



WHITE PAPER

5 Steps to Achieving **Higher Performance** with Demand Planning



Introduction

Leading supply chain executives are contributing to business growth. Beyond operational excellence, they are uncovering growth opportunities all the while meeting customer service expectations. These leading executives have recognized demand planning as the cornerstone to a mature supply chain and have championed a demand planning practice within their respective organizations.

A demand planning practice can contribute to growth in two ways—by ensuring that dollars invested in inventory are providing an acceptable rate of return and by recognizing trends through the use of analytics.

A study by a company specializing in demand planning showed that for every 1% improvement in forecast accuracy, companies report a 1-2% drop in inventory levels.

All of this translates to big savings. So what are the foundational elements to establishing a demand planning practice? Let's take a step back and look at the definition of planning, which is "The process of setting goals, developing strategies, and outlining tasks and schedules to accomplish the goals." Within the context of demand planning, the ultimate goal is a demand driven supply chain organization based on a network-based demand plan. A network-based plan implies a connected and collaborative supply chain—at this point you have attained the highest level of maturity according to Gartner's demand planning maturity matrix. There are many roads leading to a mature demand practice. At the end of the day, it is going to take the right people and the right processes supported by the right tools.

A 2015 survey from the GPO Premier revealed the variety of ways supply chain improvements reduce staff resource related costs:⁴⁸

Inventory reduction greater than 15%

15%



Order fill rate increases by 20% and more

20%



Revenue increases an average of 2%

2%



Gross margin increases in the 3 – 5% range

3-5%



	React	Anticipate	Integrate	Collaborate	Orchestrate
Goal	Sales based forecast	Forecast based on internal sources	Internally based consensus demand plan	Value-chain based demand plan	Network based demand plan
Process	Baseline forecast	Forecast incorporates internal inputs	Demand plan to include internal inputs	Includes external partner inputs	Demand plan based on creation of new demand channels
Organization	Planning aligned with sales	Increased granularity of forecast focus	Planning group fills in gaps between inter-departmental plan numbers	Planning group fills in gaps between internal and external partner plan numbers	Supports commercial organization identification of new demand streams and segments
Metric	Measure forecast accuracy	Objective to minimize forecast error	Measure value of internal inputs	Co-own metric with collaboration partners	Co-own metric with network partners
Technology	Used to refine forecast	Used to include inputs from multiple sources	Enables internal collaboration	Enables external collaboration	Enables network relationship management

People

The right people will understand the importance of establishing trust. Your demand planning champion must persevere and will continuously educate internally and externally. The ideal candidate has experience in supply chain processes and embraces modern technologies. Good cross-functional and collaboration skills are essential to engage procurement, sales and IT. You do not need to hire a mathematical or statistical genius. Today's modern demand planning and forecasting solutions are built to select the right formulas for you.

Process

A well-structured forecasting process is key along with clearly defined organizational roles. If you are not forecasting, get started. Measure forecast accuracy before and after manual adjustments. Schedule forecast review sessions with key stakeholders and discuss ways to improve forecast accuracy—make use of analytics at these meetings. Adopt a set-it-and-forget-it approach to items with high forecast accuracy and focus on gathering intelligence on high impact items that are more difficult to forecast. Finally, remember it may not be possible to forecast slow moving items, so adopt a safety stock strategy that is in line with expected service levels.

Tools

The right supply chain solution provides 99.99% accuracy on your inventory statistics, allows full access to all of your enterprise data and includes easy-to-use reporting tools for columnar and/or dashboard reporting. It includes demand planning tools and forecasting tools and incorporates the forecast to provide just-in-time, automated replenishment. Finally, the right solution resides on a unified, adaptable, scalable and secure platform.

5 Simple Steps

Here are 5 simple steps toward establishing a demand planning practice in your organization.

1. Document your current processes

Set short term goals then take small measurable steps toward those goals. Understand which processes will be affected by these short term goals. Make sure goals are clearly identified and communicated to all involved.

2. Create a complete and accurate demand history

A statistical forecast relies on complete and accurate demand history. Capture demand based on what was ordered and not what was shipped. If you must capture demand history based on what was shipped, use the date the goods would need to be picked in order to satisfy the customer's requested receipt date. You may need to account for vendor stock-outs especially when demand is based on shipped quantities.

3. Use an absolute metric

Measure SKU level forecast accuracy using an absolute metric such as MAPE (Mean Absolute Percentage Error). MAPE is the sum of the absolute errors divided by the sum of the actuals; it is the most commonly used method of measuring forecast accuracy. Remember that your statistical forecast is a quantitative assessment of your future requirements, and be sure to bring in some qualitative input from product experts and sales.

4. Classify your inventory

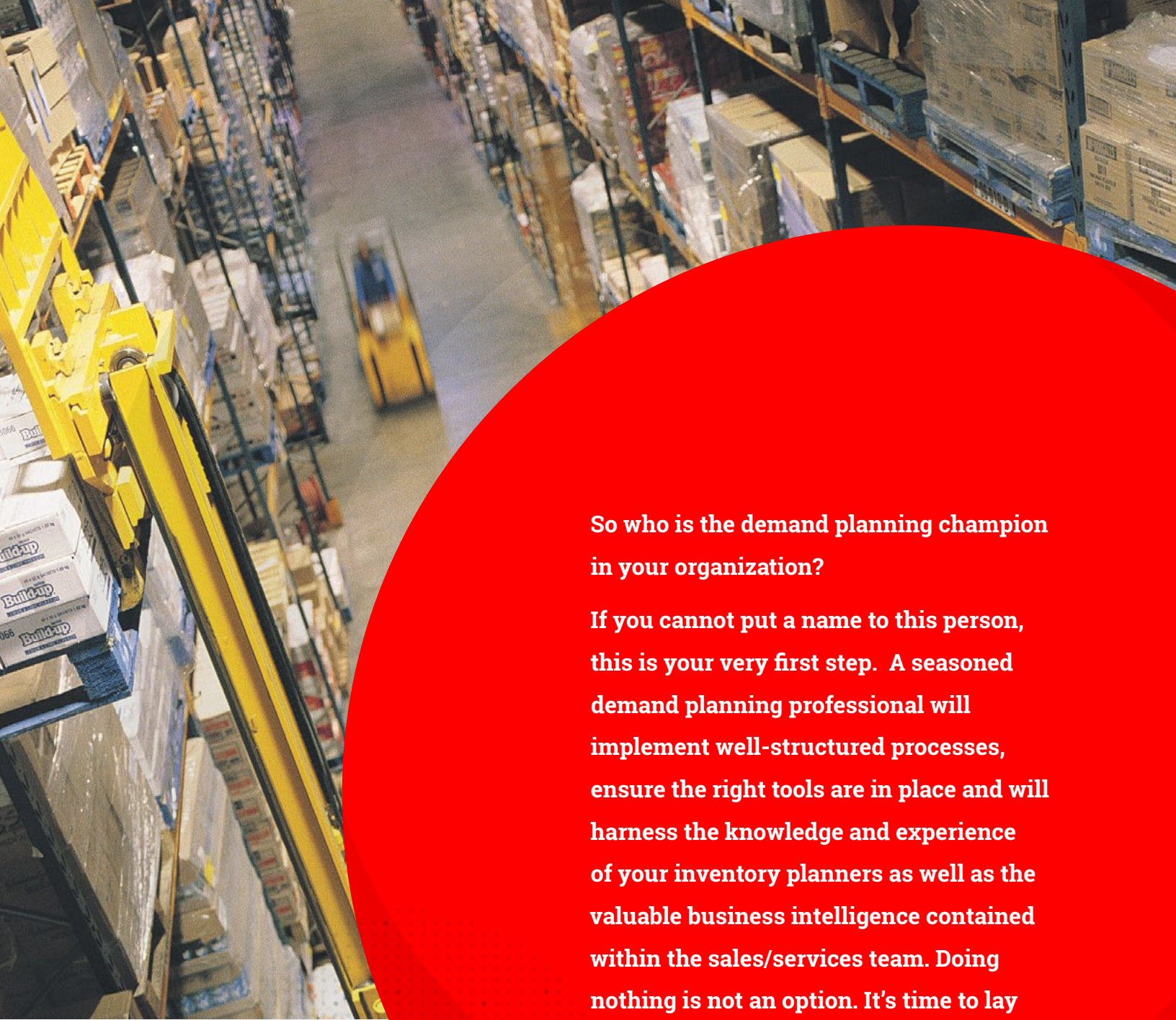
Classify your inventory using several factors or a mix of factors such as cost, revenue, quantity or number of hits, then focus your efforts on high impact items.

5. Prepare for new production introductions

Prepare for new production introductions by involving procurement and sales. Forecast based on like-items if possible. Make sure that planners can easily identify new products in the product portfolio so that they may more closely track forecast accuracy.

Companies are reducing inventory levels and increasing customer service levels, which translates into less cash tied up in inventory and fewer backorders. They are achieving just-in-time replenishment of materials by incorporating the forecast in the replenishment planning process.

For example, healthcare systems have long been burdened by decentralized, disconnected procurement and inventory management processes. By centralizing their procurement activities and adopting demand planning for their supply locations, they are saving millions of dollars every year.



So who is the demand planning champion in your organization?

If you cannot put a name to this person, this is your very first step. A seasoned demand planning professional will implement well-structured processes, ensure the right tools are in place and will harness the knowledge and experience of your inventory planners as well as the valuable business intelligence contained within the sales/services team. Doing nothing is not an option. It's time to lay that cornerstone.

About **Tecsys**

Since our founding in 1983, so much has changed in supply chain technology. But one thing has remained consistent across industries, geographies and decades – by transforming their supply chains, good organizations can become great.

Our solutions and services create clarity from operational complexity with end-to-end supply chain visibility. Our customers reduce operating costs, improve customer service and uncover optimization opportunities.

We believe that visionary organizations should have the opportunity to thrive. And they should not have to sacrifice their core values and principles as they grow. Our approach to supply chain transformation enables growing organizations to realize their aspirations.



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