

Retail Sales Forecasting – Supply Chain Business Problem

Sales forecasts determine how much product is needed to meet targets. It dictates how much raw and packing materials should be ordered, the utilization of existing equipment and if new machines are needed.

Why proper prediction plays important role for Sales Forecasting?

Sales forecasts that is too high could lead to huge write offs in materials and finished products, delayed launches, or heavy discounting. Too low a forecast could mean extended periods of out of stock in the market (which can create an opening for competitors to offer their own products) or increased costs as the organization attempts to expedite creation of additional supply. In all these cases, business will be negatively impacted by the miss in the sales forecast.

It may seem an easy path to just change the sales forecast as more information becomes available. But changing forecasts mid-stream is a challenging prospect as companies deal with set lead times for almost everything they need --- materials, additional work force, equipment acquisition, etc. Most of the time, these purchase commitments are contracts that contain penalties, making it too **expensive to cancel and/ or reduce the order size**.

Advantages:

Proper forecasting of sales can have several advantages for supply chain management, including:

1. Optimized Inventory Management.
2. Improved Production Planning.
3. Efficient Resource Allocation.
4. Better Supply Chain Collaboration.
5. Increased Customer Satisfaction.

In summary, proper forecasting of sales is crucial for effective supply chain management, allowing supply chain managers to optimize inventory levels, improve production planning, allocate resources efficiently, foster collaboration, and enhance customer satisfaction.