



Forecasting success

Aligning demand and supply in real-time is a challenging task for many companies. In today's fast-moving markets, it's not enough to have good demand if you can't tie it back to a timely supply response. Industry leaders from various backgrounds explored the role of forecasting in bridging the gap between the two at our roundtable sponsored by E2open.

The use of real-time data is paramount to achieving a winning forecast because it provides an accurate picture of what's actually happening in the supply chain. That's why Michael Lindner, vice president and general manager international for E2open, opened the round table discussion by highlighting the importance of 'normalising' this data.

"Some retailers give you data on a weekly basis, but in daily chunks or pockets," he said. "Some give you daily data, some have different norms, others have different currencies."

"You then need to normalise all of that to make sense of it so you can put it into the demand engine."

In other words, most businesses still rely on spreadsheets, graphs and data, to find something of value, and something that can be wholly understood, but supply chains are far too complex for this.

He highlighted the weakness of forecasts based on historical statistics. "For example, when deciding how much milk to buy for your family, do you check historical shopping lists to see how much milk was bought this week last year? No, you open the

fridge to see how much is in there."

Breaking data down into valuable, bite size chunks is crucial to any truly successful forecast – but companies are continuing to use simplistic processes and outdated software to analyse large amounts of data. And this is data that conceals important and priceless information in quite often untidy databases, overwhelming traditional systems and processes. "They compare them on the basis of, 'what did I have last week, what do I have this week?' which is an enormous effort – number one – and a complete waste of time," he said. "So you need to make data accessible through a process, and then you can have exceptions.

"Everything that is not an exception goes



through automatically, and nobody needs to interfere."

How to achieve the real-time alignment of demand and supply through forecasting was central to the discussion. Trusting data, creating a more responsive supply chain, key performance indicators (KPIs), and sales and operations planning, were identified by the group as some of the fundamental issues associated with the forecasting process.

Looking around the table, there were significant contrasts between the different companies. Simon Williams, executive director supply chain at Sony Pictures Entertainment, is servicing a very changeable and arguably fickle audience. Karl-Heinz Meister, head of UK parts at Man Truck and Bus UK, on the other hand, is servicing a professional echelon that demands uptime on its vehicles.

"The lifespan is much longer for our product, apart from new products of course," said Meister. "We just look at a similar products and try to judge what's happened in the past and apply this into the future – so it's not really scientific."

MAN have the luxury of access to a wider market if a product isn't welcomed in the target destination.

"We always have a good chance to sell it – we then ship it into another country, which is basically the second market for truckers, as we know a lot of trucks get exported and we send them to Africa," said Meister. "There are other distribution channels we can use before we need to make a decision to finally scrap the products."

Kristie Scott-Woodham, supply chain manager at Sharp, said that in some ways her business mimics the structure at MAN. "We're selling business products – photocopiers, touch screen display units" ■



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A background image showing the silhouettes of three people climbing a cliff face. They are holding onto each other, with one person at the top, one in the middle, and one at the bottom. The scene is set against a sunset sky with a bright sun low on the horizon, casting a warm orange and yellow glow. The silhouettes are dark against the lighter sky.

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and things like that," she said. "So we're selling to business customers. On the forecasting side of things we are looking back, not forward, which is wrong."

However, she said, the main complexity for the business is its delivery and outbound supplies.

Satnam Tank, supply chain director at the Global Beverage Company, focused on the importance of understanding what the requirements of the business are: "But then there's the physicality of actually trying to move the products in such a manner."

He said that, on the other side, there's the issue of getting the suppliers on board because they can flex their capacity within a day or two.

"They have limitations and it's trying to

with the perpetuation of an inaccurate forecast, which is second guessed, you do end up creating too little or too much."

For a second time, the importance of data was brought up by the group – but this time, the discussion focused on a different perspective. A problem faced by all those taking part in the conversation, was a lack of trust in data.

"[At Sharp] there is a big focus on the sales team to have a really good, accurate forecast, which it is never is," said Scott-Woodham.

"And then there's a whole other team basically ignoring what they've said, and just doing it themselves, so why are we bothering?"

"Sales need to be selling, not trying to understand the spreadsheets."

until people really gave out, they didn't trust the black box approach."

Lindner pointed out that the algorithms are improving demand forecasts. "Big businesses, the ones that really buy stock, they rely on algorithms," he said. "They get better and better, the forecasts and the algorithms around forecasting, if you can capture more data and you have technology, it helps you to make better forecasts. But people are beginning to trust it."

Creators of the forecasting system or process may have faith and confidence in it, but it is convincing others of its value that is often the difficulty.

"The concept behind that theory is people. Those companies already have a system in place and it works relatively well and does



understand that, and building it into your transport network, and trying to juggle this all together," he added. "It's then you are worrying about retail, and selling the product."

In response, Mark Mahara, business development director at E2open, said that this results in companies sharing their forecasts with suppliers on a daily or weekly basis. Talking about the influences of seasonality, he said: "So you can have that collaboration, rather than wait for the sun to shine and say, we need X-Y-Z now."

Sony Entertainment's Simon Williams said that quite often forecasts from customers are just not worth the trouble. "They can be useless because they're so far away [from the accurate number]," he said. "And actually

Williams agreed with this sentiment; identifying a lack of trust as a common issue for his business: "Our forecasts are driven by numbers we don't necessarily believe in either. To say it's a forecast of what we're actually going to sell – it's not, it's a number to hit a sales requirement."

E2open's Michael Lindner agreed that for many businesses, it's difficult to get people to trust data from a new forecasting system or process.

"It's a problem some of my customers have, once the forecast is in place, how many people do you think believed the number that came through? Nobody – absolutely nobody," he said. "[They] looked into it for weeks and months to really see if the algorithm is better. It was a lengthy process

the job," said Global Beverage Company's Satnam Tank. "And within that, within the band of what the requirements are, the challenge is to get to where you want to be and that obviously means extra expenditure."

He pointed out that if you look at planning managers and forecasting teams, they've already got their own sets of data.

He said that if you start to break down that data, that's where it really matters and where a company can make the difference between key SKUs and trying to push them accordingly.

"Trying to juggle that yourself manually, and it does happen, I've seen it with some of these big companies," he said. "They've got these great systems that they've paid for and invested in, but still somebody at the top

PANELLISTS



Michael Lindner, vice president and general manager international at E2open.



Satnam Tank, supply chain director at Global Beverage Company.



Kristie Scott-Woodham, supply chain manager at Sharp Electronics.



Simon Williams, executive director of supply chain at Sony Pictures Home Entertainment.



will say ‘ah no, we’ll go with this instead.’ Sometimes it works – sometimes it doesn’t.”

Mark Gibbs, head of distribution at Countrywide Farmers, said that his business has recently taken the leap and changed to a new ERP system. “We were a disparate business; we had lots of different systems,” said Gibbs. “It was basically run through acquisitions, so we’ve acquired a lot of businesses and we’ve had to bring all of those together. “So I’m interested to know what the true benefit of that ERP system and a forecasting tool that we have, it also runs our distribution and supply chain as well. So what benefits will that bring to the future? Because at the moment we’re six months in, not seeing any benefit yet, and it’s identifying what we need to do to now move that on with our service providers, they should be guiding us through this journey as well.”

Karl-Heinz Meister said that, when it comes down to it, a system is only as good as the people setting the parameters. He gave an example of a particular company that focused its energy on a common problem for the industry, obsolescence: “It turns out that they got this really good system which works very well, but they didn’t invest in training and experts to get the parameters right.”

Sony Pictures Home Entertainment has been looking at demand driven processes as opposed to forecasting. “We’re actually looking at orders up two levels,” said Williams. “We are trying to play less and less on the forecast, rather than actually looking at the inventory and the demand, and then saying well almost, the sales will be what the sales are, as they are very difficult to forecast. What we actually need is the most responsive supply chain we can get.”

“Once again, the issue of trust has impacted the process.” He said that the thought processes behind this demand driven direction, and trying to get people to go on a different journey while thinking of forecasting differently, is a substantial challenge.

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To run their businesses, most companies today work closely with a large number of external parties – not only customers and suppliers but also logistics providers, distributors, specialized manufacturing/ assembly/packaging companies, etc. Supply chain excellence is no longer about having good in-house processes: it now requires a very high collaboration with multiple external parties.

To enable companies to work synchronously with their trading partners, E2open offers an electronic supply chain network that connects all companies and allows them to operate as one virtual

supply chain – allowing all parties to work off the same set information, always up-to-date. In addition, E2open offers a range of best-of-breed applications that help the different lines of business (procurement, supply chain, demand planning, order management...) make better and faster decisions using this up-to-date information from all the supply chain partners involved – from the end customer all the way to the raw material or parts supplier. In a nutshell, E2open’s solution extends the capabilities of ERP systems, which were designed to focus on what happens inside the company, to better manage everything that happens outside of the four walls of the corporation. **W: www.e2open.com**

The dislocated relationship between supply chain and sales is a significant problem for many businesses. Closing this

gap is an important part of improving the forecasting process. Not surprisingly, this was a popular topic around the table. “We have a fairly immature sales and operations process, we’ve only had it for a year and at the moment we don’t involve the new activity

“The ideas from the sales guys [are] far more important than the numbers...”

Mike Tuddenham

side, because we don’t have many new activities, but they impact dramatically on the demand plan,” said Mike Tuddenham, head of supply chain at Zotefoams. “But we find the ideas from the sales guys far more important than the numbers. So when they are telling us customers are thinking this, they don’t know when, or necessarily what the products are going to be, but it gives us an early warning.”

At the moment Zotefoams, which manufactures polyolefin foams, has orders for ten weeks going forward. And according to Tuddenham, everything other than that is pure forecast. “But for some products we have nine months lead times, so we have to use forecasts, even though we know they are forecasts,” he said. “The sales guys do

their best but we all know they’re not going to be right so you’ve just got to understand what’s behind them rather than just copying the numbers.”

MAN’s Karl-Heinz Meister said that these days it’s so easy to do just that. Ever since he worked as a logistics manager for Mercedes, Meister added, he was always concerned about spontaneous marketing ideas that cropped up and changed entire operations.

“Then you try to find transport capacity, and people connecting pick and pack – you don’t have the drivers, the location,” he said. “Now I’m also responsible for turnover and marketing – I tend to sometimes do exactly the same thing.

“Because it’s so easily done to say, okay we need another three million turnover in the next week – so what do you do? Pick high value heavy items knowing the logistics companies would say: how do I do that?”

Key Performance Indicators (KPIs) are absolutely central to any business – but creating the right kind and understanding exactly what value they have is tricky to say the least.

“We try and get from big data, to key KPI and it’s the supply chain of data. In supply chain we constantly review KPIs,” said Sony’s Williams. “Not how well we’re doing, but what are the KPIs? ■



Karl-Heinz Meister, head of UK parts at MAN Truck and Bus UK.



Mark Mahara, business development director at E2open.



Mike Tuddenham, head of supply chain at Zotefoams.



Mark Gibbs, head of distribution at Countrywide Farmers.



Malory Davies, editor of *Logistics Manager*.