GOTHAM CONSULTING PARTNERS
Value Creation In Private Equity

Planning And Forecasting Process Improvements At Large Multi-Channel Retailer: Instituting Data-Driven Synchronized Top-Down And Bottom-Up Planning and Forecasting

The Challenge: A large multi-channel consumer products retailer had been recently purchased by a PE firm in a highly competitive auction. The company had been very successful, more than doubling sales to $700MM in the preceding 6 years, due to its diverse product assortment and positioning as a low-cost provider of consumer goods. The company was looking to further grow its top-line by an additional $200MM but had missed plans in 3 of the previous 6 years. Recognizing the need for a robust planning and forecasting process, management asked Gotham to evaluate the current planning process and assist them in creating and implementing an enhanced process.

The Partnership:

Analysis: The Gotham team began by documenting the current planning processes and identifying gaps. Here, Gotham interviewed key process owners across the various departments involved in the planning process, including merchandising, marketing, circulation planning, inventory, sourcing, production, e-commerce, and finance. We then supplemented findings from these interviews with analysis of existing planning schedules and reports to create current process maps. Working with key client managers, Gotham next conducted a gap analysis and identified interdepartmental dependencies to expose the key issues driving poor planning:

- Top-down plans were based on budgets but not linked to merchandiser actions at a SKU level
- Timing of planning processes between departments was misaligned (e.g., budgets were approved 3 months before the start of the fiscal year, but merchandising and sourcing planning started 6-9 months before the start of the fiscal year)
- Planning process was annual and static, creating dangerous "blind spots" for merchandising as the year progressed
- Merchandisers were making reactive adjustments to media placement, ad size, and pricing without understanding sales/cost implications and had no overall assortment plan/ merchandising strategy to guide decisions
- Planning was catalog-centric despite significant growth in e-commerce business.

Strategy: Working with the client, Gotham crafted 5 broad initiatives to facilitate robust planning and forecasting in support of top-line growth objectives:

- Develop a formalized bottom-up (SKU-level) category-focused planning process incorporating item-level strategies for: pricing, new item introduction, product lifecycle management, and media placement (print and web)
- Enable e-commerce planning by creating a web placement process (vs. basing e-commerce on a catalog plan)
- Create a pricing/cost model to validate and provide directional guidance on future changes to SKU pricing and media exposure
- Create a cross-departmental reconciliation process whereby top-down and bottom-up plans are brought into alignment
- Develop a 12-month rolling planning and forecasting process with regular updates to eliminate "blind spots".

Execution: Gotham led several cross-departmental brainstorming sessions and worked closely with merchandisers and the management team to translate the strategic initiatives into actionable processes/rules for subsequent implementation. Other aspects of Gotham's analytical support included developing a sales/cost model and creating a forecasting tool. Gotham analyzed 4 years of historical sales data and created over 450 statistical models to determine how sales were being impacted by price/media exposure changes. Simultaneously, Gotham worked with in-house analysts/IT to develop a tool to store the plans and create a 12-month sales forecast. Gotham's role included database structuring and programming, incorporating the sales/cost model into the forecast, and applying media sales curves (to reflect life of media and advertising timing).

Once the processes/rules and tools were created, Gotham helped management with implementation by developing action plans for client teams, providing project management tools including actionable reporting, and creating detailed training material.

The Outcome: The planning and forecasting processes along with the bottom-up planning and forecasting tools were piloted to create one department plan for the following FY, with improvements/refinements made to the processes/tools based on the pilot results. The company extended the use of the new processes/tools to all departments, as part of a rolling planning process.