

Forecasting in fmcg industry



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Forecasting relates to the management functions of planning, organizing and controlling. It is one of the key elements of operations management.

Companies serve their customers and the society at large by producing various goods and services. The market need is continuously changing. In order to cope up with the changing demand companies must develop a good forecasting technique to determine the demand level For this term paper, five different products from different companies, selected from the fast moving consumer goods industry, were taken as the subject of study. The products selected are of different nature in the consumer industry, which made them ideal for the term paper.

1. 3 OBJECTIVES The broad objective of this paper is to identify the forecasting techniques used by companies in the fast moving consumer goods industry (FMCG). The specific objectives are: ? To identify five products in the FMCG industry ? To identify the when each organization do their forecasting, and for what period of time. ? To identify the different quantitative and qualitative forecasting techniques used by the companies. To compare the forecasting techniques of the five products. 1.

4 RATIONALE Given the volatile nature of the Bangladeshi market, it is imperative for the FMCGs to have an exhaustive forecasting system. Since the attributes of different brands are different, it would be interesting and equally educative to analyse the forecasting techniques followed by these organizations. The report would also help entrepreneurs and prospective entrepreneurs to better understand how to forecast for different brands under different circumstances. 1. 4 SCOPE This paper aims to analyze the

forecasting techniques followed by five major FMCG companies in Bangladesh.

These brands include Nestle Bangladesh Limited, Reckitt Benkiser Bangladesh Limited, ACI Bangladesh Limited, Square Group, and Unilever Bangladesh Limited. Hence, this term paper can be viewed as a general overview of the forecasting techniques used by the companies in the FMCG industry.

1. 5 METHODOLOGY The research conducted in this report is of exploratory nature.

Primary data was the only source of data for the paper. Data Collection Data for this paper was found by taking interviews with the officials of the respective companies.

1. 6 LIMITATIONS The major limitation in this report was the reluctance of relevant sources to release information on the details of forecasting techniques. The report is based on the overview of the technique used for each product and not on the details of the method.

2.

FORECASTING IN DIFFERENT COMPANIES

2. 1 ACI Advance Chemical Industries (ACI) Limited is one of the leading conglomerates in Bangladesh, with a multinational image. ACI is a Public Limited Company with a total number of 19, 653 shareholders. ACI Consumer Brands was initiated in 1995 with two major brands of the company – ACI Aerosol and Savlon. These are two of the most prestigious products which are enjoying the leadership position in the market.

The division started to take new businesses through off shore trading as well as local manufacturing. In this process ACI Consumer Brands launched many new products and also bonded with Joint Venture business relationships and

attained international alliances with world renowned companies SavlonACI has very strong range of products in its Hygiene Product category. Savlon is almost an essential product in every home of this country; Savlon Liquid antiseptic, Savlon Antiseptic Cream, Savlon liquid Soap, Savlon Femme Sanitary Napkin and Savlon Family Protection Soap are some of the well known products under the brand name of Savlon. Savlon Liquid Antiseptic is the highest selling antiseptics. It is used in minor burn, cut and abrasion.

It has more than 75% market share of its category. Savlon Liquid Antiseptic has four pack sizes. They are: 56 ml, 112 ml, 500 ml, and 1 liter. Savlon Antiseptic Cream is routinely used in almost 90% of the country's Hair Cutting salon as an after shave antiseptic. It has two pack sizes: 30 gm and 60 gm. Forecasting Technique for Savlon Yearly forecasting for Savlon antiseptic is done for January to December.

The forecasting for the next year starts from October of the year preceding it. Quantitative Technique The forecasting for Savlon is done using a mixture of the different techniques that we have learned in the class. 1. Simple Average- The actual sales data for last two or three years is taken for forecasting the demand of the next year. The month wise data of sales is considered. The demand for the next year is then calculated by the simple average method and the gross figure for the next year is found.

2. Weighted average- The yearly forecast is then broken down into monthly forecast according to the average percentage sales in each month of the year. For example if the forecasted demand for the next year is 10000 litres of Savlon liquid antiseptic and average percentage sales in January in the

last two or three years was 12 percent of the total sales during that period the forecasted demand for January in the next year will be 12 percent of 10000 litres i. . 1200 litres 3.

Moving Average- The data for the previous two or three years is taken. 4.

Trend analysis- The forecasting figure is not only based on the value found by the simple average calculation. Since simple average does not detect changing underlying pattern the trend analysis is done. The trend component is the general upward or downward movement of the average level of demand over time.

Two factors taken into consideration while calculating the trend component are market growth and product. The data for market growth is taken from a research company Neilson BD. The growth of Detol, a competitor of Savlon, is also measured. Finally the product growth is assumed to be certain percentage for the following year and forecasted accordingly. Qualitative Technique Once the quantitative figure for the next year is obtained the figure is adjusted using the qualitative. 1.

Jury of executives- The jury of executives consists of the brand team and the Head of sales who represent the sales team. These members arrive at a group estimate of demand by combining judgement with statistical figure. A lot of factors come into play while doing qualitative analysis. The most important factor is the seasonality factor.

The sale of Savlon varies a lot during the Eid-ul Adha during which there is an increase in sales of large Savlon liquid antiseptic bottles. The sale of Savlon

also varies during flood. All these factors are taken into consideration while proving judgement by the executives. 2.

Sales force composite-The head of sales represents the sales force during the time of qualitative forecasting. 3. Consumer Market Survey- Savlon solicits inputs from customers or potential customers regarding the purchasing plan by gather field data from Nielson Bd. This helps not only in forecasting but also for product development and research. Based on the combinations of the above mentioned techniques the forecasting is done.

The deviation is checked on the 20th of every month whether two-third of the forecasted sales has been completed. Since Savlon is ACI's one of the prominent brands the forecasting is usually aggressive. The actual forecasted figure is never circulated to sales team. They are told a figure which is about 15% more than actual forecast so that even if they achieve 90%, the target is met. . 2 UNILEVER BANGLADESH Unilever is a multi-national corporation, formed of Anglo-Dutch parentage that owns many of the world's consumer product brands in foods, beverages, cleaning agents and personal care products.

Unilever's major competitors include Procter & Gamble, Nestle, Kraft Foods, Mars Incorporated, Reckitt Benckiser and Henkel. Unilever Bangladesh is a Fast Moving Consumer Goods company with local manufacturing facilities, reporting to regional business groups for innovation and business results . Over the last four decades, Unilever Bangladesh has been constantly bringing new and world-class products for the Bangladeshi people to remove the daily drudgery of life. Over 90% of the country's households use one or

more of their products. The company has a Soap Manufacturing factory and a Personal Products Factory located in Chittagong. Besides these, there is a tea packaging operation in Chittagong and three manufacturing units in Dhaka, which are owned and run by third parties exclusively dedicated to Unilever Bangladesh.

BrandsWheel, Lux, Lifebuoy, Fair & Lovely, Pond's, Close Up, Sunsilk, Taaza, Pepsodent, Clear, Vim, Surf Excel, Rexona, Dove, Vaseline ; Lakme. Vim Vim has brought a revolution in kitchen management in Bangladeshi households. Since its launch in 1987, Vim has been synonymous with sparkling clean dishes. Offering a more hygienic and effective cleaning solution for housewives depending on domestically made ash, the Vim dish wash powder was first introduced in 1987. It is a tough abrasive, multipurpose cleaner in powder form that leaves kitchenware beautifully clean and also works on a number of other surfaces. The Vim Bar, a revolutionary innovation for household products, brought together tradition and technology and came up with a dish wash in soap form.

Vim liquid is another form of cleaning convenience and is specially formulated for taking care of high quality dinnerware. Forecasting Technique for Vim The forecasting technique used by Unilever Bangladesh is 8 quarter rolling forecast. At every quarter of the year the forecasting for the next two years is done. Quantitative ApproachThe quantitative method used by Unilever Bangladesh for forecasting takes three factors into consideration: Cumulative Annual Growth Rate (CAGR), Market growth and the year -on-year growth of the product.

1. Cumulative Annual Growth Rate (CAGR): the following factor considers data for the previous three to five years. The calculation of CAGR does not simply calculate the annual growth rate but takes into consideration all the factors while calculating the annual growth rate. For example if the data for 2005 to 2007 is considered the CAGR is not simply the difference of demand between 2005 and 2007 as a percentage of 2005.

This is the compound growth of demand from the year 2005 to 2007 2.

Market Growth Rate: The next factor considered for forecasting demand for the next two years is the market growth rate. The market growth rate is also cumulative and not the year-on-year market growth. The market growth for previous few years is considered and the cumulative compound market growth is calculated. The compound market growth rate is used in the 8 quarter rolling forecast 3. Year-on-year growth- Thirdly, the year-on year growth is calculated by taking the percentage difference of the annual growth of the sales for the previous years.

The year-on-year growth is the least important factor of the three.

Qualitative Technique Based on the above calculations a total figure is obtained for the next eight quarters. Qualitative approach is then undertaken in the forecasting. The qualitative forecasting plays a major role in the forecasting of vim.

This type of method is totally subjective and also activity based. The qualitative forecasting depends on what the company's plans are for uplifting the volume the promotional activities, trade benefits and whether the company has plans to re-launch its products in the next two years. A

combination of the two approaches gives an annual figure of the demand of Vim which is then phased out month wise. The demand in all the months is not the same because of two reasons: 1.

seasonality 2. activity The sale of vim varies during two periods of the year. During the rainy season where there is a shortage of ashes the sale of Vim dish wash powder goes up. During the Eids there are also jumps in sales of vim. Jury of executives- Every month there is a review meeting between the product manager from the supply chain, the sales team and the brand team.

The forecasted figure is firmed for the next month when an agreement is reached between the members.. The executives calculate the current and run rate of each and every product by the 12 month moving average and the forecasting for the next two months is done. Other factors such as political instability and natural disasters are considered while giving subjective judgment.

Every four months there would be a review of the previous quarter and every quarter demand for the next year will be forecasted. 2. 3 NESTLE

BANGLADESH LTD. Nestle with headquarters in Vevey, Switzerland was founded in 1866 by Henri Nestle and is today the world's leading nutrition, health and wellness company have factories or operations in almost every country in the world.

Nestle's existing products grow through innovation and renovation while maintaining a balance in geographic activities and product lines. The organization currently employs 253, 000 people and enjoys annual sales of \$88 millions. With time Nestle has diversified its product range, and it

continues to satisfy the regular needs of its consumers, with a diverse range of products. With its innovative product range, Nestle is currently enjoying its popularity in the baby foods, dairy products, breakfast cereals, ice creams, chocolates and confectionery, prepared foods, beverages, food services, bottled water, and pet care sectors. Cerelac is a brand of cereal made by Nestle. It is marketed as a snack for the whole family but is popular for infants.

It is available in most parts of the world. Cerelac is a highly nutritious, easily digested instant cereal. Suitable as a complimentary food for infants from 6 months onwards when breast milk or formula alone can no longer meet the baby's growing nutritional requirements. Forecasting Technique for Cerelac: Cerelac has a shelf life of 12 months. The forecasting is relatively easier for Cerelac compared to other brands of NESTLE since the demand is stable. Cerelac falls in the infants' food category and consumers in this category do not easily switch to other categories. The forecasting for products like noodles and soup are more difficult as the demands for these products are very volatile as consumers switch easily to other brands.

Company's policy is to withdraw its products 4 months before shelf life. There are various levels of demand forecast for Cerelac: Medium Business Plan (MBS) – This plan is not operational but more like the vision of the company which is done for a period of 15 years. Operational Plan (OPL) – This is the operational plan where the forecasting is done annually for a period of 18 months. The frozen period is 9 months.

The forecast cannot be changed within this period. Quantitative method The demand of Cerelac depends on 1. Current consumer base 2. Promotion/activity The forecasting of demand for Cerelac is done by adding the baseline amount with the activity sales. $\text{Actual sales} = \text{baseline} + \text{activity sales}$ Baseline is any moment in time, without any activity, how much will Cerelac sell. The baseline is calculated by considering historical data of five years and the simple average technique is applied.

The average market growth is added to the figure found by calculating the simple average to find the quantitative figure for the next 18 months. Activity sales are the sales resulting from promotions. Activity sales is classified into two categories, one resulting in instant sales like consumer promotion and trade promotion and one resulting in long term brand equity of Cerelac. The instant expected sales resulting from the promotions are forecasted and added to the baseline amount. Qualitative Jury of executives- The forecasting is done by the brand and the sales team where the judgment of these people come in about the demand forecast.

Monthly forecasting review- Every month review of the previous month and adjustments to OPL 2. 4 SQUARE CONSUMERS GOODS SQUARE Group of Companies, a leading corporate house in Bangladesh is engaged in manufacturing and marketing of pharmaceuticals, toiletries, consumer goods, textiles, spinning, knitting, packaging, printing etc. SQUARE PHARMACEUTICALS LTD is holding the top position among all national and multinational pharmaceuticals companies in Bangladesh since 1985. Square consumer products Ltd. have started producing and marketing intrinsic quality of powdered spices (Like chilli, turmeric, cumin and coriander), mixed

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spices and some ethnic snacks. Meril Talcum Powder Forecasting technique for Meril Talcum Powder Meril Talcum Powder prefers to use Moving Average forecasting technique.

To calculate the average Square Toiletries Ltd. (STL) generally uses three year's data on 4 quarter basis. For seasonal products such as Meril Talcum Powder STL prefers to use Moving Average forecasting technique as most of the products of STL portfolio are all season products. STL does time series analysis by giving weight to seasonal ratio (Seasonality).

STL rely on Expert Opinion (Delphi technique), Sales Force Composite and Consumer Market Survey. The brand Growth is calculated by Year on Year Average, in theoretical term which is known as Moving Average. Then the figure is adjusted by considering all the factors included in the environment through Qualitative Method of Forecasting. These environmental factors include overall competition in the market and branding of a certain product brand. This adjustment for environment factors require subjective call which is done by the appointed brand executive and approved by the top level management of Unilever Bangladesh, in theoretical terms which is known as Jury of Executive.

The market growth is calculated by analyzing the trend of growth for last 3 years. The subjective call for the environment factors are based on the number of upcoming events and promotional activities of a particular brand. Before forecasting the brand executive looks into the opportunities of promotional activities like trade and retail benefits of the particular product.

Time and budget are two most important factors in designing the promotional activity.

According to STL, Events and Promotions brings two distinctively different benefits for the particular brand. The event helps the brand to increase its Brand Equity and Promotions helps to increase sales & through that increase the market share. Finally the actual forecasted figure for the next one year is calculated. Then this annual figure is phased out in next 12 months of the year.

In phasing out the forecasted figure the brand executive considers the Seasonality pattern for last 3 years and the future product related activity or promotion. The Seasonality pattern is very important here as demand of a product is not always the same in every season. A review meeting which is known as Coordination meeting is conducted every month between Production, Commercial, and Sales & Marketing. In this meeting, production quantity of each and every pack of a particular brand is finalized. A major factor for consideration in this meeting is the available machine time during the next month for the particular brand. The Production Manager of production Department deals with this issue.

The DGM of Sales reviews the forecasted figure by analyzing the demand of each pack of the particular brand by using Consumer Market Survey and Sales Force Composite. 2. 5 RECKITT BENKISER Reckitt Benckiser is a global force in household, health and personal care committed to deliver ever better solution to its customers. It is a performance-driven multinational based in 60 countries all over the world.

Reckitt Benckiser (Bangladesh) Ltd. offers health and hygiene care products for consumers in Bangladesh. It provides products in the areas of surface and fabric care, dishwashing, homecare, health and personal care, and food. It markets its products under the brands Cillit bang, Lysol, Dettol, Harpic, Calgon, , Spray ' n wash, Woolite, Calgonit, Finish, Electrasol, Airwick, Mortein, Veet, Clearasil, Nurofen, Strepsils, Lemsip, Gaviscon and French's mustard and French's gournmayo. Harpic is one of the most popular products of Reckitt Benkiser.

It is a toilet bowl cleaner, that not only guarantees to clean but also act as a disinfectant. It also acts as a deodoriser for the toilet. The brand Harpic follows two kinds of forecasting techniques. It has a long term forecasting technique that is done every five years, and is mostly qualitative.

It also has a more short term forecasting technique which is done annual. In the annual forecasting conducted by Harpic, each year the forecasted sale of the next year is projected. This is usually done around the months of August and September, and only the data of the last year is used for forecasting purposes. In this procedure the market trend and the market growth of the previous year is analysed.

Normally, based on its performance, Harpic itself has an expected growth of its own. This growth rate is adjusted according to the growth rate of the market, and the forecasted sale is projected. Harpic currently offers its products in three different sizes: 200 ml bottle, 500 ml bottle, and 750 ml bottle. Often if complication arises with the sales figures of one of these

packages, the sales of the other packages need to increased to make up for it, so that Harpic in general meets its target in the end of the year.