Distribution resource planning is critical in a global market

An integrated global market is getting closer and closer. For some companies this has been a reality for a while, but the consequences of Brexit, potential world trade rules, tariffs and trade wars between the USA, China and who knows next will mean the ability to compete on the world stage will be essential for the future. However, many companies do not have logistics strategies that will enable them to compete in a single global market. Many work independently and lack integration across geographical business units. The nodes of the supply chain and certainly true supply chain collaboration with customers is certainly a long way away for many companies.

Forecasts will always be inaccurate, but they are an essential element for any company to develop plans for the future; without planning we condemn ourselves to pure luck. We need to adopt strategies to improve forecast accuracy, reduce our dependency on detailed forecasts by reducing lead-times and increasing flexibility, but we will also need a long-term forecast to be able to plan capacity, capability and finances.

Traditional forecasting is based on historical demand, which is then used to project the future statistically. Even this is often a flawed technique, because the history is often not clean and uses shipment data, not demand data, as history. This technique also makes the assumption that the future will be the same as the past, which, based upon the fact that we employ a bunch of people in Sales and Marketing to ensure that the future is better than the past, is flawed. Historical-based forecasting is like driving your car by only looking in the rear view mirror. It is not unimportant to look behind you, but it is more important to look in front of you.

There are what I refer to as the big three forecast improvement techniques:

- Base the forecast upon a significant time phased, qualified or quantified assumption management

- Identify the root cause of forecast bias and address the root causes

- Adopt a formal multi-input process to the forecasting (demand planning) process that includes customer input and what I call the 'soup-making' process – see Figure 1

It is also important that we develop genuine future simulation capability, not just simulation to resolve current challenges. This would allow us to have visibility of a forecast based on potential opportunities, a downside based on risks and the most likely outcome against which we can plan.

An old adage was that forecasts are wrong because customers do not read them. Distribution resource planning (DRP) has been around for many years, first

The 'soup-making' process of demand planning
Figure 1

developed back in the 1980s in Canada and an extension of the MRP logic in a finished good inventory environment. DRP creates a process for providing a forecast at each warehouse or DC for each stock keeping unit. DRP also enables better demand and replenishment requirements visibility and therefore improved transportation, logistics and warehouse planning.

DRP will become an increasingly important strategy as the global market develops over the next 10 years. A key part of this strategy will be the integration of logistics/distribution strategies with a company-wide integrated business planning process. The benefits of DRP can be very substantial; overall inventory reductions of as much as 50% while maintaining sustainable customer service levels across all supply chain nodes of 98%+. If the principals of DRP are extended to cover a network of companies across the extended supply chain, these benefits can be significantly increased.

DRP is certainly not a new concept, but as a truly global market emerges then perhaps now is the time to take it seriously.

The ability to compete on the world stage will be essential for the future success of companies

Dave Manning FCILT
Managing Director,
DM Integration Ltd.

📞 **07866 313033**
✉ **dave.manning@dmintegration.co.uk**
🌐 **www.dmintegration.co.uk**