

Strategic Importance of Forecasting

Good forecasts are of critical importance in all aspects of a business: The forecast is the only estimate of demand until actual demand becomes known. Forecasts of demand therefore drive decisions in many areas. Let's look at the impact of product forecast on three activities: (1) human resources, (2) capacity, and (3) supply chain management.

Human Resources

Hiring, training, and laying off workers depend on anticipated demand. If the human resources department must hire additional workers without warning, the amount of training declines and the quality control on the second and third shifts.

Capacity

When capacity is inadequate, the resulting shortages can mean undependable delivery, loss of customers, and loss of market share. This is exactly what happened to Nabisco when it underestimated the huge demand for its new low-fat Snackwell Devil's Food Cookies. Even with production lines working overtime, Nabisco could not keep up with demand, and it lost customers. When excess capacity is built, on the other hand, costs can skyrocket.

Supply Chain Management

Good supplier relations and the ensuring price advantages for materials and parts depend on accurate forecasts. For example, auto manufacturers who want TRW Corp. to guarantee sufficient airbag capacity must provide accurate forecasts to justify TRW plant expansions. In the global marketplace, where expensive components for Boeing 787 jets are manufactured in dozens of countries, coordination driven by forecasts is critical. Scheduling transportation to Seattle for final assembly at the lowest possible cost means no last-minute surprises that can harm already low profit margins.

Seven Steps in the Forecasting System

Forecasting follows seven basic steps. We use Disney World, the focus of this chapter's Global Company Profile, as an example of each step:

1. Determine the use of the forecast: Disney uses park attendance forecasts to drive staffing, opening times, ride availability, and food supplies.
2. Select the items to be forecasted: For Disney World, there are six main parks. A forecast of daily attendance at each is the main number that determines labor, maintenance, and scheduling.
3. Determine the time horizon of the forecast: It is short medium or long term? Disney develops daily, weekly, monthly, annual, and 5-year forecasts.
4. Select the forecasting model(s): Disney uses a variety of statistical models that we shall discuss, including moving averages, econometrics, and regression analysis. It also employs judgmental, or non-quantitative, models.

Gather the data needed to make the forecast: Disney's forecasting team employs 35 analysts and 70 field personnel to survey 1 million people/businesses every year. It also uses a firm called Global Insights for travel industry forecasts and gathers data on exchange rates, arrivals into the U.S. airline specials, Wall Street trends, and school vacation schedules.

Where Lean Thoughts can become Reality

"Unless you try to do something beyond what you have already mastered, you will never grow."

Ronald. E. Osborn

Forecast Importance

6. Make the forecast.
7. Validate and implement the results: At Disney, forecasts are reviewed daily at the highest levels to make sure that the model, assumptions, and data are valid. Error measures are applied; then the forecasts are used to schedule personnel down to 15-minute intervals.

These seven steps present a systematic way of initiating, designing, and implementing a forecasting system. When the system is to be used to generate forecasts regularly over time, data must be routinely collected. Then computer usually makes actual copulations.

Regardless of the system that firms like Disney use, each company faces several realities:

1. Forecasts are seldom perfect. This means that outside factors that we cannot predict or control often impact the forecast. Companies need to allow for this reality.
2. Most forecasting techniques assume that there is some underlying stability in the system. Consequently, some firms automate their predictions using computerized forecasting software, and then closely monitor only the product items whose demand is erratic.
3. Both product family and aggregated forecasts are more accurate than individual product forecasts. Disney, for example, aggregates daily attendance forecasts by park. This approach helps balance the over-and-under predictions of each of the six attractions.

Source: SBANC J Heizer, B, Render www.sbaer.uca.edu

Tips on Leadership

The article written by Stefan Stern referred to tips on Leadership that were taught in the British Army in 1955. Stern concluded that those tips were as applicable today, as they were then, and in particular could be applied to business leaders. The tips are as follows.

- *Leadership is the art of influencing a body of people to follow a certain course of action. The art is controlling them, directing them and getting the best out of them.*
- *Leaders have to make decisions and stick to them, regardless of popularity or of difficulties.*
- *Orders must be constantly reviewed and, once they have become inapplicable or out of date they must be abolished.*
- *The leader must know and understand his men and treat them as human beings.*
- *An officer must want to lead and be proud of his command.*
- *The leader must be loyal to both his superiors and to his men, and he has to inspire loyalty.*
- *The above tips were supplemented with comments on man management.*
- *The business of man management takes time and it requires the taking of infinite trouble... You cannot deal with material you know little or nothing about.*
- *Your men are your material, you must know all about them.*
- *You must give each one individual study and be prepared to make an individual approach to each.*
- *You must be something of a psychologist.*

Getting relationships right with team members will require a leader to among other things, put their interests before their own, be their champions, but also their chief critic, know their names and use them, be yourself and don't act a part, and also be self critical.

Stern went on to say that if some of the above had been applied in recent times we might not have found ourselves in the economic crisis that we have today. He also commented that ninety years ago the First World War ended, with the loss of hundreds of thousands of lives. Lions led by Donkeys. Since then, arguably no organization has learned and understood about leadership than the British Army.

The wise words of over fifty years ago could provide in 2009 state -of-the-art leadership.

Source: Financial Times Nov 2008