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8 Principles for Better Demand Forecasting

Practical advice from inventory and supply chain experts to help you forecast with confidence.

Demand forecasting has never been more challenging. Unpredictable supply chains, fluctuating costs and changing customer behaviour make it harder than ever to get inventory levels right. Under-forecast and you risk stock-outs and missed sales. Over-forecast and cash gets tied up in excess stock.

This guide shares eight practical principles to help you forecast more accurately, reduce risk and build a more resilient inventory operation.

1 Start with Quality Data

Your forecast is only as good as the data behind it. Before making purchasing decisions, ensure you're working from accurate sales, inventory and margin data. Small inaccuracies can have a surprisingly large impact on future planning.

Regularly sense-check your numbers for unusual spikes, missing transactions or one-off events that could distort the picture.

EXPERT TIP

Don't assume every sales increase reflects genuine demand. Review forecasts alongside returns, refunds, one-off bulk orders and promotional activity. These can distort historical sales data and create misleading trends.

2 Plan Earlier Than You Think

One of the most common forecasting mistakes is leaving it too late. By the time demand starts increasing, suppliers may already be at capacity, freight space may be limited, and lead times may have extended beyond your expectations.

Strong forecasting starts months before stock is needed, not weeks.

Factor in:

- Supplier lead times
- Seasonal demand patterns
- Freight and shipping schedules
- Supplier shutdown periods
- Production capacity constraints

EXPERT TIP

When planning replenishment, work backwards from when stock is needed by customers, not when you need to place the order.



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3 Build Multiple Demand Scenarios

Forecasting is not about predicting a single future. Market conditions, customer behaviour and supply chain disruption can all change your expected outcome. Rather than relying on one forecast, create three: expected case, best case and worst case scenarios based on expected demand, supplier lead times and potential supply chain disruption.

Scenario planning helps you prepare for uncertainty and make more informed purchasing decisions.

EXPERT TIP

Ask yourself: "If demand increased by 20% tomorrow, what would we do?" Then ask the same if demand fell by 20%. The answers often highlight risks and opportunities you hadn't previously considered.

4 Apply Human Judgement to the Numbers

Data tells you what happened. People help explain why it happened and what might happen next. The best forecasts combine data with input from across the business. Sales, operations, purchasing, finance and marketing teams all have valuable insights that numbers alone cannot provide.

Before finalising a forecast, consider:

- Upcoming promotions and the demand they may generate before they even launch
- New product launches
- Changing customer demand
- Supplier constraints
- Market conditions
- Competitor activity

EXPERT TIP

Forecasting should never sit with one department alone. The strongest forecasts are built through collaboration across the business.

5 Keep Cash Flow in the Picture

A forecast should support financial reality. There is little value in forecasting demand for a million units if your business can only afford to purchase a fraction of that amount. Demand planning and financial planning should work together.

When reviewing forecasts, ask: Can we afford the inventory required? What is the impact on working capital? What level of stock is realistic for the business?

EXPERT TIP

Don't just forecast units. Forecast profitability too. Rising supplier, freight and material costs can quickly erode margins, so review landed costs and replacement values alongside demand forecasts.



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6 Prioritise Your Most Important SKUs

Not all products have the same impact on your business, so they shouldn't all receive the same forecasting attention. Start with the products that have the greatest impact on your business - highest revenue products, fastest-moving items, most profitable SKUs, products with the longest lead times and critical components or materials.

By focusing your efforts where the stakes are highest, you can improve forecasting accuracy without becoming overwhelmed.

EXPERT TIP

A small number of products often drive a large proportion of revenue. Start there before expanding forecasting efforts across your entire range.

7 Work Closely With Suppliers

Demand forecasting doesn't stop inside your business. Your suppliers play a critical role in your ability to meet customer demand. Sharing forecasts with key suppliers helps them plan production, reserve capacity and alert you to potential risks before they become problems.

Strong supplier relationships can provide better availability, earlier warning of delays, improved communication and greater flexibility during periods of disruption. Review supplier lead times regularly and communicate forecast changes early to reduce the risk of unexpected shortages.

EXPERT TIP

The earlier suppliers understand your expected demand, the more likely they are to support your growth plans.

8 Measure Forecast Accuracy

Forecasting is not about being right every time. It is about improving over time. Compare forecasts against actual results and investigate any significant differences. Review forecast accuracy by product category, supplier and sales channel to identify where improvements can have the greatest impact. Understanding why forecasts missed the mark is often more valuable than celebrating when they were correct.

EXPERT TIP

Ask yourself: What did we get right? What did we miss? Which assumptions proved inaccurate? What can we improve next time?

Demand forecasting isn't about predicting the future perfectly. It's about making better inventory decisions with the information available today. By combining quality data, business experience and regular review, businesses can reduce risk, improve availability, strengthen cash flow and build a more resilient supply chain. **[Book a chat](#)** to see how Unleashed gives you the visibility to forecast with confidence.