CHECKLIST · 1 PAGE

Is your forecast wrong? Measure before blaming sales.

Four steps to turn the demand review from a discussion about blame into a discussion about action. Use it at month-end close, before the Demand Review.

1 Break the error down by product family

The total error hides where the problem is. Almost always, a few families explain most of it.

Weight in error = sum of |actual - forecast| for the family ÷ sum of |actual - forecast| overall

- [ ] I ranked the families from the highest to the lowest weight in error (Pareto).
- [ ] I flagged the families that add up to 70% to 80% of the error. The meeting starts with them.
- [ ] I used the weighted error (WMAPE), not a simple average, so small items do not distort the number.

2 Compare statistical vs. adjusted (FVA)

Did the manual override from sales or planning make the forecast better or worse?

FVA = statistical forecast error - adjusted forecast error

Positive FVA: the override helped. Negative FVA: the override hurt, and the problem is not the model.

- [ ] I calculated FVA by family and by who made the override.
- [ ] I looked at least at three months in a row, not a single month.
- [ ] I compared on the same horizon (for example, Lag 1 and Lag 3).

3 Check the bias

If the error always goes the same way, you end up with too much or too little stock every month.

Bias = sum of (forecast - actual) ÷ sum of actual

Positive: forecast above actual, risk of excess stock. Negative: below actual, risk of stockouts.

- [ ] I checked whether the sign of the bias repeats for 3 months or more.
- [ ] I connected bias to inventory: excess means high coverage; shortage means stockouts.

4 Turn it into action

- [ ] Each critical family left with an action, an owner and a deadline.
- [ ] Overrides that make the forecast worse (negative FVA) were reviewed or dropped.
- [ ] The same three numbers come back at the next meeting to see if things improved.

Example (fictional data)

Indicator	Statistical	Adjusted
Error (WMAPE)	25%	32%
FVA of the override		-7 pts
Bias	+3%	+15%
Families with 70% of the error		3 of 8

Reading: the manual override made the forecast worse and pushed the bias up. Start the review with the 3 families.

Questions to bring to the meeting

1. Which families explain most of the error?
2. Where is the manual override making the number worse?
3. Does the error always go the same way?
4. Who does what before the next meeting?

All numbers in this material are fictional and only serve as an example.

Alexandre Wang · Supply Chain Analytics & Automation

Found it useful? Follow me on LinkedIn for more.