



Combining the Art and Science of Demand Planning— Five Top Tips to Improve Forecast Accuracy

“We need a new system”, that’s what I hear when the topic of Demand Planning and forecast accuracy come up. Whether it’s a wholesale, catalog, brick and mortar, or Ecommerce business, the first answer is often the same. People, processes, and systems, are needed to execute a business plan. I find that in the case of Demand Planning, business process is the area that needs to be addressed first rather than a new system. And if a new system is selected, implementation will require strong business processes, so it’s a perfect place to start for many reasons. Now that you have a well laid out assortment plan, it’s time to forecast.

1. Oddly enough, the first place I’d suggest to begin is to acknowledge that your forecasts will always be inaccurate. Benchmark your industries’ accuracy (or inaccuracy) metrics. How do you compare? Is there realistic room for improvement? Now, make plans (or contingencies) to manage the inaccuracy as well as improve the accuracy. Inevitable forecasting inaccuracies create out of stocks when forecasts are too low, and excess inventory when forecasts are too high. Inventory management contingencies are needed.
2. If you have an idea about what is causing the inaccuracy you’ll be able to address it more effectively. Do you have a way to track inaccuracy? What is causing it? Is it really math/analytics or is it a promotion that the team did not know about? This analysis does not need to be extremely detailed to give you a directional idea where to start. Based on my experience, there is plenty of room for improvement in business processes prior to implementing a new system.
3. The ‘ole “tops down and bottoms up” approach really helps. Forecast inaccuracy is larger the further down the merchandise hierarchy that you go (ie SKU). At higher levels (ie department), inaccuracy is a smaller percentage. In addition, when you sum “bottoms up” your number usually is too high. “Tops down” along with “bottoms up” is a great way to fine tune your forecast. Often, meeting

somewhere in the middle is good. I always suggest arriving at a number three different ways—perhaps “bottoms up”, “tops down”, and current trend over last year are good examples.

4. The longest lead time activity should drive a forecasting calendar, whether that’s product placement or marketing development. A calendar should be developed and shared cross-functionally to insure that input is received, forecasting is done, and forecasts are approved in time to meet business deadlines. Often inaccuracy can be improved by simply focusing on timeliness.
5. Subjective, cross-functional input is crucial. In my experience this is the biggest area of opportunity in improving forecast accuracy. The team doing the forecast not only needs to know the products, they must know pricing (promotions), space, presentation, marketing activities (advertising, circulation), like items (cannibalization), discontinued items, and trends in the marketplace. Whether you call this an S&OP (wholesale) or the assortment “hand off” meeting (retail), a regular process for obtaining this information is crucial.

Once you have implemented #1–5, you are well on your way to combining the art and science of demand planning and will see improvement in your forecast accuracy. You have also put in place items that will be needed if you implement a new system. Demand planning systems have nice analytics to help forecast promotional lifts, take cannibalization into account, and better forecast seasonality curves. One of the best features of a new system is usually the feature to manage by exception which is especially nice if you are dealing with massive amounts of data. Another key element in improving forecast accuracy is to insure the right people are doing the right jobs.

I’d love to hear about your Demand Planning successes and needs. I can be reached at Janice@jlsearsconsulting.com or 206.369.3726.

More about us



ABOUT THE AUTHOR | Janice Sears has served as **Principal** of JL Sears Consulting, Inc. based in Seattle, since 2004. She is also a Principal of **Tag Team Business Solutions**.

Janice brings more than 20 years of **broad multichannel retail and wholesale experience** in merchandising, planning, marketing, finance, and operations to her clients. She is a Certified Management Consultant (CMC), and received her **MBA in Finance** from the University of Colorado.

As a former **Vice President at Eddie Bauer**, she was accountable for \$1.6 billion in annual sales, which included 400+ stores in the US and Canada, catalog and internet sales, along with margin and profit. Janice directed strategic business planning, merchandise planning, inventory and margin management, and led the cross-functional business teams by channel to manage the P&L. She also drove system and business process improvement projects and was integral to marketing, assortment planning and organizational development initiatives.

She served on the **Board of Directors for Big Brothers Big Sisters of Puget Sound** for more than 10 years while being a Big Sister herself. Janice continues to serve on a variety of professional and non-profit boards and is currently a University of Washington Business School Mentor.

Janice is an avid skier and cyclist who writes a [travel blog](#) about her quest to visit all 58 National Parks. She enjoys northwest urban living and time with family and friends from her Seattle home.

ABOUT J.L. SEARS | JL Sears Consulting, Inc helps organizations and business teams boost profitability and productivity through strategic business planning, development of merchandise strategy and implementation of key execution tools.

We specialize in working with multi-channel retail and wholesale clients to craft a roadmap to success in an ever-changing business environment.

Clients include: Belkin, Branders, Charlotte Russe, Crosstown Traders, evo, Griot's Garage, Lucy, Nasty Gal, Outdoor Research, and Sur La Table.

JL Sears Consulting, Inc. is a former member of 1% for the Planet and continues to focus its one percent donation on saving Puget Sound and supporting our National Parks.

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