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ZERO FORECASTING, NEAR-ZERO INVENTORY

or Farewell to Chicken Little

Just this week I was talking with the Operations Director of a company making instrumentation and controls, who said, "Our problem is forecasting. Our Sales and Marketing Department just can't give us good numbers." "Who are your customers," I asked him. "To whom do you deliver your product?" He replied, "Our customers are distributors. We don't sell direct."

Forecasting has always been the bane of distributors and manufacturers alike. You never know when a surprise customer order which doesn't look much like the forecast, is going to fall out of the sky, as Chicken Little feared. But customer connectivity through the supply chain can change all that.

In the example above, the company shouldn't be doing any forecasting at all! It should be working to the dependent demand obtained in customer purchase programs, generated by the distributors' planning system (which can even be simulated in the suppliers' own system if necessary). At any point within a supply chain, demand coming from a downstream module to an upstream module is always dependent and should be calculated, never forecasted statistically.

It doesn't make any difference whether the downstream node is an affiliate, a distributor, a wholesaler, a major customer, or another factory in the company. It doesn't make any difference whether the downstream entity is owned by the same company as the producer. In some cases, communication is easier if the two are NOT members of the same company!

Zero forecasts also mean near-zero inventory due to demand fluctuations. Nothing wrong with protecting a valued customer by building ahead one or two weeks of the purchase program he has transmitted (see Technical Newsletter No. 25), but it's small inventory and it's pre-sold because already in the customer's purchase program.

All of this is stated in a different and striking way this summer in a new book by André Martin, father of DRP, Mike Doherty and Jeff Harrop, called Flowcasting, on demand management in retail supply chains. André and his co-authors say this:

"Forecasting should be done at the retail level and only there."

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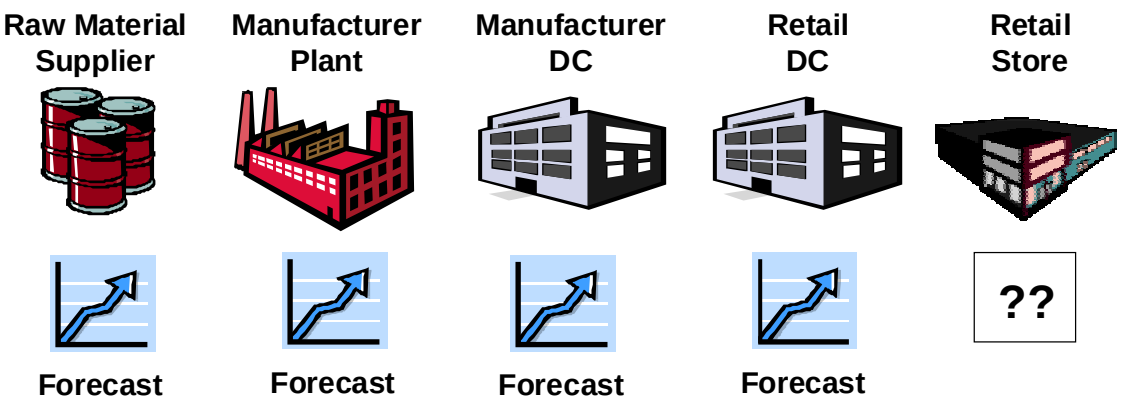
They go on to say in the excerpt below that most supply chains have their heads screwed on backwards, because the retailer usually is not doing ANY forecasting and everybody upstream IS:

> Nearly 100% of what should be forecasted is ignored
> …and 100% of what should be calculated is forecasted



The exact opposite should be the case. The retailer should be forecasting "independent" demand, and everybody else should be calculating "dependent" demand. In modern retail resource planning systems, where demand is most volatile, as a trip to your local superstore will confirm, under the Flowcasting approach **all** the items are reforecasted **every day** over a **52-week horizon**. If this sounds like a lot of data processing in view of the 30 000+ items in a superstore and 100 superstores in the supply chain, you're right! Up until very recently, there were simply too many numbers for the fastest computers and software to crunch.

Not any more, thanks to some recent IT developments, patented by one of André Martin's associates, Darryl Landvater, that speed up data crunching by nearly 50%. With dependent demand throughout the supply chain recalculated and adjusted every day or at least every week, manufacturers in a retail supply chain under Flowcasting can look forward to zero forecasts and near-zero inventory. Up-to-date information replaces costly inventory.

What does this mean for manufacturers who are not in a retail supply chain? It's even easier, because typically there are far less items to manage than in retail. Valid demand, inventory and delivery information on all items is presented to supply-chain and production planners in the standard format discussed in our last Technical Newsletter, No. 47: "Zap the Alarms or Manage the Flow?".

Lean helps the picture by reducing lead times and simplifying the process whose events have to be anticipated. But Lean doesn't anticipate, so this powerful new approach is very useful indeed.

Now the same proven Anticipation logic and techniques can apply not only to manufacturing, wholesaling and retailing in the same way, but also in multiple-tier purchasing in the upstream supply chain. Everybody can read and understand the numbers and the simple logic behind them. No smoke, no mirrors, no complicated simulations, no higher mathematics. No more Chicken Littles running around shouting, "The sky is falling!". The result is better customer service and lower costs.