Forecasting – Critical for Suppliers

AUTOMOTIVE FORECASTING IS MORE RELEVANT THAN IT EVER WAS. BUT ARE SUPPLIERS MAKING THE BEST OF IT?

A supplier has a difficult life. The guy has to keep his plants running, keep the quality up, and the profitability up, even as he manages a single or multiple OEM relationships. In good times, he has the challenge of expanding with the OEMs and opening new plants, an exercise mostly done by borrowing money in a high interest regime.

When the market enthusiasm is down, the supplier suffers again as OEMs miss volume projections and the revenue loss burden is mostly shared by the suppliers.

Then there is the funny business of negotiating prices. Both the OEM and the supplier would like the negotiation to be favourable for their profitability. This is tricky as the OEM often projects highly optimistic volumes in their RFQs. These volumes have to be taken with a pinch of salt as it is in the manufacturer’s interest to inflate numbers to get a better monetary offer from the supplier.

It is the amount of salt that the supplier has to worry about.

Too little and you have the risk of lines running dry; too much and you may end up underprepared when the program catches the fancy of the customers.

That is where forecasting becomes important.

Forecasts – Backbone of Planning

A forecast is a peek into the future. It presents a highly probable and logical version of the market and industry beyond the horizon. A good forecast helps in planning volumes, capacities, investments, gather future intelligence, and is a realistic assessment of the shape of things to come.

Unfortunately, most ends users of forecasts limit themselves to these attributes. They don't realise that a good forecast can go much beyond that and ensure that their production lines are never dry. A good forecast should also help them in becoming more profitable as it can identify the best programmes to participate in.

Further, and most importantly, a good forecast should be able to call the OEMs promised volumes bluff and provide a fair estimate of volumes so that the production lines run optimally.

The importance of forecasts for the automotive supplier industry can be gauged from the fact that almost all large global suppliers use forecasts of the major markets they participate in.

There is no doubt that senior executives at any large supplier are highly intelligent, well informed and come with valuable experience. However, at times even their wisdom is clouded by the rhetoric propagated by OEMs, thanks to the senior management's closeness to the OEM.

This is where a forecaster with a different shade of glasses is so handy.

Who Should be Responsible for Volume

Planning & Forecasting?

Most suppliers make the grave mistake of delegating volume planning & forecasting to someone in the middle level management. As capable as the person may be, a middle-manager is often busy with daily fire fighting. The executive may be very good at managing and understanding volumes but often lacks the bandwidth to look into the horizon and evaluate the future with a forecaster.

We at EMMAAA believe that forecasting as a subject should be managed by someone at the very top of the chain. Ideally an executive amongst the top three should be responsible for the function as the view from the top is always wider. Senior management handling volume planning / forecasting also means that there is no information loss during transmission, vital for the company's long-term health. Senior executives are also likely to have a greater long-term commitment towards the company, something that blesses them with a long-term vision as well.

Problems with Existing Forecasts & Forecasters

Automotive forecasting in the component industry's parlance often means long, very detailed, spreadsheets. These complex sheets most often result in very little information being transmitted mostly because the user is put off by the spreadsheet as well as the limited intelligence therein. At times, the end user of the information simply does not peel enough layers in the sheet and the most vital information is lost. In the end, the forecast is relegated to the status of a reference material and archived in the corporate library.

EMMAAA believes that automotive forecasting should aid decision making at the highest level. It should help the

management make calls on participation (or not) in programes and decide on the dependability of volumes projected by the OEM.

EMMAAA’s Ten-year Light Vehicle Forecast

We have recently released the first light vehicle forecast of the Indian market & industry. By Light vehicles, the industry refers to all passenger cars, utility vehicles and light trucks with GVW below 7.5 tonne. So in essence, the Ashok Leyland Partner range and the Tata 407 / Ultra range (below 7.5 tonnes) are all part of the forecast.

The forecast has a manufacturer, brand and model level granularity and is extended to ten years. Now as any industry executive would agree, industry’s product plans extend only 3-7 years in the future. How do we extend a forecast beyond that?

EMMAAA uses the Whitespace strategy to provide a well rounded logic to the forecast. The strategy looks at OEM ambitions and brand profiles and identifies market segments that the OEM currently does not operate in but may likely enter eventually. We also look at global strengths of various OEMs to arrive at our logic. So Honda entering into the A-segment is a likely occurrence while Volkswagen making a Tata Ace competitor even in the far future is very unlikely. Models that have a high probability of happening even though they may not be under development currently are termed as Whitespaces and are scattered through the forecast.

SHEET	TERM	DEFINITION
Sales / Production	DATE OF ENTRY	The Month when the model was first added to the forecast
Sales / Production	DATE OF UPDATION	The Month when the model was last updated in the forecast
Sales / Production	COUNTRY	The Country where the vehicle is being sold
Sales / Production	MANUFACTURER	Manufacturer of the vehicle. This may be different than the Manufacturer Group or Sales Brand in cases where contract manufacturing is being done; e.g. Fiat ma
Sales / Production	MANUFACTURER GROUP	The larger group that the brand blongs to, e.g. Jaguar belongs to Tata-JLR group
Sales / Production	DESIGN PARENT	The actual designer of the vehicle. This may be different than the sales brand; e.g. Design Parent of Tata Winger is Renault
Sales / Production	SALES BRAND	Brand under which the vehicle is being sold in the market
Sales / Production	GLOBAL NAMEPLATE	The global nameplate for the vehicle in question. This may be different than the local nameplate.
Sales / Production	SALES NAMEPLATE	The locall nameplate for the vehicle in question. This may be different than the global nameplate; e.g. Ford Everest is sold as the Ford Endeavour in India.
Sales / Production	VEHICLE SEGMENT	Vehicle Segment - Passenger Vehicle (PV) or Light Commercial Vehicle (LCV)
Sales / Production	PRODUCTION COUNTRY	The Country where the vehicle is being manufactured
Sales / Production	PRODUCTION PLANT	The Plant location where the vehicle is being manufactured
Sales / Production	GLOBAL SALES SEGMENT	Sales segment as defined globally
Sales / Production	LOCAL SALES SEGMENT	Sales segment under local market considerations
Sales / Production	ARCHITECTURE	If the vehicle is monocoque (Unibody) or body-on-frame (Full-Frame)
Sales / Production	BODYTYPE	The type of body as per popular definition
Sales / Production	PLATFORM	Platform name
Sales / Production	PROGRAM	Program Code
Production	PROGRAM PROBABILITY %	The probability of a program making it to actual production; 0 to 100%.
Production	VOLUME PROBABILITY %	The probability of a program delivering lifecycle volumes as specified in the forecast; 0 to 100%.
Production	RFQ DISCOUNT FACTOR	The probability of a program meeting RFQ volumes; 0 to 100%.
Sales / Production	LOCAL PROGRAM	Local Program Code
Sales	SOS	Start-Of-Sales Month/Year
Sales	EOS	End-Of-Sales Month/Year
Production	SOP	Start of production Month / Year
Production	EOP	End of production Month / Year
Sales / Production	DESCRIPTION	Description of the vehicle under local market consideration
Sales / Production	COMPETITION	Competitors of the vehicle in the local market
Sales / Production	ORIGIN	If the vehicle is assembled locally or is imported from a differenyt country
Sales / Production	TIMELINE STATUS	Past / Present / Future
Sales / Production	MONTHS IN MARKET	Months the vehicle has been in the market as of date of updation
Sales / Production	LIFE CYCLE (MONTHS)	The overall lifecycle of the vehicle - actual or planned; essentially the time period between SOS and EOS
Sales / Production	EST. LIFE REMAINING	Estimated Lifecycle remaining for the program
Sales / Production	FRESHNESS	Measure of the time spent in the market relative to the overall lifecycle; decresaes from 1 towards 0. Calculated as 1-(Months in Market/Life Cycle in Months)

Advanced Forecast Features – Program Probability

So we have forecasted a program based on present intelligence. In most cases the program is under constant evaluation till a final go ahead has been given for development. While we may have the best intelligence, it is time bound and a lot of things may happen especially for a program which is forecasted for 4-5 years away. That is why we assign a Program Probability to the forecast. It is the probability of a program making it to actual production and is measured between 0 to 100%. The higher the probability, the better the chances for a program to reach final production.

Advanced Forecast Features – Volume Probability

Similar to Program Probability, the Volume Probability is our

measurement of the probability of a program delivering lifecycle volumes as forecasted. While our volume assumptions may be right at the time we enter them in our internal systems, manufacturers, especially the global newcomers are more susceptible to market forces as well suffer from their own deficiency in understanding the market. As a result, we are not highly sure that the forecasted volumes would be achieved. Hence, we also attach probability to the same, based on the OEMs past performance and likely market forces.

Advanced Forecast Features – RFQ Discount Factor

This is by far the most useful and most cheeky of factors. We look at an OEMs past record of honouring RFQ volumes and use that to calibrate future RFQ volume probability. Simply put, if an OEM could only produce half the cars that they promised in their RFQs then there is a high probability that they will continue facing these problems in the future as well. Unless there is a clear rethink at the senior management level, we feel that any RFQs that the OEM releases need to be discounted appropriately.

Deviation Analysis

Despite all the procedures, all the intelligence, and the sophisticated forecasting engine used, a forecast is more unlikely to hit the bullseye all the time. That is why we use a deviation analysis model. Simply put, this analyses the deviation that the forecast has made since the last round. If we have been good, the deviation would be small. If we have been careless, the deviation would be large. Any which way, you need to know and we are obliged to tell.

Analyst Support Like Never Before

As an automotive intelligence organisation, EMMAAA offers more intelligence and analysis FREE than anyone else. Our industry facing portal IndiaAutoReport has been producing regular weekly analysis since Oct 2013. Our openness to be scrutinised and keenness to have an open dialogue with the industry is the best guarantee of our support. So when you email us or call us for any support, there would be guys at the other end ready to respond, take your brickbats, and produce a logical response to all queries.

Do you want more information on EMMAAA's forecasting services? Fill the form below and we will contact you.

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