PLANNING FOUNDATIONS

Ongoing Debates About DDMRP and the Need of Forecasts

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> *This article refers to the post of Stefan de Kok - "To Forecast or Not to Forecast?"*

What has started as the beginning of a comment turned out to be a small article.

The entire discussion about DDMRP and the artificial argument about obsolete forecasts is quite interesting. In numerous occasions it is stated that also with DDMRP a forecast is required and it is just a question how this type of information is used.

In DDMRP driven and in traditional supply chains a forecast is used to calibrate and align the supply chain end-to-end. The demands need to get propagated tactically through the entire supply chain to evaluate the capabilities and robustness along its supplying nodes. The result of this demand and supply propagation back and forth is in the end part of the S&OP process.

Naturally, in many supply chains the forecasting process needs to be decoupled from the order pulling process where the eco system will react demand driven and pulling from sales orders. In environments with high uncertainty and limited capabilities of flow variability buffers need to be established to protect supply chain stages from any occurring risks (demand & supply). Logically, with a high flow capability risk buffers can be reduced. However, the forecast will act as capability instrument to size these buffers. Inventory management principles will always state that buffering of supply risks result in higher inventories than buffering demand uncertainty. That is why flow is important to ensure adherence to service level targets while reducing inventory.

Therefore, I believe this ongoing discussion about DDMRP and the necessity of forecast is quite obsolete. Yes, of course forecast is needed. The focus should be in reducing supply risks by enabling flow (e.g. by decoupling where necessary to avoid starvation of constraint resources, by stabilizing processes, increase people capabilities, etc.). I believe a key component of this is the ability to parameterize a supply chain by setting the right inventory buffers, the right capacity buffers and the right lead time buffers. Back to factory physics.

#SupplyPlanning, #MRP, #SupplyChain, #E2EPlanning, #Capacity, #Inventory, #DDMRP, #Variability, #Bullwhip, #Forecasting, #Decoupling