NETSTOCK

A quick guide to improving forecasting processes in your supply chain.

In this guide, we will explore...

- What is inventory forecasting?
- Essential inputs to help determine your forecast
- 3 steps to improve your forecasting processes
- 5 benefits of an effective forecasting process

Introduction

It's not easy to predict future demands, given the erratic nature of customers and the increase in supply chain disruptions. To accurately plan the right inventory, you must meet customer demand. Your forecast should draw from various data points to help you predict future sales and determine the right amount of inventory required to avoid incurring excess stock or experiencing stock-outs.

> *For companies that do not change their forecasting methods to meet changing demand, scenario planning for both near-term operations and long-term capital allocation will be fatally flawed.*
> US consulting firm, **Ernst & Young** recently reported.

What is inventory forecasting?

Achieving an accurate forecast is one of the most vital aspects of managing inventory effectively in your supply chain. An accurate forecast also helps to reduce excess inventory and, in turn, enables you to increase your profit margins.

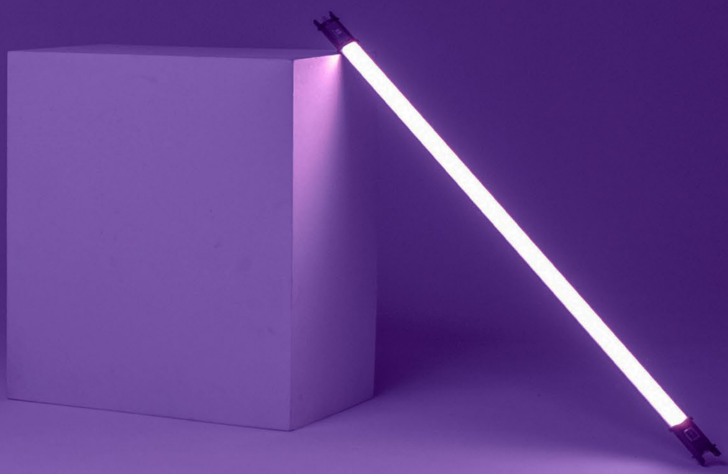
Accurate forecasts provide data to track sales and help place optimal orders to meet current and future demand. During a recent **EY webcast** on forecasting for recovery scenarios...

only 9% of participants said they were "very confident" in their company's ability to forecast demand for products or services. In fact, 35% said they were either "not at all confident" or "not very confident."

A great quote that sums up forecasting...

"If you don't know what you will sell tomorrow, how will you know what to buy today?"

Barry Kukkuk,
Co-Founder of Netstock.



Forecasting tip...
An accurate forecast will also help mitigate risk as much as possible across your supply chain.

Essential inputs to help determine your forecast

Know your current inventory levels.

For each stock item, or SKU [stock keeping unit], an inventory planner needs to be able to answer the following questions:

- How many items must I order?
- How much safety stock is required?
- How often do I need to place an order?
- What is the reorder level?
- How will the minimum order quantity affect future orders?

Improve team collaboration.

Regular team collaboration is another vital input to ensure your forecast is accurate. Your inventory planners, sales, operations, and marketing teams should meet monthly to discuss planned promotions, upcoming marketing campaigns, new stock items being added to the catalog, or feedback from previous campaigns. The inventory planner will know if they need more of a particular stock item. Sales teams should share market intel about their suppliers or customers, again, critical information to improve forecasting accuracy.

Ensure you have the right data points from various sources...

- Current inventory levels
- All open purchase orders
- Historical sales information
- Supplier lead time
- Customer trends
- Seasonality
- Input from your sales and marketing departments
- Insights from previous marketing and promotional campaigns

CUSTOMER SUCCESS | HARTLAND CONTROLS

Hartland Controls experiences reductions in inventory of over $1 million. Hartland Controls integrated their **Sage 500 ERP** with Netstock's demand planning solution to improve their inventory visibility and forecast the right amount of stock needed to meet demand.

Read their story here

Why your forecast is not accurate

Many think that if their forecast is accurate, they won't experience any challenges in their supply chain. Sadly, this is not the case **because no forecast engine will deliver perfect forecasts for all your stock items all of the time.**

Firstly, importing data from your **ERP** into a spreadsheet won't give you a forecast. Even though Excel has varying forecasting formulas, these are designed for single data sets and are not optimal for hundreds or thousands of items. By the time you have checked and updated every single record in your spreadsheet, the data is most likely outdated and prone to human error.

A recent post in **The Manufacturer** highlighted...

> *Spreadsheets are often used to monitor a manufacturer's supply chain, today companies need a real-time, big-picture outlook. One international organization previously coordinated its global supply chain via spreadsheets. It cut and pasted requisitions into individual supplier spreadsheets and emailed them out. A master spreadsheet tracked overall supplier performance. The problem was this process was tedious, prone to error, and often related outdated information.*

CUSTOMER SUCCESS | EDCO

Edco reduces excess stock by 25% in 9 months.

Edco was managing its inventory by extracting static sales and stock data from its **SAP B1 ERP** and pulling this into a spreadsheet for further analysis. Once they had determined their forecast using bits of data and gut feel, they would enter their orders manually into their ERP.

Read their story here

Forecasting tip...
An effective inventory forecast solution will help guide your order recommendations so that you have the right amount of stock in the correct location at the right time.

3 Steps to improve your inventory forecasting

Since each stock item will have its own demand, no sales forecast will be the same. Ideally, you need to independently capture the monthly sales history for each item in each location and perform monthly and weekly activities. However, before you do that, you should first classify your inventory.

STEP 1 | Inventory classification

An inventory holding business will typically have hundreds or even thousands of different stock items, and you should identify your high-moving and slow-moving items. A vital step to improving your forecasting process is to **classify your inventory** to focus on the right stock items that profit your business most.

When you classify your inventory, you will immediately know:

- Your fast-moving items,
- your slow-moving items and,
- what items need to become obsolete or non-stocked.

STEP 2 | Monthly forecasting activities

- Use a forecast engine to **create computer-generated forecasts** for all of your items.
- Use your sales or demand history to generate a forecast.
- Pick up on trends, seasonality, intermittent demand, one-off sales spikes, and factors in data such as lost sales.

Any worthy forecast engine will generate forecasts by using several different algorithms. Once done, it should **compare** the generated forecasts with the sales or demand history to determine the “best fit” forecast. This results in accurate forecasts for the bulk of your items.

A small percentage of your items will need manual intervention, as no forecast engine will get every forecast right. **Monitor** those items with consistent variances between sales and forecast:

- Adjust the forecast up where sales have consistently exceeded the forecast.
- Adjust the forecast down where sales have consistently been lower than the forecast.
- Aligning sales and forecasts means there is less risk of generating excess inventory or experiencing costly stock-outs.

Adjust your forecast for new or lost customers as soon as you are aware of the change. Use the computer forecast, but:

- Subtract a lost customer’s monthly demand.
- Add in new customers’ expected monthly demand.

Forecasting tip...
At the start of each month, review the system forecast, and make sure it's reasonable and includes all known information.

Since new items will have no sales history, these need to be forecasted manually for the first few months. Check to ensure that the "new" item is not a replacement for a product where a cheaper or better quality product has been sourced and will now be sold instead of the old one. In this instance, you would link the "new" item to the "old" item, which results in the sales history of the old item being used to generate the forecast for the new item. This has the benefit of getting an earlier indication of forecast accuracy, which is vital to getting the right safety stock in place sooner.

Adjust forecasts to include **additional promotional demand** on top of the expected regular sales. Use team discussions and inputs to help guide these adjustments. The better the input, the better the forecast result, the better the stock position and success of the promotion!

Report on forecasting performance and ensure your measure also distills the **bias between over-and-under forecasting**. Measuring the difference between your system-generated and manually adjusted forecast helps establish whether the manual intervention improved the result.

Conduct a sanity check at a macro level.
After making changes to individual item forecasts on an exception basis, review overall sales to forecast to ensure that the overall growth is not too extreme or too conservative. Most forecasting systems will enable macro forecast adjustments to be made, should they be required.

STEP 3 | Weekly forecasting activities

Weekly activities highlight exceptions between the pro-rated forecast and the actual sales. Here, any severe deviations between sales and pro-rated forecasts highlight potential issues with the forecast on individual items. Reviewing these alerts enables prompt response to possible changes in demand.

Review forecasts for the top 5-10 sales versus forecast exceptions:

- Increase your forecast – if you are selling more
- Reduce your forecast – if you are selling less
- Consider that you may be selling less due to stock-outs

Forecasting tip...
Adjust your forecast as soon as you see a trend emerging before it results in stock-outs or excess inventory.

5 Benefits of an effective forecasting process.

When you have a structured process in place, you will start to see improvements in your forecast, and more specifically, you will notice:

1. **Happy customers:** who receive the right stock on time and in full.
2. **Reduced stock-outs:** you won't miss out on any potential sales.
3. **Less safety stock:** your order recommendations will be accurate.
4. **Reduce slow-moving and obsolete stock**: you won't order more of these items by classifying your stock items.
5. **A focused sales strategy:** improving forecasting accuracy is helpful for the sales and marketing team when planning their campaigns.

Supply chains are under pressure daily.

To stay competitive in today's market, invest in **demand planning software** that will unlock your data in your ERP, giving you the visibility needed to generate reliable sales forecasts that factor in seasonality, trends and identify problem

How accurate is your forecasting? Be proactive.

Uncover smart forecasting by product, channel, customer, and location.

Build better forecasts that fuel automated planning to capture your full sales potential.

Book a demo with Netstock.

Learn more at netstock.com