John recently assumed a new role as head of regional operations.

John contacted us to learn how to ensure a sufficiently reliable demand prediction to be able to manage the operations of several distribution centers in the company that had recently been incorporated.

We are receiving this kind of requests more frequently every day since the current pandemic situation is causing many problems when it comes to managing purchases, stocks, procurement, etc. In this way, this problem has always existed. John told us that while working for a large consumer goods company, the demand planning function had initially been structured to optimize the demand plan for factories. The accuracy of predictions at the national level was pretty good. However, when measured geographically in distribution centers, accuracy was a nightmare.

At his previous company, decision makers did not listen to John when he commented on his concern about the importance of reliable demand plans, both in factories and distribution centers. In defense of business leaders, no one had established (or understood) the link between unreliable demand prediction and business and financial performance.

As a result, business leaders thought the current accuracy of the demand plan was good enough. They didn't see the value of investing in improvements.

It takes a change of mindset

We've all heard the phrase, "all predictions are wrong." This tradition, passed down from generation to generation of business leaders, is misleading.

It's one of the reasons why many executives believe their business is too unique and unpredictable to be predicted.

In our view, business leaders should not accept prediction inaccuracies as a form of business life. This belief causes companies to "leave too much money on the table." No, nothing is perfect in life.

Sales and marketing plans won't be 100% accurate, ever. Neither do supply plans or financial plans. The effort to improve their accuracy inevitably drives an improvement in the implementation of plans. When plans are well executed, the performance of these companies multiplies exponentially.

Our challenge is to demonstrate return on investment in concrete terms that relate directly to business performance. This may also require a change of mindset. It is very important that business leaders believe in this importance and transmit it internally.

What do you need to improve?

The process of change and your investment begins with the definition of what needs to be improved. Many organizations believe that improving the predictions accuracy alone is the goal of demand management initiatives. They spend a lot of time and effort on “getting the right number.”

We all know that much of the future is not controllable in the business sphere. That’s why effective planning involves a combination of:

1. Document those things you know and can control.
2. Forecast things that cannot be controlled and support demand predictions with clearly documented assumptions.

Focusing an improvement initiative solely on improving the accuracy of predictions is wrong and short-sighted. By itself, improving the accuracy of the prediction does not add value unless that value can be captured.

A better and more truthful approach is to capture the impact demand planning has on the business. This implies a broad understanding of:

1. Why a demand plan is needed.
2. How the demand plan affects the performance of other business functions.
3. How the demand plan drives decision making that affects business performance.

Understanding that the goal is not simply to improve a single performance indicator, such as prediction accuracy, is liberating.

This allows us to go beyond just considering predictive analytics tools as that solution that will fix everything for us. Our goal is to explain how to use demand plan information to improve decisions about:

1. Sales and marketing activities.
2. Supply plans.
3. Financial expectations.
4. Execution issues.

Business leaders realize that “getting the right prediction number” is only 10 percent of the planning effort. The other 90 percent of energy is spent demonstrating the credibility of the demand plan. It also involves communicating demand predictions in ways that are useful to the “users” of these predictions (factories, distribution centers, and financial organizations have different needs).

When the rest of the company considers demand plans credible, execution across the business improves. That’s where much of the value lies, in improving the demand planning process. It also helps explain why technology solutions require a process of best practices and well-trained people, who use tools and systems to help create more accurate plans.