

FORECASTING SLOW MOVERS

Does it matter that the forecast is 0.1 or 0.15?

A lot is talked about forecasting accuracy. So which forecast is right? 0.1 per month or a forecast that is 50 percent higher?

Well does it matter? If something is selling at 0.1 per month, it will sell, on average, once every 10 months (assuming that it commonly sells at just one a time). A forecast of 0.15 translates to selling one in just under every seven months? Does that difference matter?

Well rather than having a simple black and white answer, the answer depends on multiple factors.

Lead times

If you have a very short lead time of say 30 days, then no, it does not matter very much that the correct forecast is 0.1 per month or 0.15. If the lead time is just a month, then if you hold just one in stock, and seek to just replace it when it is sold, there is a 10 percent probability someone will come in and want the product if it really is selling at 0.1 per month. If you are selling at 0.15 per month, then there is a 15 percent chance that someone will want what you do not currently have. Either way, you can probably manage happily with these sorts of probabilities.

If the lead time is however something like six to nine months then having a more accurate forecast becomes more important as you can be out of stock for much longer. Perversely however it can appear that forecasting so far ahead is quite hard. Unless of course you reframe the question a bit and realise that you can start saying things like "I am almost certain that I will sell a unit of product in 6-12 months."

Service levels

Whatever way the debate goes however you are really debating whether you should stock one or two, or even zero (we will explore that shortly). If you have a relatively short lead time then it is likely that having one in stock will translate to an 85-90 percent service level whereas having two in stock would result in a virtually 100 percent service level.

Return on assets

Of course if you have two in stock versus one means that you are almost halving the return on your inventory investment. Having the second item in stock costs a lot more but may only deliver a very marginal return. Clearly that sort of difference suggests that maybe it does matter a bit if the real demand is 0.1 or 0.15 per month.

Being caught with obsolete stock

If you have two in stock rather than one then the risk of being caught with too much stock becomes higher, especially when a product is approaching end of life or there are big risks associated with



the introduction of a product. If you get it wrong then you can end up writing off the entire life time profitability of a product. Rather than focussing on whether you are selling 0.1 or 0.15 per month, perhaps the real question is what is the probability of selling one or two units, or else none at all? Spending too much time obsessing on 0.1 or 0.15 misses the real question that needs to be asked – should you stock 0, 1 or 2?

The more important question is often how much should be stocked? 0, 1 or 2?

We typically do not have enough time (and resources) to refine the monthly forecast to 0.1, 0.125 or 0.15. This is especially so, because the slow movers that only sell once or twice a year, often represent more than half the product range.

So the real challenge and priority to address is to resolve not how finely you can tune the forecast, but how well you can make the inventory optimisation choice – should I stock zero, one or two?

One of our clients once said, "We believe that we can forecast perhaps as few as 20 percent of our products. For the rest we have an inventory optimisation problem." We suspect that this sort of statement could be made for many businesses.

So rather than obsessing about forecast accuracy for these slow movers, for individual items, it is clear you need a more comprehensive inventory management optimisation approach. What sort of capabilities might you need?

- Clearly you need to be able to consider the lead time, but not only the expected lead time but also how much that lead time might vary.
- How urgently is the item required by the end customer? Will they be willing to wait till tomorrow (to enable an inter branch transfer), or is it required immediately since the car is on the hoist in the workshop?
- What are the costs for a normal replenishment versus an emergency stock transfer and how will they affect how much should be stocked?

- Also you need to consider how much the forecast might be over a long period? Is the long term demand, one or two? What is the probability that the demand is none at all?
- How many potential users are there for each product? The more the merrier (and the more certain you can be).
- Clearly you need to consider your objectives and how you might weigh up your choices against them. Your objectives will include service levels, but also should include profitability and return on assets, with a consideration of the write down risk too, if it should all go pear shaped.
- ... and of course you need something that can make these sorts of decisions hundreds of thousands of times, perhaps even millions, and you of course have to do all this with your current headcount, or even less.

So maybe the question is not about whether the forecast is 0.1 or 0.15 a month. The real question for slow movers is not about the forecast, but something even more basic – do you want to include the product in the product range? How important is the product? You will discover that the real question is whether you can use a policy driven approach that will help you work out the right optimisation answer for all your slow movers.

It would be too easy to shrug the shoulders and say that this simply is not possible. You might be weighed down by the enormity of the challenges to really help you make a difference. Perhaps now is the time to step back a little and take a new perspective. Can you reframe the challenges? Ask some different questions? Prioritise the most important questions. And produce a very different, and much better result?

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