

# Chapter 11: Turning Customer Information into a Winning Sales Strategy

## INTRODUCING THE CHAPTER

Deciding what to offer to which market requires understanding customers. However, making that understanding actionable requires more. Creating customer knowledge competence — that is, the ability to gather, analyze, and utilize customer knowledge effectively at the organizational level — is an important goal to which salespeople can contribute. The first step to developing that competency is customer data integration (CDI).

Many areas of the firm rely on customer data gathered by salespeople and through other means. Manufacturing, product development, marketing, sales management, human resources, and others rely on customer data to create forecasts for their areas of operations. Sales forecasting is a vital role for the salesforce.

First, a company tries to estimate a market's potential or overall demand, which is affected by numerous factors: elasticity and the economy, laws, regulations, social factors, demographic factors, and others. Sales potential, or what the company can sell if all goes well, is another estimate. The company leadership will also forecast what is likely to be sold, which will be different from sales potential.

The methods used to generate these estimates are time series techniques, including trend analyses, moving averages, and exponential smoothing. A correlational analysis is a form of a trend analysis, but instead of basing the trend on past sales, the trends of other variables are correlated. Variables that trend ahead of sales are called leading indicators. Some of the correlates are variables, such as the Consumer Confidence Index.

Response modeling is a growing area of forecasting. These are statistical models that consider the effects of marketing factors, such as how much the company plans to spend on advertising and sales efforts. A specific form of response modeling is to conduct a market test or a trial of all the marketing factors to see how customers respond.

Judgment techniques are also used, including expert or executive opinions and surveys of customers or channel members. Salesforce composites are judgments by the sales team. Forecasts are limited by the quality of data used to create the forecasts, the degree to which things change rapidly, the length of the planning horizon, and how much the company wants to spend on creating a forecast. No matter how much money and time is available, forecasting is not an exact science. Multiple methods can improve a forecasts accuracy, however. Committing to using accurate forecasting methods as a business practice requires using as much information as possible, planning for various scenarios, and adjusting the forecast as conditions change.

## ***Chapter Objectives***

After completing this chapter, students should be able to:

- Identify the significant elements of customer data integration.
- Explain how to develop a strategy for customer data integration.
- Understand and apply various types of sales forecasting methods.
- Identify external factors that affect the accuracy of sales forecasting.
- Understand the factors needed to increase the accuracy of the sales forecasting.

## ***Chapter Outline***

- I. The Challenges of Creating Accurate Sales Forecasts
  - A. Knowledge Generated by the Firm's Salesforce
  - B. Users of Sales-Generated Knowledge
    1. Manufacturing
    2. Product Development
    3. Finance and Accounting
    4. Marketing
    5. Sales Management
    6. Human Resources
- II. Sales Forecasting
  - A. Estimating a Market's Potential
  - B. Estimating a Company's Sales Potential
- III. Forecasting Methods
  1. Time Series Techniques
  2. Consumer Spending Correlates
  3. Business Spending Correlates
  4. Response Models
  5. Market Tests
  6. Judgment Techniques
    - a. Executive Opinions
    - b. Expert Opinions
    - c. Customer and Channel Surveys
    - d. Salesforce Composites
    - e. Opportunity (Pipeline) Management Estimates
- IV. Factors that Affect Forecasting
  - A. Data Quality
  - B. Length of the Horizon
  - C. A Firm's Ability to Leverage External Data

- V. Guidelines for Forecasting
  - A. Use Multiple Methods
  - B. Pick the Right Method(s) for Your Business
  - C. Use as Much Information as You Can
  - D. Plan for Multiple Scenarios
  - E. Track Your Progress and Adjust the Forecast

VI. Managing Your Career

VII. Summary

## MANAGING YOUR CAREER

There are many different career paths in sales. If you like numbers and have excellent communication skills, you might want to consider including a sales forecasting analyst role as part of your career path. Sales forecasting analysts function as a conduit of information. They have highly visible roles and frequently make presentations to all levels of the organization. They also collaborate with others throughout the organization to communicate relevant information to the firm's leaders.

Sales forecast analysts are responsible for analyzing data, improving its quality and visibility, and the efficiency of a firm's processes, forecasts, and profitability. The position also gives a person exposure to the firm's top executives or C-suite, which can be a great opportunity when it comes to networking and moving up in an organization.

## SUPPLEMENTAL VIDEOS DISCUSSION SUGGESTIONS

*How to Create a Forecast:* [26 mins] This video reviews step by step how to forecast with five different quantitative methods: naïve approach, moving averages, exponential smoothing, trend projection, and linear regression.

*Forecasting Methods:* [5 mins] This video provides a general overview of forecasting methods.

*How to Create a Business Data Report from the U.S. Census:* [4 mins] This is a short video on how to use U.S. Census data to create a business report.

## QUESTIONS AND PROBLEMS

1. **Ryan Hoffman discussed the importance of forecasting at Marsh McLennan. What elements does Ryan consider to be crucial for developing useful forecasts?**

Students should be able to relate sales forecasting to staffing, budgeting, and predicting growth for the business. When developing a forecast, the following elements are needed to develop a forecast: objective historical data, industry and market trends, the economy, the perceived strengths and weaknesses of the company, its individual teams and sales representatives.

**2. What impact does overestimating forecasts have? What impact does underestimating demand have?**

When discussing overestimating forecasts, students should discuss inventory costs, the negative impact on the metrics to assess company health like inventory turns, and the reduced access to capital associated with overestimating forecasts. When underestimating demand, students should discuss the costs of underestimating forecasts (i.e., overtime and increased purchasing costs of raw material). Students should also consider how overestimating vs. underestimating affects their ability to compete. Overestimating has the ability to hurt stock analysis assessment of company health because of the increase in the time it takes to turn inventory. Underestimating provides competitors an opportunity cost of gaining additional market share.

**3. What roles do salespeople play in terms of developing accurate forecasts? What are the challenges of assembling useful data?**

Salespeople are responsible for providing information about the purchasing behavior of customers. Further, salespeople can provide qualitative information about customers and their intent concerning future purchases. Students should discuss how customer data integration is important to forecasting. Further they should discuss data suitability and quality.

**4. What departments within an organization utilize forecasts, and how do they use this information?**

Students should discuss how sales forecasting is used by the following departments:

- Manufacturing to plan production schedules
- Product Development to plan and develop new innovations and establish the timing of their release
- Finance and Accounting to plan for budgeting and expense control
- Sales Management so they can plan staffing and workloads
- Human Resources to develop hiring and/or plan for potential layoffs

**5. Consider all the establishments that sell fresh pizza around your campus or where you live. Describe the difference between the market potential, the sales potential, and a sales forecast for a particular seller within this market for pizzas.**

Students should explain that the market potential relates to the number of people in town who eat pizza and how much they eat is a way of measuring the market potential. When discussing sales potential, students should mention the number of other companies that sell pizza in that area and how that impacts a pizza's company sales potential and forecast for the next year.

**6. One of your college friends just started a company that sells a protein supplement designed to help serious bodybuilders gain muscle. What factors might affect the market potential for the business's new product line?**

Students should discuss how the economy, technology, laws and regulator oversight, social factors, the economy and demographic factors will affect market potential.

**7. What are the best and worst methods for forecasting the sales of the following products and services? Why?**

Students should first discuss the source and characteristic of the demand for the product or service.

**a. Electric batteries for vehicle manufacturers**

Demand for electric car batteries is derived demand; it is dependent upon the market for cars.

**b. Home security systems**

Could be seen as derived demand in that it will often be linked to the number of new home builds or rises in neighborhood crime rates. Consequently one of the quantitative methods would be best to use in that situation, any of the qualitative methods would be the least desirable method.

**c. Active adventure trips, such as trips to the Galapagos Islands**

Not derived demand, unless there is historical data; quantitative methods would not be the best method for determining demand.

**d. A new dorm for your campus: How many rooms should it have? How big of a cafeteria should it have?**

This sort of forecasting comes from derived demand. It will be dependent upon enrollment size and the number of students on campus. Determining the size of the dorm and the cafeteria would be best determined by quantitative methods; qualitative methods would be the least desirable option.

**8. What factor(s) would you use to estimate the market potential for the following goods and services?**

Students should discuss the demographic variables and external factors that would affect the market potential and demand for the products listed.

**a. Gerber baby food**

The market potential of Gerber food would depend on the number of expected births, the population of children under the age of one, the percentage of mothers that use baby food, and the amount of baby food used by the mother.

**b. Fitbit smartwatches**

A few of the variables that would affect market potential for Fitbit smartwatches would be associated with such factors as the number of smartphones purchased by consumers and the number of health conscious consumers.

**c. Tesla cars**

A few of the variables that would affect the market potential for Tesla cars would be the number of people planning to buy a new car, income level, and those who are concerned with global warming or pollution.

**d. A Virgin Galactic flight in space**

Variables that would affect the market potential of the Virgin Galactic flight in space would be income and number of people who have an interest in space.

**e. Viagra**

A few variables that would affect the market potential of Viagra include access to medical care, gender, age, and general health characteristics.

**f. Home screening kits for colon cancer**

A few of the variables that would affect at-home colon cancer screening would include access to medical care, age, and propensity to receive medical check-ups.

**9. You have been working for the ABC company, which specializes in furniture for campus classrooms and common areas. In your new position, you are responsible for forecasting. You know that your firm's sales forecasts are inaccurate because the company has annually added 15 percent to the quotas assigned to the firm's salespeople — which, collectively, they have always met or exceeded. But you need an accurate forecast for various purposes, including budgeting. How would you change the situation so that you get accurate forecasts? Why would a company follow a practice of simply adding 15 percent to the forecast to set the quota?**

Students should discuss the various forecasting methods that are used by the company. They should discuss the external factors that affect furniture demand which in turn affect forecasting. Students should also discuss the challenges of getting good information to create a forecast. Also, while a great deal of effort and cost may go into creating a forecast, it still may be inaccurate.

**10. Accurate forecasting is a combination of art and science. What practices should you follow to ensure you have the best forecast possible?**

Students should discuss the different types of forecasting and the principles of creating an accurate forecast. Creating an accurate forecast means that not only is a business collecting good data but they are also abreast of any changes in the marketplace and plan for various scenarios so that the forecast can be adjusted when necessary. Students should also discuss the time horizon of the forecast noting that the longer the time period the less accurate.

## ROLE PLAY

### *Health-Based Ingredients (HBI)*

All students should review briefly the different roles of the wholesaler, industrial buyers, and food service operators. Divide students into groups of three; assign them one of the three roles listed in the sales role play. Prior to beginning the role play, have each student think through at least three external factors that could be affecting demand in each of their areas. Prior to, or as a part of the role play, students should research healthy and organic oils industry and the forecast prediction made by experts in the field (<https://www.ers.usda.gov/publications/pub-details/?pubid=44416>). Based on those forecasts students should answer the following questions:

1. What portion of the marketplace do they expect to capture?
2. Will they need extra sales representatives to capture additional share in current markets or expand to new markets?
3. If they are going to increase advertising, how should the money be spent? Should it be focused on industrial or consumer advertising?

# ANSWERS FOR CHAPTER CASELETS

## Caselet 11.1: Kenlen Office Supply Company

Case Questions (compute the following):

1. Use two different trend analysis methods and determine how much the company will sell next year. How confident are you that this is an accurate forecast?

Encourage students to use Excel to do trend analysis. The following screenshots will show the formulas that are used in Excel to do the analysis.

### Forecast Command in Excel

D2    x ✓ fx    =FORECAST(C2:C11,B2:B11,A2:A11)				
	A	B	C	D
1	Year 2022	Sales	Year 2023	Sales 2023
2	22-Jan	110	23-Jan	98.2200457
3	22-Feb	85	23-Feb	113.707912
4	22-Mar	95	23-Mar	100.527581
5	22-Apr	120	23-Apr	101.740015
6	22-May	120	23-Apr	101.740015
7	22-Jun	80	23-Jun	104.125772
8	22-Jul	55	23-Jul	105.299096
9	22-Aug	150	23-Aug	106.511529
10	22-Sep	120	23-Sep	107.723963
11	22-Oct	100	23-Oct	108.897287
12				

### Trend Analysis with Excel

C2    x ✓ fx    =TREND(B2:B13)			
	A	B	C
1	Year 2022	Sales	Projected sales 2023
2	1-Jan	110	97.2579849
3	22-Feb	85	98.73366229
4	22-Mar	95	100.2093397
5	22-Apr	120	101.6850171
6	22-May	120	103.1606945
7	22-Jun	80	104.6363719
8	22-Jul	55	106.1120493
9	22-Aug	150	107.5877267
10	22-Sep	120	109.0634041
11	22-Oct	100	110.5390815
12	22-Nov	113.676031	112.0147589
13	22-Dec	115.814496	113.4904363
14			

2. **What additional information or methods would you like to incorporate in your forecast? Think of at least two variables not mentioned in the chapter that you think might affect the demand for office supplies; find forecasts for those variables using U.S. Census Bureau data, and adjust your forecast with the new information. Show how you arrived at the new forecast and justify your choice.**

When students visit the U.S. Census Bureau website, they can search and find a trend analysis for office supply sales sold through the retail store. Using the data from those trends, students can adjust their sales forecast to match the fluctuations in sales at the retail store. Another variable that could be considered could also be the fluctuation in the number of white collar jobs.

3. **If the office supply company expanded globally, what would be the best country in which to set up its new operations? Use data from the U.S. Commercial Service to justify your decision.**

Students should go to U.S. Commercial Service and look at industry reports. Encourage students to look for countries where there are few barriers to entering into the retail space and there is significant growth in the business sector. Students can also search by country and get industry reports. When evaluating the best places to expand, students should indicate if they are expecting to establish a virtual vs. physical presence.

### ***Caselet 11.2: Annual Forecast Meeting at WRT, Inc.***

#### **Case Questions:**

1. **What is the purpose of a sales forecast? How honest with its forecast was the WRT's sales team initially?**

Students should discuss how a sales forecast is used by many different departments in an organization and how they affect operations. Further, the student's answer should discuss how the forecast informs the company strategy. Students should recognize the risk that employees take when presenting a forecast that is unfavorable or lower than previous forecasts.

2. **Why did the sales team increase its forecasted numbers?**

Since the forecast changed with pressure from the management I would expect that the second forecast was developed to appease the hierarchy. Students may want to draw parallels between this and the Wells Fargo incident mentioned in the chapter.

3. **Why did Allison react the way she did? Does she understand derived demand?**

Students should discuss how a reduction in forecast impacts perceptions of the company's overall health and stability. Further, pressuring the sales person to sell more is a "knee jerk" reaction. When answering this question, students should recognize that management need to look at the external variables like derived demand to assess how to diagnose the causes for changes in the forecast.

4. **What positive and negative aspects can be attributed to a "stretch" forecast?**

Students should discuss how stretch forecasting challenges all aspects of the organization and not just the sales representatives and their managers. On the positive side of stretch forecasting, aggressive goals require that each area of the operation becomes more strategic and focused on increasing market share. On the negative side of stretch forecasting, aggressive goals without a strategy for accomplishing the goals could lead to undesired behaviors at all levels of the organization.



**5. How might the final forecast negatively impact other WRT departments?**

The answer provided in this question should address how manufacturing and its production scheduling are affected, marketing and promotion strategies may have to look for new markets or determine how to get current customers to purchase more products, and human resources may have to consider hiring more sales representatives to increase the organization's ability to meet a stretch forecast.

**6. Was Allison's behavior a positive way to manage? Why or why not?**

In their answer, students should address how Allison critically analyzed the forecast data that was presented. Students should also discuss how Allison used data to solve the problem. The answer should also address how well threats work when motivating and managing employees.

## OTHER IN-CLASS EXERCISES

Divide students into 5 separate groups and provide them with historical data on school enrollment. Assign each group a quantitative forecasting method and have them create a forecast on school enrollment for the next 5 years. Discuss what other external variables are affecting the enrollment forecast. The groups then should research the trends with those external variables in the future and use that to adjust their forecast. Finally, have each group present their findings, discuss the differences in the forecast. The class should decide which forecast is more accurate and why.

Divide the students into groups of three. Have them identify a particular product or industry they like, i.e. fast food chain, Apple watch, etc. Working in groups, the students should research the U.S. Census data and the U.S. Commercial data to predict the industry trends and identify opportunities for expansion. Each group should briefly report their findings to the larger group.