Forecasting trouble

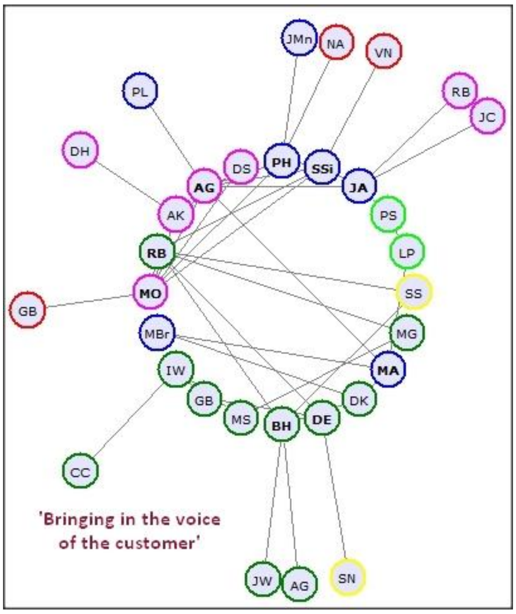
The company was a major player in its national FMCG market, with a popular range of products, of which many were high profile brands. Part of the challenge was that the products had a limited shelf life, so that getting the balance right between having enough stock to meet customer demand and not having too much stock, which would result in write offs, was rather tricky. The challenge was compounded by the market being distinctly seasonal. To try to deal with this, the company had established a forecasting process that began with Sales, nominally beginning with the Account Managers, with the information going progressively through Marketing, Production Planning, Procurement, Manufacturing, and finally Distribution.

Over several years, the company's performance in managing this forecasting / ordering / manufacturing / distribution network had deteriorated to the point where sales, costs, and customer service were all suffering. At the end of each month it had become ‘situation normal’ for there either to be stock shortages, which resulted in customer dissatisfaction, or stock surpluses, which resulted in stock write-offs and excess costs.

There was some evidence that suggested an out-of-control forecasting process, with greater variation than would normally be expected in the figures for the end-of-month stock position. It was suspected that there might be some tinkering with the forecasts as they passed through the network.

There were also wider business issues facing the company, and so it was decided to conduct a review of the working relationships in the network. The forecasting process was a central part of that review.

The reality



It turned out that while the company had ‘its own formal’ forecasting process, what had developed over time was a complete alternative model that operated informally, by-passing the formal process, and with many backward-facing loops.

Small variations in the accuracy of Sales forecasts had resulted in a degree of 'second-guessing by Marketing. Where that second guess proved to be no better over time, Production Planning had started second-guessing the Marketing forecast. When the Production output did not meet Distribution's need to meet customer orders, complaints started to go through to Sales about their forecasts. Discovering the drift in the numbers contained in their forecast, Sales started 'adjusting' their forecasts to compensate for what they thought was simple drift. This had generated a whole new round of second-guessing, which ended up having a life of its own.

Making very explicit what was actually happening drove management action to simplify the whole forecasting / ordering system to eliminate the possibility of second guessing. Stock losses and back-listed orders both reverted to normal levels. As a result, costs were reduced, sales increased and customer satisfaction improved. The wider review showed that the Account Managers had less influence than they should. The changes resulted in improved collaboration across the network, with a focus on delivering against customers’ real needs.

