Executive Briefing: Forecast and Demand Planning

Unlike the beautiful morning that my risk management column starts with, this one did not pretend, not even for a minute that it was pretty. It started stormy and it started early. We woke up to the market liking our newly released product. You are wondering where the problem is – well, the market liked it about 30% more than what the sales and marketing team had foreseen. The problem was our inaccurate forecast, which translated directly into a big, hairy problem: not enough inventory. This, according to my boss back then, is grounds to have your head chopped off (compared with the slap on the wrist you get when you have too much). Yes, while too much inventory is a major strain on cash flow, too little inventory can impede a product launch, and cost sales.

So, where is that fine line, that most desirable middle ground? A good forecast can tell you. The problem is getting one. The opinions on this vary greatly. Some will say that a good forecast is a dark science, requiring a crystal (or 8) ball. Some say it is a mathematical problem that can be tackled with statistics. Personally, I like to base my forecast on a solid statistical basis and sprinkle it with a good dose of gut feeling.

One cannot rely on a sales and marketing forecast alone – they are often made for a much different audience and can't easily be translated into something purchasing can use.

So, dust off your cross-functional team and start gathering data. Establish a long-term forecast and a short-term one. Communicate the long-term one to your supplier, making sure they understand that they are gross estimates that will have to be adjusted. As you get closer to the lead-time of your consumable, place purchase orders reflecting your actual need. Suppliers value a long-term forecast and that makes them another great relationship management tool.

Zirna Process: