The data process secrets for sales planning that technology vendors don't tell you about and how it can increase your valuation!

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Vendors will want to sell you new technology to solve your data problems even if they know your data and data process are not ready. In reality, you need to work on your data process first to get trustworthy data before introducing any new technology. This data and data process will lead to better S&OP, which will then lead to profitability, and ultimately profitability will lead to higher exit valuations.

1. How effective is sales planning and data usage in creating value for the CPG business from an exit standpoint?

When determining value, current strengths of the business are most important. So if that means having better data, being able to use that data to make better decisions, being able to have integrated operations and inventory that relate to the sales that you have, those will translate to profitability. They'll also indicate a really strong business, and whether it's an investor or a private equity fund, or a strategic buyer, they'll have a better view of your business, and that'll lead to a higher valuation for your company.

2. What is the secret that vendors don't want you to know?

Technology vendors know technology projects are going to fail without the processes. But they fear process discussion will delay or even derail the technology implementation. I've been in very funny conversations with these consultants when we talk about it. They're like, "Are you sure you wanna talk about the P word? The process word?" But as business owners and as business executives, we all know that people and process always come first. The really big, dirty secret in the technology world is most vendors will go into a project like this, “avoid process at all costs” so that they don't jeopardize the sale of the implementation.

3. How do companies go about compiling a sales forecast when they’re not provided a forecast by the customer or the customer’s forecasts are unreliable?

The reality is few, if any, customers provide accurate forecasts. if they provide a forecast at all. So the company really needs to rely on historical data as a first step in developing a plan–a sales plan by SKU and by customer for instance.

Many times It's just poor record keeping, lack of ownership, using poorly designed spreadsheets, having bad systems and processes around that. A lot of times it's just that smaller growth companies don't have the time to really sit down and put together a good tracking system and lack a full-time controller accountant.

Often companies don't get the right people in the room on a regular basis. So you need to have Sales, Ops, Marketing sitting in the room regularly, sharing notes, updating what they're seeing in the marketplace, adjusting off of that historical baseline. And then once you decide on a new revised sales plan, making sure everybody is operating off of it.

4. What are some indicators that the business is not forecasting properly? What are some of the things that you’ve seen that aren’t so obvious?

Excess inventory is the most often Indicator of these problems. It's really important to get out and walk around your warehouses and your operations, and open doors. But inversely, sometimes you see the lack of inventory. So you see local fill rates, short shipments, stock-outs which are just as problematic as overstock because then you're losing out on sales. It'll lead to inefficient plan operations. If you see your unit cost increasing, it's usually due to inefficiencies and that you didn't plan out properly.

Increasing inventory swings in magnitude are a classic symptom. Also, companies that have these manual processes will eventually have a problem because the complexity of a growing business will break your manual processes as the volume increases.

An inventory is a use of your capital. When it comes time to sell a business, typically buyers expect that you're delivering a sufficient amount of working capital to support the business going forward. A buyer may think that you're not operating your business well when they see inventory issues.

5. What prevents companies from simply using their sales history to develop a forecast?

Not starting with the right data architecture and data mapping process. That can make the data unreliable or not accessible in the right format. Typos and user error in data entries prevents proper connection. Also not drilling down enough, for instance only tracking distributors but not end retail customers.

6. What are some contributing factors to a poor sales planning process and how can you address?

It’s that communication with your customers. It's the communication amongst your team. Your sales and marketing teams should be actively participating with your finance team and your product team and your operations on what's going on. Meeting on a regular basis and having the right cross-functional group to review and check that sales plan is absolutely key.

Now that you have the shared knowledge, then design your systems, your financial reporting system, your chart of accounts, making sure you have the right revenue codes set up, the right products and SKUs in great detail. Don’t be lumping product families all into one category. Make sure you have a sufficient breakout from products to SKUs so you get the granularity on what's happening.

7. Can a company get a better sales plan process by implementing an ERP solution or some other off-the-shelf sales planning product?

It’s a classic misconception that a technology tool can solve all problems. If you don't have the right processes in place, the technology isn't going to be a silver bullet.

When we're looking at how to get the actual business intelligence that the business needs to operate, you have to do the mapping of the data and figure out the relational aspects between the data and the reports. You have to understand the process and you have to understand where the data is coming from, and how to map them together.

8. What level of sophistication with data creation and analysis do buyers look for, the M&A buyers?

In an M&A process, it's important to be able to explain your business and do that with as much granularity as possible because very sophisticated buyers will be looking for that. You want to try to have that sophistication and bring those processes so that a buyer doesn't have to do that themselves. What's most important is making sure that the data is coded correctly. Knowing specific breakdowns of your sales, productions, operations, etc. adds tremendous value especially as it pertains to profitability and how exactly all the numbers are coming together.

9. How far ahead of an M&A transaction should you start addressing the sales forecasting?

Over a year, preferably two because it takes many months to see also if it's working from a trend line and a process standpoint. You need to flush out the month to month variables and get that solid trend line.

During that time, the S&OP process should be an ever-evolving process. You can't be too big or too small to start it. You may not have the resources initially, but when you start hitting $10 million. $20 million. $30 million in revenue, you're on that growth ride. You need to be thinking about S&OP.

You want to be able to make the right decisions with your business and have that translate into profitability because that helps with valuations.

10. How do you compare the need for sales planning versus establishing SOPs and KPIs? If a business owner needs to focus on one, which one should they begin with?

They're all relevant. It's not that one isn't. It's just you have to have the basics first. So for example, SOPs can cover a lot of things. Is it a SOP for manufacturing process or for an accounting function? It goes into how you're tracking and mapping sales. But generally, you want to have clear operational SOPs in place and good planning KPIs. I've seen companies that don't have good planning, and the KPIs are an exercise in false precision. It sounds and looks great. It looks sexy. But the data that goes into those KPIs is garbage. So that means the KPI is garbage.

11. How can I start tackling the process side with the technology I already have, since it sounds like introducing new technology might cause more short-term pain?

Most companies are not using all the tools in the software and apps they already have installed. A quick review of these tools against the business needs will usually uncover many possibilities and quick wins without having to roll out new technology just yet. In any case, most issues will be with the lack of process and that should always be addressed first before looking at any new technology.

12. When IT is tasked with purchasing a system that's not for them, how best to know who should be consulted on the requirements?

A task force of a cross functional team is the best way to make sure all boxes are being checked off.

13. For direct-to-consumer companies, what are some additional opportunities?

Access to qualitative data, not just quantitative. If the data is properly processed you can get direct insight into what will be a popular item.