

# “We Can’t Forecast Our Business!”

by *R. Michael Donovan*

“We can’t forecast our business, it’s too unpredictable.” I have heard this statement from executives many times during my over two decades in consulting. The fact is, when inventory exists at any level in anticipation of customer orders, it is the result of a forecast. Someone, somewhere in the organization has made predictions that have activated capacity, consumed cash and driven the customer service level. Also, it’s a good bet that the someone who’s forecasting is doing it without the right tools, without proper training, and with little or no information to support the process. Yet, the forecast drives material planning, production scheduling, inventory levels, and customer service (among other things). Managers know this, in their hearts, but for some unknown reason they insist that “we can’t forecast this business”. The result is that management often lets forecasting bumble along unsupported in the hope everything will come out all right in the end. This approach can only contribute to repeating cycles of poor performance.

Experience demonstrates that the consequence of bad forecasting is a significant and unfavorable impact on overall business performance. To make matters worse, a form of denial sets in and the real costs of poor forecasting are consistently underestimated and often overlooked. When “bad numbers” drive material planning and production schedules, the inevitable results are longer cycle times, higher overhead activity costs, erratic production schedule performance, excessive inventory, lower throughput, and lots of dissatisfied customers – eventually having a negative impact on sales. The cost of bad forecasting is enormous. Forecasting deserves increased recognition of that importance and must become one of the most critical management functions. As such, improving the forecasting process deserves the small investment required to achieve incredible returns on that investment.

## **The performance test**

The following ten point checklist is a simple self-diagnostic which can help companies envision what performance could be. Another enlightening aspect from the test could be the differing answers various managers will give the same questions. This, of course, opens up an entire area for discussion (spirited discussion in many cases) which should be the beginning of swift problem resolution.

Answer “Yes” or “No” to each of the following:

- Order fill rates meet management’s specific and measured customer service strategy.

- Delivery lead-times are at least competitive and predictable.
- All functions agree on which products are stocked and which are made to order.
- The mix and investment in inventory are a shared responsibility between Sales and Manufacturing.
- Appropriate mathematical and statistical calculations are used instead of “rules of thumb” to establish desired mix and levels.
- Management’s inventory investment plan and customer service objectives are the actual results being realized.
- Short-term forecast deviations are monitored and adjusted and long-term forecast accuracy is continuously improving.
- Inventory record accuracy is maintained at 98+%.
- Excess safety stock buffers are *not* pyramidally maintained at various inventory levels to compensate for “bad numbers”.
- Excess and obsolete inventories are measured and are less than 1% of total inventory.

**What now?**

For those who do not score well on the performance test, appropriate action is definitely required. First, management must formally recognize sales forecasting as a vital business control point. Second, this recognition should be followed by a thorough evaluation of the current forecasting process. Third, where needed, an action plan for improvement should be launched without delay. The good news is getting a forecasting process in place is not as difficult as many people think; statistical forecasting tools are readily available and the procedural requirements are modest.

If you have to forecast, then the only proper course is do it with the right tools, techniques, information and properly trained staff. Then, and only then, will you be able to say “we can forecast our business.”

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