Many companies today say they are demand-driven. However, in practice, they manage their supply chains using a process from a bygone era that is totally dependent for its success upon high levels of forecast accuracy. But an emerging paradigm shift in supply chain management is allowing companies to become truly demand-driven and achieve their planned service levels at lower costs from up to half the average stock and with no requirement for highly accurate forecasts.

The vast majority of fast moving consumer goods, life-science and other manufacturing and distribution supply chains today, are being managed using a wholly ineffective process through very expensive, so called, Advanced Planning and/or Enterprise Requirements Planning software systems. The process uses forecasts of future demand to tell suppliers and factories what, when and how much to supply, make and move. However, these forecasts are always wrong and for most products by more than 50%, according to Dr. Josef Packowski, chief executive of CAMELOT Management Consultants, specialists in value chain management. “Consequently, the wrong quantities are sourced, made or shipped to the wrong places. As a result, stock levels are very poorly balanced and customers don’t get the service they want,” Mr. Packowski says. To try and avoid such problems companies spend an inordinate amount of time expediting materials and products through their factories and supply chain, which is very expensive, wastes huge amounts of capacity, causes stocks to be far higher than needed and, very often, fails to solve the service problem. And even if it does, the cost and cash flow implications are enormous.

While the majority of enterprises are still struggling with the impact of inaccurate forecasts on their supply chains, an increasing number of well-known companies are adopting an alternative: Demand-Driven Supply Chain Management (SCM). “Demand-Driven SCM is a remarkably simple way of managing supply chains,” explains Simon Eagle, Demand Driven Institute Instructor and Associate Partner at CAMELOT. “The rationale for Demand-Driven SCM is based on what supply chains really are: flows of materials through several conversion processes that are prone to develop into inventory queues and time delays whenever there is variability. Forecast errors are the greatest source of this supply chain variability but in today’s complex and volatile markets, attempts at significantly improving forecast accuracy are doomed to expensive failure. The Demand-Driven SCM concept therefore uses actual demand instead of error-prone forecasts to drive replenishment through a de-coupled supply chain, which is a genuine paradigm shift”, says Mr. Eagle.

Demand-Driven SCM involves positioning the right quantities of stock where they are needed up and down the de-coupled supply chain and topping them up, as they are consumed, in a stable and repetitive sequence. In this way materials and products are pulled through the supply chain using a simple ‘make to replace’ and ‘ship to replace’ mechanism in line with actual demand without any need for expensive and disruptive expediting and intervention. As replenishment is driven by demand, not the forecast, it is always accurate so service-saving schedule changes are eliminated, supply is stabilized and inventories stay both right sized and balanced. “In a Demand-Driven Supply Chain forecasting is still important for sales and operations planning, stock target sizing and genuine event management, but high levels of time phased item level forecast accuracy are no longer required”, explains Simon Eagle.

According to CAMELOT chief executive Josef Packowski, the new Demand-Driven SCM concept works with any demand pattern, even those with lots of promotional activity – bar those exceptional and highly extreme events that can be anticipated and managed with an advance stock build. “We have already seen in client projects, improvements in supply chain and operations performance that are a quantum leap: planned service levels are consistently achieved with reductions in average inventories of up to 50% and, due to the avoidance of unplanned overtime and higher levels of capacity utilization, costs are reduced by c20% with planning lead-times cut by up to 85%. And that is all achieved without the continuous expediting and fire-fighting that is typically experienced by many Planners and Operations. Furthermore, of course,
there is no longer any need for all that wasted effort trying to achieve high levels of forecast accuracy. It is little wonder that companies such as Unilever, Nestle, BT and PZ Cussons have been quietly piloting Demand-Driven SCM and are embarking on roll-outs across their global supply chain networks."

Implementation of Demand-Driven SCM is technically quite simple, the new planning and replenishment processes are very straightforward and easy to operate with the new wave of Demand-Driven software systems that operate in conjunction with legacy ERP. And implementation is helped by the fact that it doesn’t require a large-scale or ‘big bang’ conversion – it can be gradually phased-in across a supply network, which also has the benefit of assisting with the change management process. According to Josef Packowski “The most important enabler of Demand-Driven SCM is actually the supply chain people and their leadership – without the right ‘thought-ware’, or understanding of how supply chains should be run, companies are unable to trust the relatively simple Demand-Driven process and miss out on its transformational benefits”

With these rather low entry barriers and the corporate, let alone supply chain, performance benefits from Demand Driven SCM, it could be that this supply chain revolution will be quick as well as permanent – and very painful for those companies that come to it late!

Dr. Josef Packowski is a supply chain visionary and Managing Partner of CAMELOT Management Consultants

Simon Eagle is Demand Driven Institute Instructor and Associate Partner at CAMELOT Management Consultants

FURTHER RESOURCES:

Praise for “Demand-Driven Supply Chain Management”:
“I think that Demand-Driven SCM is powerful and practical. I hope that these ideas continue to gain traction in industry and that the concept of ‘demand-driven’ quickly becomes the norm.”

Martin Christopher, Emeritus Professor of Marketing & Logistics, Cranfield School of Management

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