

CAUTIONS WHILE USING FORECASTING TECHNIQUES

Forecasting business conditions is a complex task which cannot be accomplished with exactness. The economic, social and political forces which shape the future are many and varied; their relative importance changes almost constantly. It is obvious, therefore, that statistical methods cannot claim to be able to make the uncertain future certain. It does not follow from this disclaimer that statistical methods have nothing to contribute to business forecasting. The question is not between forecasting and not forecasting. Instead it is, "What kind of forecast"? Lack of a forecast implies a dangerous type of forecast, the mere warning of a possibility of a change is better than no warning at all as is wisely said "Forewarned is forearmed". Also, it should be remembered that forecasts are not made just for the sake of forecasting, that is, they are not ends in themselves. Forecasts are made in order to assist management to determine a strategy and alternative strategies.

It may be pointed out that forecasting is much more than projecting a series mechanically. Though future is some sort of extension of the past, but it can hardly be expected to be an exact replica. Forces responsible for economic change are numerous and complex. They are often difficult to discover and to measure. They may appear in all kinds of combinations and may be constantly changing. The fact that past can never be a perfect guide to the future warns us that forecasting should not be thought of as a routine application of some techniques or theoretical ideas to a list of unchanging variables. Successful forecasting requires expert blending of economic theory with significant statistical expertise and thorough familiarity with the relevant statistical data. Both qualitative and quantitative information must be utilized.

As a final word of caution, it may be emphasised that no matter what methods of forecasting are used, it is essential that the forecasts be checked by the judgment of individuals who are familiar with the business. While it is true that the use of statistical data is an attempt to substitute facts for subjective judgment it does not mean that knowledge gained through experience in a given situation should be ignored in favour of quantitative data. It is particularly important to take into consideration any specific planes of the business that might affect the pattern of sales in relation to indicators used for forecasting. More successful forecasting will result by combining with statistical forecasting the judgement and knowledge of current business trends.

Also, it is important to emphasise that any forecast should be reviewed frequently and revised in the light of the most recent information. Forecasting is not a one-shot operation. To be effective, it requires continuous attention. Unanticipated developments will often change our picture of the future, or at least clarify it. In terms of any original decisions and actions that have been taken, this rule implies continuous modification wherever necessary. The technique of flexible budgets has been developed to permit the revision of the budget estimates and everyone dealing with forecasts should be alert to the need for constantly checking to see if anything has happened to change the outlook. Outlook keeping accurately informed about the current level of business is probably the simplest insurance that can be secured against making wrong decisions regarding the future.

Despite all advances that have been made in the techniques of forecasting, forecasting remains more an art than a science. The value of a forecast lies not merely in its accuracy, but the fact that making it requires a balanced consideration of factors influencing future developments, right or wrong. Further, forecasting should not be regarded merely as a means of peering into the future and then accepting what one sees; it needs to be used actively as a way of guiding the firm along the path its management feels is most desirable. Business forecasting will not only help in the short-term control of operations, but also its greatest contribution probably will come when it is able to improve short and long-term corporate strategies.