

● SUPPLY CHAIN

Demand sensing won't fix a forecast nobody trusts

The technology is real and the accuracy gains are credible. They're also irrelevant if your organisation overrides the better forecast anyway — which the evidence says it probably will.

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Every demand-sensing vendor pitches the same arithmetic: near-term forecast error down 30 to 50 percent, safety stock down, service level up. The technology is genuinely real — it uses point-of-sale data, open orders, weather, and web signals with machine learning to refine the zero-to-twelve-week forecast. The numbers are not wrong. The framing is.

The claims are easy to find. *e2open states its demand sensing improves near-term forecast accuracy by 30 to 40% compared with traditional methods. Arkieva puts the reduction in short-term forecast error at up to 40 to 50%, with inventory accuracy up 15 to 20%.* These ranges are credible in pilot conditions. They are also irrelevant to most enterprises' actual problem, because a demand-sensing improvement only matters if the resulting forecast is *trusted and used*.

Here is the data that should reframe the whole conversation.

52%

of real-life forecasts were worse than a naïve random walk, across 300,000+ forecasts at eight companies

MORLIDGE, IBF – IN GILLILAND, TASHMAN & SGLAVO (WILEY, 2015)

In Steve Morlidge's study of more than 300,000 real-life forecasts across eight supply-chain companies, 52% were worse than a naïve random-walk forecast — worse, that is, than simply using last period's actual. Follow-up work across twenty-plus companies found 30 to 50% of low-level forecasts routinely worse than naïve.

Sit with that. If half your forecasts are already losing to "use last week's number," then a 30 to 40% demand-sensing improvement is recovering ground you should never have ceded. It is treating a symptom.

And the symptom has a cause that no algorithm addresses. In fourteen years I have seen exactly four root causes of forecast failure, none of them statistical:

- **No single owner of the number.** Sales, finance, marketing, and supply chain each keep their own forecast and litigate the differences in a meeting that resolves nothing.
- **Incentives misaligned with accuracy.** Sales is paid to hit quota, finance to hit budget, supply chain to hit service. None is paid to predict reality.
- **Judgmental override that destroys value.** This is the killer, and it is measurable.
- **No feedback loop.** Most companies never track which step — the engine, the analyst, the consensus meeting, the executive —

degraded the forecast, so they cannot fix it.

On the third point, the research is brutal. *A 2024 study in the International Journal of Forecasting found that judgmental adjustments improved accuracy for only just over half of stock-keeping units, and that positive adjustments were more likely to worsen performance.* Demand sensing produces a better statistical forecast. If your organisation does not trust statistical forecasts, it will override the better one too — and the evidence says it will probably make it worse.

Demand sensing produces a better number. If you don't trust numbers, you'll override the better one too.

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So before you buy demand sensing, run a Forecast Value Added analysis. Measure each step of your process against that naïve benchmark. If your current process is destroying value relative to a random walk — a near-coin-flip likelihood on Morlidge's evidence — the right investment is not a better algorithm. It is clear ownership of the number, accuracy-linked incentives, FVA-monitored overrides, and the discipline to remove the executive override that consistently destroys value.

Buy demand sensing after you have done that. Not before. A sharper forecast handed to an organisation that doesn't trust forecasts is an expensive way to generate a number people will still ignore.

Sources

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