Data Profits Inc.

A little Demand forecasting mistake costs retailers and wholesalers significant profits each year. While the mistake seems small, in reality, over the course of one year, the total dollars in lost profits will be significant. How? Demand forecasting impacts your largest asset, your inventory. Also, Demand Forecasting is an integral part of many of your business processes, poor processes cost you money. While the mistake may sound old and obvious, in reality, most businesses do not account for these and this provides you an opportunity over your competition.

Expensive Mistake: Regular Lost Sales are not included in your Demand Forecasting Calculation

Lost Sales is lost business PLUS a projection of future lost sales. If your demand forecasting solution does not include lost sales in the data, your future forecasts will decrease. This error, now in your demand forecast, will project a low sales number that will impact inventory available in future sales periods. This is basic math, if the forecasts are lowered from one period to the next, you will order less product lowering inventory units available. The results, while sounding odd, show that lost sales become a projection of future lost sales and profits.

Most forecasting and replenishment solutions do not count or use lost sales in their re-forecast calculations.

NO Lost Sales in the Demand Forecasting calculation

You had a product/ location with a weekly forecast of 30 units/ week. You had a 4 week month and the first 3 weeks of sales were consistently 30 units/ week. The 4th week, you had zero units of inventory available and zero sales. Your sales report shows sales of 90 units for the month. Most forecasting solutions today will only use the 90 units of sales in the forecast update calculation at end of the period (month). The new forecast will be lower because the total sales were lower than expected. Going forward the new forecast will lower the inventory ordered for the location. With less inventory you potentially will run out again, pulling the forecast further down in the future.

USING Lost Sales in the Demand Forecasting calculation:

In the same scenario, a demand forecasting solution that calculates and uses lost sales will calculate 30 units lost sales for the last week. At the end of the month the demand forecasting solution will include 90 units of regular demand and 30 units of lost sales. The forecasting solution will use the 4 week total 120 units for the re-forecast and the weekly forecast will remain 30 units.

How do you calculate lost sales?

While in the 15+ years I have worked in inventory management, I have seen many different lost sales calculations. The lost sales formula we find successful is:

1. Simple
2. Accuracy can be easily tested
3. Lost Sales Units can be used in demand forecasting.

Lost Sales Formula ==>> Lost Sales = daily Demand Forecast for each product/ location Where Available inventory is <1 and demand forecast > 0 and An active product/ location.

Example: If the demand forecast is 10 units/ day and the product is active with zero available units on hand; then lost sales are 10 units for the day. You can sum the total lost sales for the week or any time period. You can easily test the accuracy of the lost sales with a forecast accuracy report. The lost sales are as accurate as the demand forecast with standard deviation accounted.

Big Mistake: Promotional Lost Sales are not included in Your Demand Forecasting Calculation

Do you know how many lost sales you had during the last promotion or event? Do you know how many lost sales days were on the weekend or a holiday? The answers to these questions highlight an opportunity for you to distance yourself beyond your competition. When you have a promotion or event demand forecast and you know the lost sales days, the lost sales formula can be used to calculate your promotional lost sales. The same set of wins occurs when you calculate and use promotion lost sales in your demand forecasting. These measures and calculations enable you to buy inventory more effectively and increase your promotion sales and customer satisfaction.

Using Lost Sales raises your Profits

Including lost sales units in a demand forecasting solution improves business profitability and supports continuing growth. A daily measure across all product locations is easily calculated and stored in the demand history. Calculating regular lost sales, and identifying promotional lost sales generate better bottom line results for you and your suppliers. Improving your demand forecasting eliminates these basic mistakes, improves your bottom line profits, and keeps you a head of the competition. Contact us for a free review of your Lost Sales and Demand Forecast calculation opportunities and issues. We have the experience and tools to help you improve your business. Also, request a demo to learn how our iKIS software can reduce out-of-stocks and increase sales, installed in 30 days at a fraction of the cost of legacy systems. ‘Are you ready to tighten the Links in Your Chain? ™’