How much does demand planning cost?

Hatmill
SUPPLY CHAIN AND LOGISTICS ADVISORS

Are you an MD or a Finance Director? Does this next scenario sound familiar?

You're grappling with excess stock or losing sales because you can't fulfil other orders (creating real issues with working capital). You know you need to be better at forecasting demand. The question is, how?

Some software or consulting solutions on the market seem aimed at large companies, which you fear are over-engineered for what you need. It can be hard to judge how relevant the options are for your business or estimate how much you might end up spending. And you worry you haven't got the right skills in your team to manage specialist software or improve the accuracy of your existing forecasting.

Does this resonate with you?

Let us help! Here, we've outlined two solutions to help you weigh up your options. For the sake of comparison, we'll assume you're a company between £50m and £100m turnover.

Making a decision

Before you start, be clear on the ROI you expect from your investment, whatever route you decide to take. Improving forecast accuracy can have a real impact on the bottom line, and pay for itself relatively quickly (free-ing up precious working capital).

The Institute of Business Forecasting and Planning says "From our experience, a 15% forecast accuracy improvement will deliver a 3% or higher pre-tax improvement". In a previous IBF study of 15 US companies, they found that "even one percentage point improvement in under-forecasting error at a $50 million turnover company gives a saving of as much as $1.52 million, and for the same amount of improvement in over-forecasting, $1.28 million."

If you can gauge how much you might save, you'll already have a benchmark of how much you want to invest in fixing the problem.

In-house demand forecasting:

There are several things you'll want to consider if you're thinking about demand forecasting in-house:
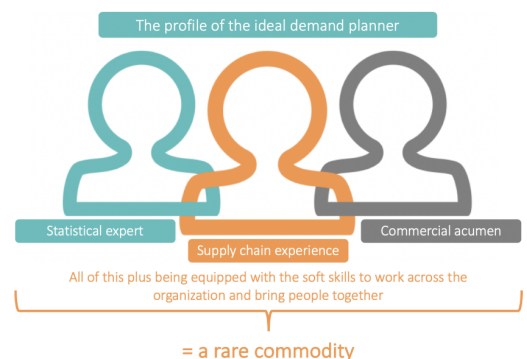
Technical

Getting the right software and systems to be able to create an accurate forecast that people trust. Typical software costs (assuming data repository has already been licensed) are anywhere from £4,000 to £25,000 per user or very roughly about $2,000-$6,000 for every $100,000 of revenue. These are ballpark numbers and vary based on packages and features (Source: IBF). Add onto that upfront costs for hardware, set up and installation, software updates and training for your team, these costs can vary a lot depending on which provider you use.

Skills and team

You'll ideally want a demand planner; a statistical expert with a background in supply chain, commercial acumen to apply what's in the numbers, and soft skills to work across the organisation. Someone might have one or two of these qualities, finding all four can be very hard indeed (in fact, they're quite a rare commodity).

Then there's the cost of recruiting, retaining and training, not to mention the issues when they are ill or go on holiday. According to Glassdoor, the average salary of a mid-level demand planner is £34,500, and then, of course, there's all the costs of employment.

The profile of the ideal demand planner

Statistical expert   Supply chain experience   Commercial acumen

All of this plus being equipped with the soft skills to work across the organization and bring people together

= a rare commodity

Things to watch:

Costs of onboarding –monthly software costs may not include the upfront consulting time (cost) that you'll need to invest in finding the right solution and getting it working. Depending on the provider, you'll be looking at around £1,000 per day per consultant.

The 'real' cost – and by that we mean the time and energy devoted to the forecasting process every cycle – the amendments, forecast changes, gathering of 000's of excel sheets, and the time spent by many people across the organisation (much of it at a senior level) managing the fallout of excess stock and lost sales.

Outsourcing demand forecasting

Very simply, here's how it works.

An experienced supply chain and logistics team – as an example, let's say it's us – have a bespoke, tried-and-tested sales and demand forecasting methodology to deliver more dependable forecasts (so, will do the heavy lifting for you).

There's an initial onboarding phase that can be completed in as little as two weeks (depending on the availability of people within your organisation). During this time, any outsource provider should work with you and your people, and by looking at your existing systems and processes, be clear that they can make improvements. Here's the steps we take to deliver a more accurate, dependable forecast to our clients:

1. We combine your historical and current demand data with three core elements: the skills of our specialist team, our proven processes and methodology, and our tried-and-tested forecasting tools and systems.

2. The forecasts are challenged and stress-tested in a monthly cycle. For example, we test for seasonal variation and bias, and interrogate data for trends and patterns; this often means we can spot trends on the horizon.

3. We can incorporate any promotional information and other events to enhance the accuracy of forecasts.

4. We regularly compare our forecasts to actual demand, so that we can continuously learn from your customers' behaviour and review the data as appropriate.

5. We won't just deliver you a bunch of numbers. As well as timely forecasting reports, we take a commercial approach and make recommendations that you can implement.

Comparing the options:

Financials:

If you decide to go the **in-house** route, you're probably looking at around £85,000 in the first year. This includes recruiting and paying one demand planner, onboarding software and paying for licences, maintenance and training.

If you opt to **outsource**, you don't have the hassle of buying expensive software or hiring and training any staff. Looking at our Silver pricing plan as an example, you're looking at around £75,000, including a one-off onboarding fee.

Outcomes :

So, how long before you start to see results? If you go for the **in-house** option, it depends – selecting and procuring the right software and recruiting for a demand planning can take 3-6 months. Then it will be a couple of cycles before you can judge how accurate the forecasting is (being able to compare forecast and actuals).

If you outsource to a team like Hatmill, the **onboarding** phase can be done in as little as two weeks, and by the end of that phase we already have an initial data analysis and forecast. The monthly forecasting cycle then begins and after the first month, you'll be able to see improvements in accuracy.

In summary

Not only can an outsourced solution be more cost-effective, it's a lot more flexible and delivers forecasts quickly. As well as timely forecasting reports, we take a commercial approach and make recommendations that you can implement so that you can realise broader benefits in your business (such as reduced lost sales and excess stock). You've also got peace of mind that a team of experienced team of supply chain consultants and demand planning analysts are on hand to help.

Karl-Eric Devaux – Demand Planner

Karl-Eric has over 15 years' experience in demand and supply planning.

Before joining Hatmill, he designed, developed and led Demand Planning processes for a European FMCG company, then for a global Tier-1 automotive company.

If you're interested in hearing more, let's chat! We'd be happy to come and see you.

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