

# THE ART AND SCIENCE OF SUPPLY CHAIN PLANNING

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# EFFECTIVE FORECASTING

- Uncertainties in the market
- Science and statistics
- Forecast accuracy is achievable only to a point

Forecasting is always a challenge. Many say they are always wrong, or less than right. There are things we know and things we don't. We know that we've got committed customer orders out in time. We know that we've got contractual agreements with our customers that we need to support. We know sales events and promotions that are out in time. And we may have repeating seasonal events that occur year after year.

But there are things that we don't know. There are wild swings in the demand due to the whim of the market. We have unforeseen competition challenges in the market, M&A activity with customers, and even weather events cause severe disruption.

Forecasting is very emotional, but we need to add more science. We need to look at multiple inputs - forecasts from our customers, forecasts from sales, even knowledge from our supply chain. We should leverage statistical models to give us a better answer. And predictive analytics, which are improving over time, will also help us to give us a more accurate forecast.

But not all customers and products behave in the same way. Some are easier to forecast accurately. Focus on the unpredictable and let system models do the rest. Near-term forecasts are more accurate, but that's easier because they're mostly orders. We need to be more accurate in our longer-term strategic forecasts, not next week but many months out. The ability to forecast more accurately in the longer term allows us to improve our delivery in the near term. But that's the most difficult part.

“We need to measure those multiple inputs and look at which one is giving us the best information and leverage that...”



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Forecast accuracy is only achievable to a point. We need to measure those multiple inputs and look at which one is giving us the best information and leverage that to give us the answer. But we also need to be realistic about what is achievable. Think about a successful forecasting model. We have a small electronics device manufacturer that would forecast based on revenue not volume. We're not printing money, we need to know what product you want to sell. So, we moved the organisation from revenue to volume and product mix, and that allowed the supply chain to better support that demand.

We derived the revenue based on the average selling price applied to those quantities that were forecasted. In addition, we used statistical models that gave us better and more predictable results for a more accurate answer. The focus was then redirected to those products and customers that could be more accurately forecasted.

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# BRING A STEP CHANGE TO YOUR SUPPLY CHAIN WITH CHAINSEQUENCE

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