EBOOK

3 Signs Your Demand Forecast Isn't Working and What To Do About It

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The New Normal Isn't Normal

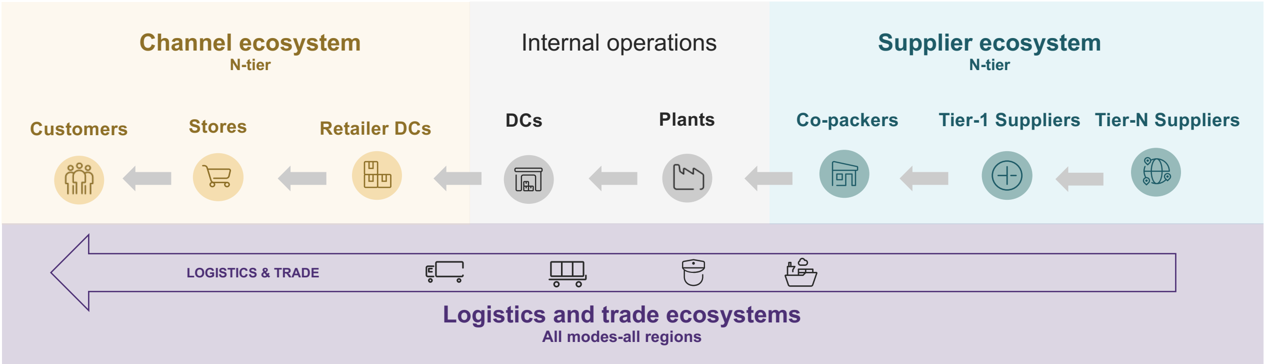
In hindsight, pre-pandemic consumer and food and beverage supply chains were relatively stable. Sure, there was variability that kept planners busy trying to forecast demand for the next holiday season or major sporting event. And major disruptions did occur, but those tended to be localized to a region or industry. That pre-pandemic "volatility" seems almost quaint after three years of repeated global shocks to supply and demand.

Black swan events occur more frequently now — and with greater volatility and impact. Each new event shakes the proverbial bullwhip a little harder. For many, the bullwhip effect settles into a pendulum with increasing amplitude rather than returning to the stable, "normal" operating comfort of pre-pandemic times.

The impact on supply chains means the threat of disruption and opportunity for optimization is not within the enterprise, requiring companies to adapt to the realities of external risks beyond their control. Traditional supply chain planning technologies and processes are unsuitable for this new normal. This myopic planning paradigm is putting your company's competitiveness at risk.

It's no longer about you. It's about your entire ecosystem

Operating risks and disruptions originate from every node in the supply chain. To thrive, not just survive, supply chain planning and execution tools, processes, and workflows must connect up and down the value stream across multiple tiers to detect issues and adapt as one.



How connected is your value chain?

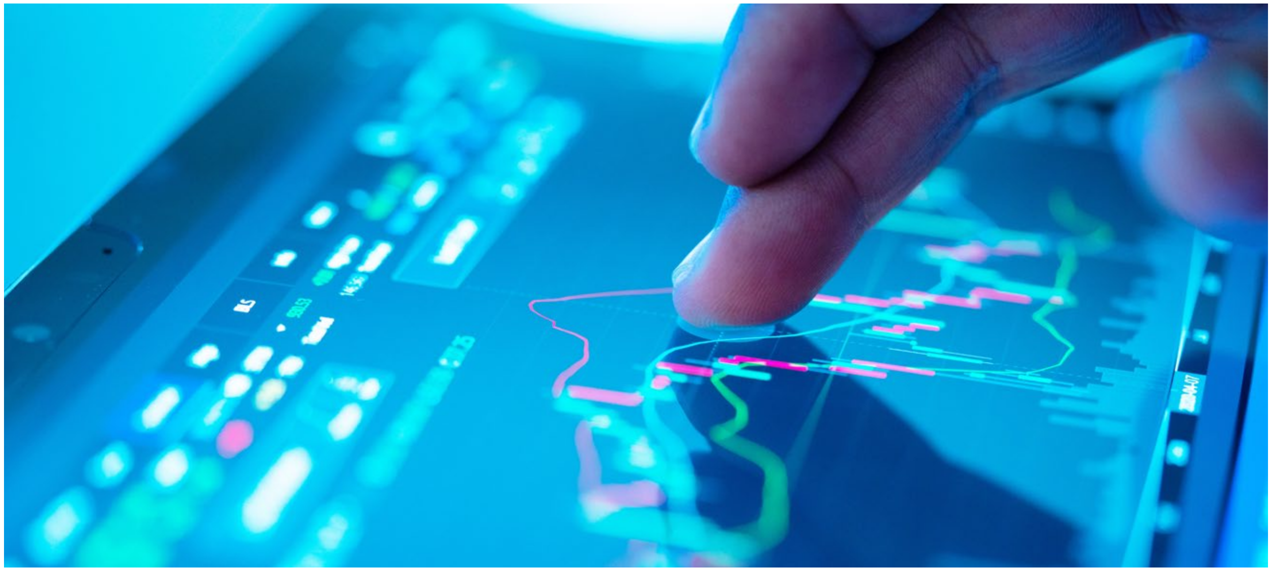
Three Signs Your Planning Process is Hurting Your Business

The goal of supply chain planning isn't just to be more accurate; rather, the process intends to set a course for profitable growth and revenue attainment by optimizing resources and meeting demand. If your planning system isn't working for you to meet the goal, it might be working against you.

Underperforming Forecast Accuracy

Accurately predicting demand is an essential aspect of any organization. If CPGs knew exactly what customers would order, when and where they need it, operations would be far more efficient and profitable. However, given the realities of today's fluctuating demand and uncertain supply, most companies struggle with this.

They struggle because most companies still rely on traditional pre-pandemic demand planning systems that focus on historical trend data. The primary driver of forecasts is historical sales in the same time period. But events in recent years have eroded the usefulness of historical data, leading to high forecast errors. Seeking better algorithms does little to improve forecast accuracy when the foundational data itself loses value.



Excessive Chargebacks

As shoppers returned to in-store shopping, retailers returned to stricter service agreement enforcement in hopes of keeping shelves fully stocked. However, the lingering effects of the pandemic-induced logistics challenges and constrained supply meant many CPGs struggled with meeting on-time in-full (OTIF) requirements. And as the constraints ease, low forecast accuracy due to real-time demand shifts jeopardize manufacturers' ability to meet service targets, leading to higher penalties that directly impact the bottom line.

Planning systems that don't consider real-time demand signals can lead to "surprise" customer orders. When a retail or channel customer puts in an unexpected order—either sooner or for a larger quantity—it's because they see increased demand that the CPG planners didn't detect.

On the transportation side, planning for capacity, lanes, and freight spend relies on an accurate demand plan. A poor supply chain plan often leads to insufficient transportation capacity being reserved at the right time and the logistics team paying higher rates on the spot market to avoid missing the delivery window.

Misaligned Inventory

Inventory is a direct barometer of planning effectiveness. When planning fails to detect short-term peaks and valleys in demand, the result is misaligned inventory—too much, too little, or in the wrong place—and excessive costs related to inventory impacting the bottom line.

Unexpected spikes or declines in demand, aka forecast error or MAPE, directly impacts inventory. Missing a sudden surge in demand can quickly deplete inventory and cause higher costs due to expediting, higher OTIF penalties, lost sales, and potential damage to the company's reputation. Many companies intentionally hold excess inventory, politely referred to as safety stock, to compensate.

While a safety stock strategy is often necessary, it ties up valuable working capital and extends the cash-to-cash conversion cycle. And, if demand suddenly declines, excess inventory explodes, turning DCs into storage facilities when bloated inventory and products are stored in locations far from demand. The result: higher costs from storage, insurance, and handling expenses and a greater risk of obsolescence and spoilage that directly impacts the bottom line. It eventually forces companies to consider when to mark down, donate, or destroy the products, further eroding profitability.

Accurate daily forecasts based on real-time demand signals and visibility to store-level execution data allows this global CPG to sense and respond to changes in fast-moving markets, better serve customers, and maximize performance of product introductions and events. The results are improved service level performance while reducing inventory and expediting costs.

- 30-40% increase in near-term forecast accuracy
- 10% decrease in safety stock
- Over $100 million reduction in inventory – in just one region
- 20-30% increase in planner productivity

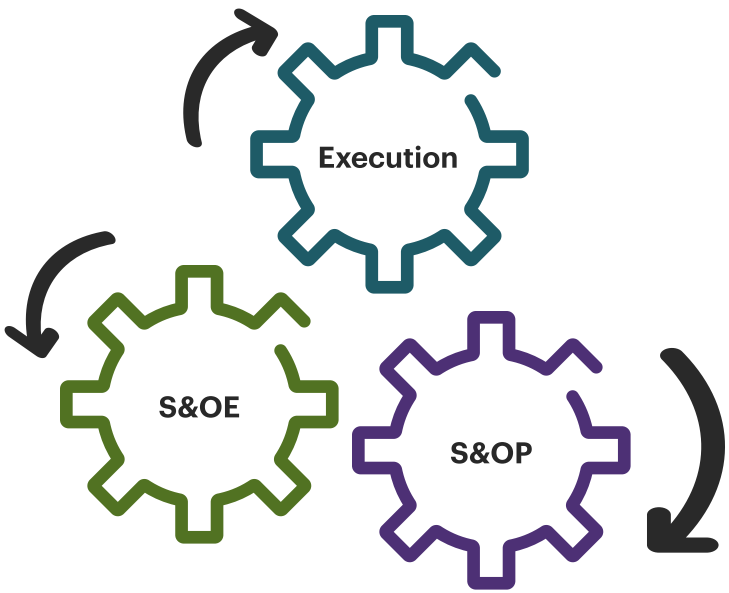
"We're still talking about a forecast accuracy improvement of 32% in Western Europe, compared to 40% in North America. I would say that's a pretty good result in both regions. Indeed, never before [have we] been able to improve forecast accuracy with such an order of magnitude."

– Manager, Demand Planning

The Key to a More Agile Planning Process

For decades, organizations have looked to sales and operations planning (S&OP) to digitize planning processes and create a broader perspective. While S&OP adds value to monthly and quarterly planning cycles and is an effective process for aligning resources and costs for the achievement of a company's goals, it leaves a gap to resolving near-term supply chain problems. Why? Traditional planning relies heavily on internal data sources — recurring historical trends, seasonality, capacity plans, etc. Supply chains increasingly act like the stock market, where past performance does not guarantee future results.

Accurate, long-term forecasting is crucial to efficient supply chain management and driving down costs. However, long-term plans don't survive first contact with the consumer. Effective, agile supply chain execution must connect actual demand to the supply response inventory and supply. This is where sales and operations execution, or S&OE, comes in. If you haven't implemented an automated S&OE process yet, you're leaving working capital on the table. S&OE processes enable cross-functional teams to make timely decisions to protect margins and service levels, or escalate issues to S&OP consideration.



Three Essential Elements of Automated S&OE Process

Seek Real-time Demand Signals

Assess the data you currently gather and how it's utilized. Then consider what data you need to understand real-time consumption and the impact on current inventory, production, and delivery processes. This often means downstream point-of-sale (POS) data but might include real-time visibility into all available inventory across distribution centers and channel partners, production capacities/utilization rates, backlogs in procurement orders, purchase orders to suppliers, or customer sales orders. Data from social media channels, weather forecasts, and other third-party sources are often useful leading demand indicators. Don't overthink it at first. Data collection can be laborious and time-consuming. KPMG can help quickly assess the most meaningful external data sets to help predict variations in true demand.

Adopt a Future-Proof Platform

The volume, velocity, and complexity of interpreting demand signals to generate a highly accurate daily forecast are well beyond spreadsheets and human cognitive ability. An effective technology platform must also drive profitable supply response recommendations and automate workflows wherever possible. The foundational capabilities needed to enable an automated S&OE process include the following.

1. **Data collection and harmonization** – Combine point-of-sale (POS) data from retailers, brokers, and merchandisers, as well as, data planograms, sentiment data, demographics, weather data, and more. These sources utilize varying metrics, formats, and frequencies, so your technology source needs to be able to ingest and cleanse data at scale.

2. **Actionable insights** – Making sense of multiple, complex demand signals is best handled by advanced machine learning pattern recognition algorithms that can determine what is predictive and what is not. The system then needs AI and machine learning to create highly accurate near-term forecasts that reflect current market conditions across large numbers of items, locations, and channels.

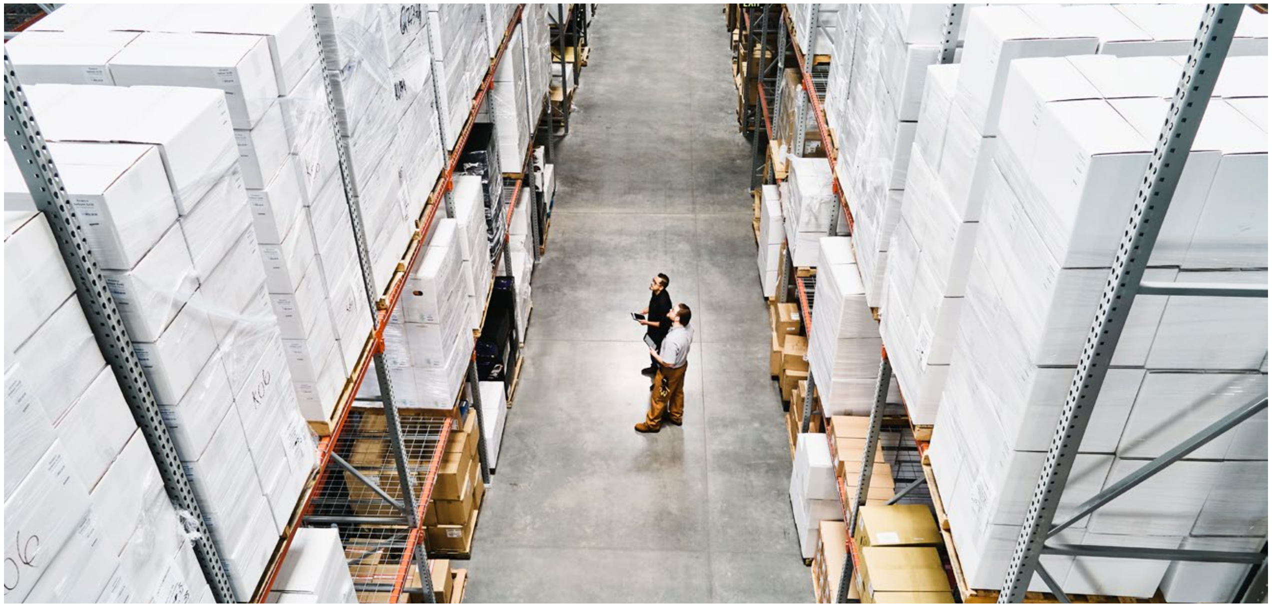
3. **Supply and inventory execution** – To translate insights into action, the system must publish daily forecasts to supply and distribution planning systems. Connecting the daily forecast to a fulfillment plan reduces the cost and anxiety related to expediting and maximizes customer service performance.

4. **Automation** – Performing these tasks on a daily basis is not feasible without automation. The technology platform should automate daily forecasts to supply planning systems without the need for human review to free up planners to focus on value-added activities like planning promotions or new product introductions.

More advanced considerations include in-transit visibility, supply and distribution planning, allocation logic, order promising, and more. Technology decisions are a commitment for at least 7–10 years. No one can fully predict the market conditions a decade from now, so find a solution that meets your immediate needs and can grow with you as business processes mature.

Define a Sustainable Practice

Importantly, S&OE is not solved by simply plugging in the technology. The technology serves as an enabler to help account teams and operations managers deliver on their promises profitably. Processes are integral to reducing confusion and bringing order to exception handling. Consider the desired ideal workflow for identifying an incident, developing a plan, and executing the plan. Which functions need to be involved in the process? Are any specific people required to sign off on these plans before implementing them? What metrics should be in place to sustain the strategies set by the S&OP process? All communications should be captured and auditable so decisions can be remembered and carried out without undue delays or repetition.



Take Action

No demand plan is perfect, but even minor improvements can profoundly impact your KPIs and the company's bottom line. The best time to start an S&OE process was yesterday; the next best time is today.

The industry expertise of KPMG and e2open's leading supply chain management platform are a powerful combination to solve your most pressing and complex challenges. If you struggle with one or more of the symptoms discussed here — high forecast error, service penalties, or inventory costs — contact us to start the conversation. We can help quickly assess your data readiness, technology landscape, and business process and co-develop a roadmap.

Thank you for your time and attention. Let's get started.

Visit us online to schedule a consultation www.e2open.com.

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9600 Great Hills Trail, Suite 300E, Austin, TX 78759 | Tel. 1.512.425.3500 | e2open.com