocol

QUESTIONS ABOUT SALES FORECASTING ADMINISTRATION

Start with a general request, which may answer many of the specifics given below:

Please describe the process you go through to develop each sales forecast.

Specific Questions

To what extent are various functional departments involved in the development of sales forecasts?

Examples: Engineering, Finance, Logistics, Marketing, Planning, Product Management, Production, R&D, Sales, Sales Forecasting

What approach is used by these functional departments to develop sales forecasts?

1. Do these departments and use their own separate forecasts, or
2. Does one department develop a single forecast that all departments use, or
3. Does a forecast committee develop a single forecast that all departments use, or
4. Does each department develop its own forecast and a committee develops a final compromise forecast?

If #2, which department develops the forecast?

If #3 or #4, which departments are on the committee?

How satisfied are you with this approach?

What is middle management's role in developing sales forecasts? (Example: Review Only, Approval Only, Actual Involvement, Combination of These)

What is upper management's role in developing sales forecasts? (Example: Review Only, Approval Only, Actual Involvement, Combination of These)

At the beginning of each forecasting period, how does the sales forecasting process begin? (Example: sales forecasts developed by Computer System, Sales Force, Both Computer System and Sales Force, Marketing, Forecasting/Planning Group)

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Is the business plan based upon the sales forecast or sales forecast based upon the business plan?
To what degree do you make the forecast agree with the business plan?

Which department(s) are responsible for managing inventory? Examples: Engineering, Finance, Logistics, Marketing, Planning, Product Management, Production, R&D, Sales, Sales Forecasting

Do you think the process for preparing a forecast is clear and routine with precise instructions available?
Please be specific.

Is forecasting performance formally evaluated and rewarded? How?

Is the sales forecasting budget sufficient for the personnel, computer hardware/software, and training required?

Too much money is spent in this company to manage around forecasting error. Do not specifically ask this, but look for examples to be pursued in the conversation.

Are the sales forecasts developed and reported in:

Units, then converted to dollars

Units Only

Dollars, then converted to units

Dollars Only

What is forecast? (Examples: Distributor Orders, Shipments, Sales, Customer Demand)

How do you deal with the following special events: new products, promotions, variety in product/package details

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What percent of your business is in the following categories:

Consumer Products

Industrial Products

Consumer Services

Industrial Services

COMPANY TYPE: To be determined from company documents and general discussion.

Manufacturer

Logistics/Transportation

Telecommunications Company

Wholesaler

Utility

Retailer

Health Care Company

Publisher

What is the length and variability of production lead times for your company?

What is the length and variability of raw material lead times for your company?

What is the length and variability of cycle times to your customers?

Are products primarily made to order or made to forecast?

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Do you have a specified goal for level of logistics customer service?

Inventory turns?

What is the achieved level for both of these?

How would you describe the level of competition in your industry?

Is the demand for your products primarily driven by marketing efforts of your company and its competitors?

Describe the typical channel of distribution for your products (length)?

What is the shelf life for your products?

To what degree do you use the same forecasting management processes in different countries?

If the answer is low, is this something you are trying to accomplish?

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QUESTIONS ABOUT SALES FORECASTING SYSTEMS

Start with a general request, which may answer many of the specifics given below:

Please describe the information systems and forecasting computer systems you use to develop each sales forecast.

Specific Questions

The number and type (hardware, software) of forecasting systems?

How long has each been in use?

Is your forecasting system on a Distributed Data Network (LAN/WAN)?

Is your forecasting system on personal computers, a mainframe, or both?

Was your software (1) developed by vendor, (2) custom built by your company, or (3) a commercial software package?

If # 1, who was the vendor and please describe the development process.

If # 3, what is the name of the package?

Is the output from the forecasting system electronically transmitted to a DRP/MRP system for production and inventory planning? Are forecasts used to determine ROP and OQ?

Is the input to your forecasting system electronically transmitted from the corporate Management Information System?

With what other systems does the forecasting system interact?

How automated is the integration?

What information is input from the MIS to the sales forecasting system? (Examples: Sales, Demand, Orders, Price Changes, New Product Introduction Information, Advertising/Promotional Information, Competitive Information, Market Research Information, Economic Information, past forecast accuracy)

Does the sales forecasting system have access to EDI (electronic data interchange) information from suppliers?

Does the sales forecasting system have access to EDI (electronic data interchange) information from customers?

Does the sales forecasting system receive demand information directly from customers?

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If yes, are forecasts adjusted based upon this information?

How easy is it for users to enter adjustments to sales forecasts directly into the forecasting system?

Which functional personnel have access to the sales forecasting system to review, but not make changes, to the forecasts?

Which have access to the sales forecasting system to make changes to the forecasts?
(Examples: Engineering, Finance, Logistics, Marketing, Planning, Product Management, Production, R&D, Sales, Sales Forecasting)

To what degree are your forecasting systems in different countries compatible?

If the answer is low, is this something you are trying to accomplish?

How satisfied are you with your existing sales forecasting system?

A copy of all system specifications, reports, and graphs should be requested.

QUESTIONS ABOUT SALES FORECASTING TECHNIQUES

At what level of product detail do you forecast? Why?
Examples: SKUL, SKU, product, product line, division, corporate.

For what forecast interval do you forecast? Why?
Examples: weekly, monthly, quarterly, yearly

For what time horizon do you forecast? Why?
Examples: 6, 9, 12 months, two years.

For what geographic breakdown?

For each of the levels, intervals, horizons, and geographic breakdowns just described, what forecasting technique(s) is used? Examples:

- Regression
- Jury of Executive Opinion
- Exponential Smoothing
- Moving Average
- Sales Force Composite
- Box-Jenkins
- Trend Line Analysis
- Decomposition

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Straight Line Projections
Customer Expectations
Life Cycle Analysis
Simulation
Expert Systems
Neural Networks

How credible are the subjective technique values you receive from:

1. salespeople
2. channel members
3. executives?

To what degree to each "game play" is providing forecasts?

How do you forecast "slow movers," "spikes," and "blips?"

QUESTIONS ABOUT SALES FORECASTING PERFORMANCE

We will need documented information on the following:

PERCENT ERROR BY FORECASTING LEVEL

PERCENT ERROR GOAL BY TIME HORIZON

PERCENT ERROR BY TIME HORIZON AND LEVEL

PERCENT ERROR GOAL BY TIME HORIZON AND LEVEL

What criteria are used for evaluating sales forecasting effectiveness? (Examples: Accuracy, Ease of use, Credibility, Cost, Amount of data required, Inventory turns, Customer service performance, Return on investment, impact of forecast error on safety stock/logistics customer service, operating costs of forecast error)

Are performance statistics weighted by volume?

What graphical reports are available? (Example: plot of PE over time)

What measures of forecast error are used? (Examples: Mean Absolute Percent Error, Mean Absolute Deviation, Mean Squared Error, Deviation, Percent Error, Forecast Ratio, Inventory Statistics, Standard Deviation)