Developing a Demand Classification Matrix for Forecasting KPIs

Most Classification is a form of pattern recognition in which for each input value we attempt to assign it into one of a given set of datasets, or Class of Interest. For Demand Classification in a forecasting sense this can give us two themes to consider within the context of this topic: Business Classification, the logical grouping of products, based on product attributes or measures from varying functional sources. The 2nd theme, directly related to Pareto Theorem, better known as “ABC”, is Forecasting Classification, the best pick for statistical modeling of demand and forecast metrics.

1. **Business Classification** - this strategic classification is used across the enterprise to provide focus, collaborative work practices, and common goals. Often these measures used to determine the classification compete with each other and typically the function with the most “political clout” has the major influence rather than a data driven approach being used. For example some of the varying functional attributes often include:

   - **Monetary values:** Contributive Margin; Revenue; Holding Costs; Transport costs
   - **Physical attributes:** Size, Complexity of components, Type Liquid Solid; Mass
   - **Marketing attributes:** Brand; Category; Mix; Penetration; Promotion; Region
   - **Behavioral attributes:** Forecast accuracy; Error; Bias; Volatility

   The challenge is Sales, Marketing, R&D, and often Finance (though involved in costing for the above ABC methods) have different viewpoints to these classifications, and therefore it is critical to have an over-arching demand classification methodology. In order to align all these viewpoints together to achieve consensus, we suggest using cross functional factors to add weighting to items, such as an “Executive Override”.

2. **Forecasting Classification** - Is a tactical classification that helps to better manage the daunting task of statistical model selection. Running a best pick algorithm methodology to forecast the future sales of an item via analysis of prior historical sales data streams is the foundation of this process. This allows for;

   - **Management by exception processing**
   - An easing of the Demand Planner’s workload
   - Overcomes the lack of deep statistical experience required
   - Moves model selection into an empirical methodology and away from opinion based decisions
**Bottom Line:** Classification of Products/Items is a key strategy in getting the best focus on the right areas of Demand Planning management for the time and effort. It supports and nurtures a collaborative enterprise culture with unified common goals and targets. Ultimately, this creates functional alignment within your S&OP Processes and moves the enterprise that much closer towards empirical data driven Executive decision making.

---

**About Spinnaker:**

Spinnaker is a supply chain services company that helps clients grow, manage risk, reduce costs, and improve customer service by developing world-class supply chain capabilities. Our services help clients develop the right supply chain strategy for their business challenges and implement the process and technology solutions to improve Demand/Supply Planning, Procurement and Sourcing, Logistics and Warehousing, and Reverse Logistics business performance. Spinnaker offers a unique service delivery model that combines the strength of deeply experienced management and technology consultants with a seasoned team of business process outsourcing (BPO) and 3rd-party logistics (3PL) professionals. Founded in 2002, Spinnaker has offices in Boston, Columbus, Denver, Houston, Memphis, Pittsburgh, London, and Singapore.

📞 Phone: 877-476-0576
✉️ Email: info@spinnakermgmt.com