



Navigating Aftermarket Success

A Strategic Guide to Holistic Supply
Chain Optimization for Leadership Teams

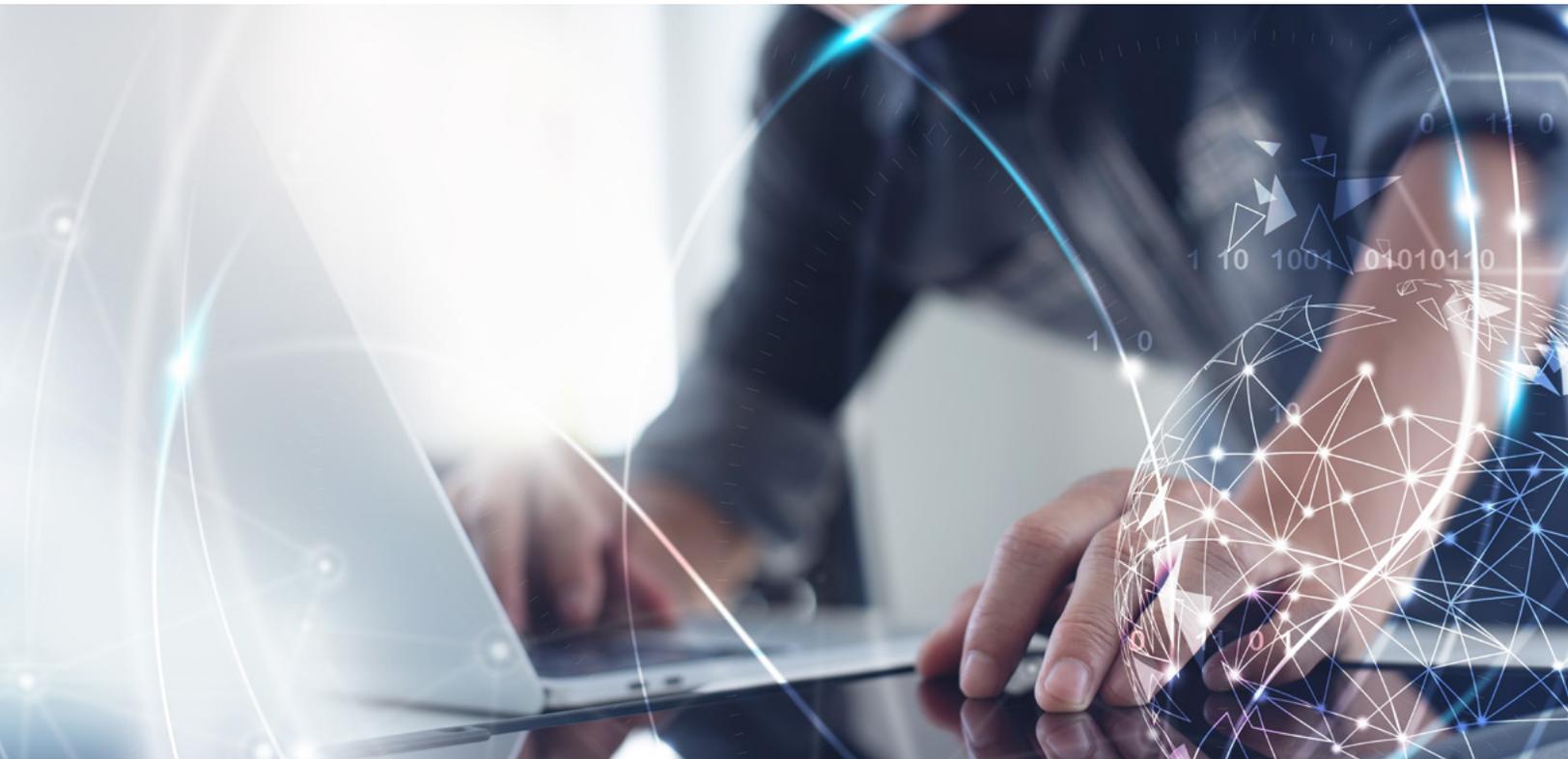


In the rapidly changing world of the aftermarket sector, service and supply chain leaders are seeking strategies to bolster and enhance customer loyalty, reduce costs, and improve operational efficiency.

The unique challenges of parts planning, characterized by intermittent demand patterns and the need for specialized inventory management, magnify the significance of strategic foresight. The aftermarket is a realm where the traditional, one-size-fits-all approach falls short, demanding a nuanced approach and tailored strategies to ensure optimal performance and a superior customer experience.

In such a dynamic landscape, precise, effective demand forecasting emerges as the linchpin for success. Accurate demand forecasting mitigates uncertainty, increases product availability, optimizes inventory, and enhances overall supply chain efficiency. It helps service and supply chain leaders make informed decisions about inventory management, resource allocation, capacity planning, and replenishment.

This guide introduces the essential role of forecasting, illustrating how strategic metric optimization is the key to driving better business outcomes. You'll learn more about the unique challenges aftermarket service and supply chain leaders face, the complexities of traditional forecasting metrics including their nuances and limitations, and the need for strategic metric optimization—all of which lay the groundwork for a deeper understanding of how strategic metric optimization can reshape the aftermarket landscape.



The Limitations of Traditional Forecasting in Aftermarket Parts Planning

While forecast accuracy has been the traditional go-to metric for supply chain management, its relevance at the executive level is often overstated. The nuances of forecast accuracy can be complex, but the takeaway message is simple: An overemphasis on point forecast accuracy can sometimes be misleading and may not correlate with overall business performance.

Traditional metrics for evaluating forecast accuracy, such as mean absolute percentage error (MAPE) and root mean squared error (RMSE), have long been employed, yet they often fall short of capturing the complexities of aftermarket demand. In the aftermarket, where the demand for parts is often sporadic and intermittent, relying solely on metrics that emphasize averages or medians can lead to suboptimal outcomes.

For instance, MAPE and RMSE focus on minimizing errors in predicting the average or median demand, but this approach neglects the unique challenges posed by intermittent demand patterns. When dealing with parts that may experience zero demand for extended periods, as is common in the aftermarket, these traditional metrics may inadvertently encourage overstocking, tying up resources unnecessarily. Therefore, a more tailored and nuanced approach to analyzing forecasting metrics is vital for aligning them with the irregular nature of aftermarket demand and ensuring efficient inventory management without compromising customer satisfaction.

To illustrate this point, consider managing the spare parts inventory for a line of industrial machinery. Some components, like specialized gears or intricate sensors, experience intermittent demand due to the infrequent need for replacements and maintenance.



In this scenario, relying on traditional forecasting metrics might lead to challenges related to how quickly your supply chain can respond.

If a critical component fails unexpectedly, traditional forecasting metrics may not adequately prepare the supply chain for the sudden surge in demand. A more refined understanding of intermittent demand, considering the criticality and urgency of specific parts, becomes essential. Without this analysis, the supply chain might struggle to meet sudden spikes in demand, potentially causing delays in repairs and negatively impacting customer satisfaction.

While traditional metrics provide a foundational understanding of forecast accuracy, the dynamic nature of the aftermarket demands a shift toward a more comprehensive evaluation. This evaluation should not only consider averages but embrace a holistic examination.

A more comprehensive examination—including metrics directly impacting customer satisfaction and bottom-line results—offers more detailed, precise insights, reduces uncertainty, and optimizes your entire supply chain.



The Pitfalls of Point Forecast Accuracy

Point forecast accuracy, a widely adopted metric in supply chain management, has its limitations—particularly when applied to the unpredictable nature of aftermarket demand. While this metric serves well in stable, upstream scenarios, downstream challenges with erratic demand patterns and stringent service level targets demand a more nuanced perspective. As is the case with other traditional forecasting metrics, simply optimizing forecasting models for average or mean scenarios may not be the best strategy for anticipating aftermarket demand, as improved point forecast accuracy does not always translate into improved inventory performance.

The challenges of dealing with intermittent demand in the aftermarket further underscore the inadequacy of point forecast accuracy. Intermittent demand, where at least half of the forecasting periods have zero demand, renders median demand often used in conventional metrics irrelevant.

To illustrate this point, consider the following scenario. Imagine you run a car dealership's spare parts department and certain rare parts are only requested once in a while, making their demand sporadic. Using traditional metrics that focus on median demand might suggest you stock an average quantity of these parts. However, because they are requested infrequently, this approach could lead to overstocking, tying up capital in unnecessary inventory. The inadequacy of traditional metrics like point forecast accuracy becomes evident when considering that intermittent demand requires a more nuanced approach that aligns with the irregular nature of customer requests, ensuring you have the right parts available without unnecessary excess.

Recognizing these challenges, a shift in focus from point forecast accuracy to a more holistic approach to evaluation is imperative for service and supply chain leaders.

Optimizing for What Matters: Metrics that Drive Business Value

In the intricate landscape of aftermarket parts planning, the metrics you choose to prioritize can significantly impact overall supply chain performance. Rather than adhering strictly to conventional metrics, Synchron recommends optimizing supply chain performance through a strategic shift toward a broader analysis, incorporating metrics that best align with the overarching goals of your aftermarket business and strategic needs. This section delves into three critical domains—customer loyalty, financial resilience, and operational efficiency—each of which offers unique insights into driving business value.



Customer Loyalty

In the aftermarket sector, fostering customer loyalty is paramount. To gauge and enhance customer satisfaction, focus on metrics that directly influence service levels. Order fill rates, for instance, offer a critical measure of your organization's ability to promptly complete repairs. High order fill rates not only indicate operational efficiency but also contribute to building brand loyalty. Customers who experience swift and reliable service are more likely to become a stable, long-term component of your customer base, positively influencing your brand's reputation and fostering brand loyalty.



Financial Resilience

While minimizing inventory costs is a common objective, a more nuanced approach involves considering the broader spectrum of costs associated with service failure. Beyond immediate financial implications, evaluate the long-term effects on brand reputation, customer loyalty, and retention. Incorporate metrics that provide a comprehensive view of your cost-effectiveness, factoring in potential repercussions of stockouts or delayed parts. This holistic perspective ensures that your cost management strategy aligns with the broader goals of maintaining a resilient and customer-centric aftermarket business.



Operational Efficiency

Operational success in the aftermarket sector requires insightful decision-making. Traditional metrics may fall short when it comes to offering a nuanced understanding of your operational preparedness. Instead, delve into metrics such as fill rates at different echelons of the supply chain. Assessing fill rates at various stages provides a more granular perspective, offering insights into the effectiveness of your operational strategies. By aligning your metrics with operational success indicators, you enhance strategic decision-making and lay the groundwork for a more adaptive and responsive supply chain.



Adopting a holistic approach to forecasting helps your organization meet immediate operational goals while nurturing the long-term health and success of your aftermarket business.

Strategic Forecasting: The Synchron Way

Transitioning from a reliance on point forecast accuracy, Synchron emphasizes the significance of Business Value Benchmarks. This sophisticated suite of metrics evaluates service levels, balancing both service and cost implications. As a result, Business Value Benchmarks ensure our approach is not only theoretically sound but also grounded in practical, tangible business outcomes.

Business Value Benchmarks go beyond the narrow focus of traditional point forecast accuracy and take into account the broader context of business performance. By considering the consequences of metric optimization and conducting tests to observe the impact on key performance metrics, this approach provides a more accurate reflection of the aftermarket's complexities.

At Synchron, we believe that improving forecast accuracy should be a means to enhance business performance rather than an end in itself. We encourage businesses to align forecast accuracy improvements with specific business objectives, understand the implications of metric choices, and test the impact on true key performance metrics.



Reframing Success in Aftermarket Parts Planning

For leaders in the aftermarket parts industry, it's time to rethink success. The true measure of performance is not only in achieving statistical accuracy in demand forecasts but in ensuring that these analyses contribute positively to customer experience, operational excellence, and, ultimately, your bottom line. By focusing on the right metrics and outcomes, service and supply chain leaders can ensure their decisions are technically proficient and well-reasoned strategies from a business perspective.

A comprehensive approach to aftermarket parts planning, enhanced by Synchron's Business Value Metrics, offers a strategic roadmap for leadership in the ever-evolving landscape of supply chain management. By shifting to a more holistic analysis and redefining success in forecasting, service and supply chain leaders can prioritize metrics that align with their business objectives and drive meaningful outcomes.



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Synchron helps manufacturers and distributors capitalize on the new service economy by optimizing aftermarket profitability, increasing customer loyalty and enabling the transition to servitization. Synchron aligns all aftermarket services with its Connected Service Experience (CSX) cloud platform, helping companies differentiate themselves through exceptional aftermarket experiences while driving significant revenue growth. The world's top brands trust Synchron, making it the largest privately-owned global leader in intelligent service lifecycle management SaaS solutions. For more, visit synchron.com.

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