**Forecasting/EESC**

**Virtual World**

EBBD EMAIL - for Internal Use Only

To: You

From: Danny Wilco <dwilco@ebbd.com>

Subject: Re: Forecasting at EBBD

I want to give you a little more information about how we do forecasting and what we would like to know, to help guide you in this project.

Once a month, the Management Team meets to review our monthly financial report and the quarterly results once every three months. After we look at the financial picture in terms of costs and budgets, we look at sales, mostly in terms of volume. We compare the monthly volumes to our latest forecast that we generated in the previous monthly meeting. Then we try to generate the next month’s sales forecast and update the quarterly forecast and the annual forecast. Of course this gets easier each month as we approach the end of the year. As you know, we have about 1500 individual products in inventory, which we have aggregated into 11 product lines. We are looking at the numbers based on product lines, not individual products. We consider adding new products that our current suppliers are discussing with us and want us to distribute.

In November, when we have two months in the year left, we begin to forecast the annual sales for the next year, again based on product lines. We discuss our strategy for each product line, expanding or contracting each one. We discuss other potential product lines from suppliers we don’t currently carry. We look at new products that are coming on the market from both current suppliers and other suppliers. We generate a trial forecast for next year.

In December, we revisit the trial annual forecast that we created in November. We finalize any new information, make final decisions on existing and new products, and finalize the annual forecast. Then we create the quarterly forecasts for each quarter. And finally we create the monthly forecasts for each of the first three months of the year. All this is done using spreadsheet technology.

One area which we want to add to the forecasting process is determining inflation factors on a quarterly basis. Most of our suppliers will pass along inflation of their costs on a quarterly basis. If we could forecast this inflation with some degree of accuracy, we could better utilize our inventory capacity and optimize profits. At the moment, we simply guess at inflation factors. We would like to know if there is a way to forecast these.

Be sure to mull this over. In the next few days I will give you a specific assignment on just what we want you to do.

~DW, VP LogOps.

Learning Wizard

**Case 2 Resources**

Read the following resources to gain requisite knowledge about forecasting for this task.

**Specific Information you need to identify to use in your report:**

* **Why is forecasting important in a distribution company? What is it you are specifically forecasting and what is this used for?**
* **Why is forecasting accuracy important? How accurate does a forecast need to be?**
* **What is the difference between forecasting for existing product lines and for new products?**
* **Why should companies spend time and money to improve forecasting accuracy?**
* **How should a company use different methods but yet integrate these methods?**
* **How does strategic planning fit in with forecasting (at least for long term forecasting/planning)?**

What is Forecasting and why is it necessary for Logistics?

Shamim, M. (2009). ***Encyclopaedia of logistics management: Volume I***. Mumbai, IND, Global Media. (Attached)

NOTE: The above resource provides good information about Logistics in general. Read Ch. 5 for info on planning and long term forecasting. Ch.6 is about forecasting. It is a bit long-winded, but you should find sections of it useful.

Various methods of Forecasting\*\*\*THIS IS A MUST READ!!

Armstrong, J.S. (2001). ***Principles of forecasting: A handbook for researchers and practitioners****.* Hingham, MA, USA: Kluwer Academic Publishers. (Attached)

This is a great article on forecasting inflation:

Meyer, B.H., & Pasaogullari, M. (2010). Simple ways to forecast inflation: What works best. *Federal Reserve Bank of Cleveland.*Retrieved from <https://www.clevelandfed.org/en/newsroom-and-events/publications/economic-commentary/economic-commentary-archives/2010-economic-commentaries/ec-201017-simple-ways-to-forecast-inflation-what-works-best.aspx>

NOTE: keep in mind that EBBD is a distributor, it buys and sells, it does not produce. What is the focus of forecasting for this type of business?

**You may want to do independent research to find additional resources on forecasting in the field of logistics and distribution. But be sure to read the ones here, too.**