

# Collaborative Forecasting

**Monthly Focus Topic**



**Verso simple.™**



## Definitions

Collaborative Forecasting - the sharing of forecasted requirements between supplier and customer - with the goal of achieving a mutually agreeable forecast that will fulfill a customer's request for product.

Forecast – a reliable estimation of future requests for product, given internal and external factors, based on an analysis of historical demand.

# Fight Forecast phobia!



A very common problem to overcome is the fear of being wrong. Some would rather not offer a forecast for fear of being wrong.

Both the supplier and the customer need to understand and recognize that a forecast is never correct. There should not be penalties or blame placed for being wrong. Instead there needs to be a mutual goal with rewards for continuing to improve the accuracy.

Collaborative Forecasting is a process that invites participation & consensus to achieve success for both suppliers and customers.

# Collaborative Forecasting



## BENEFITS TO THE CUSTOMER

- Less Inventory
  - ✓ Safety stocks can be reduced or eliminated
  - ✓ Greater inventory turns
- Assurance of supply
- Improved Customer Service
- Increased Competitiveness
- Performance excellence in the eyes of your customers

## BENEFITS TO THE SUPPLIER

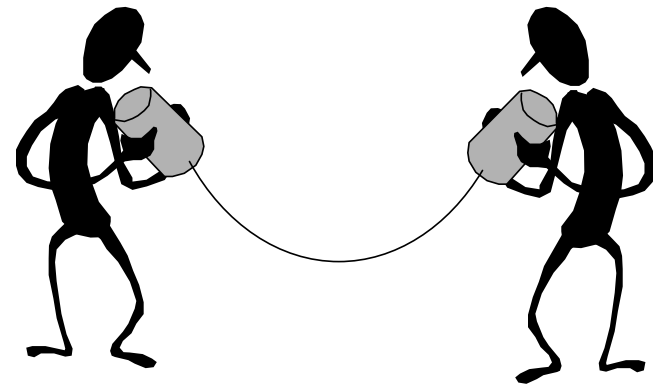
- Better manufacturing efficiencies
  - ✓ Trim utilization
  - ✓ Longer runs on grade
  - ✓ More consistent product quality
  - ✓ Less waste of raw materials
- Proper allocation of resources
- Less inventory
  - ✓ Quicker to implement product enhancements
  - ✓ Less money tied up in working capital

# A good Collaborative Forecasting process includes some fundamental principles



1. Collaboration between customers and suppliers to get a full year forecast (via Close Continuous Communication).

- Basic Forecasting Techniques:  
Review of previous demand statistics, order patterns and supplier shutdown schedules.
- Advanced Forecasting Techniques:  
Review of market data, future customer promotions, customer growth plans, review of logistics trends and seasonal experiences



2. Mine, generate and report data down to the lowest level to which it is credible and actionable.

3. Statistical forecasts can be used to identify gaps from current forecasts as guidelines for further analysis and action.

## Collaborative Forecasting fundamental principles (cont'd)



4. Forecast must be reviewed and revised on an agreed upon / continual basis. (Monthly/Quarterly)
5. Measure, Measure, Measure – Two metrics to evaluate the performance of the process:
  - Accuracy – what was forecasted vs. what was ordered in a defined period
  - Bias – the over or under of the forecast over time
    - High Bias (forecast higher than actual) could cause high inventory levels
    - Low Bias (actual higher than forecast) could cause stockouts and service level failures

Collaborative Forecasting is a continuous improvement process that must be practiced each defined period for the true value of the process to be seen among all process stakeholders.

# Verso Case Study 1:



As previously mentioned many methods can be used to determine forecasts, including both informal methods, such as educated guesses, and quantitative methods, such as the use of historical or current data.

Customer "A" uses a software tool (*Nextier Solutions*) that uses historical and production schedule data. It is designed to provide demand forecasts with improved consistency, reliability and accuracy.

# Verso Case Study 1 (contd):



## DETAILS OF THE PROCESS

- Customer "A" provides Verso with a 12 month rolling forecast which is updated and reviewed on a monthly basis
- They regard the task of data gathering on their end as a process requiring ownership and responsibility
- The level of detail is down to the grade and basis weight level which is what we need for machine planning (eg. 34# Advocate EHB, 38# Liberty, etc.)
- The spreadsheet contains columns of ordered, forecasted and actual volume for each grade and basis weight
- It is very common to see changes in the data for those months which are 3, 4 or 5 months out, which is a real credit to the amount of thought this customer puts into their forecast

# Verso Case Study 1 (contd):



## BENEFITS REALIZED

- Customer "A" recognizes the need to supply accurate demand forecasts to Verso in order to realize the benefits previously outlined in this presentation.
- They have commented on their improved ability to project financial results through the continuous improvements seen in collaborative forecasting
- They are also aware of the benefits to Verso such as more efficient planning and scheduling of their orders to ensure timely delivery
- In total, they view the investment in *Nextier Solutions* and dedicated resources to gather the data as a solid return on investment

This customer strongly endorses the practice of Collaborative Forecasting.