

1.3 Determining what to forecast

In the early stages of a forecasting project, decisions need to be made about what should be forecast. For example, if forecasts are required for items in a manufacturing environment, it is necessary to ask whether forecasts are needed for:

1. every product line, or for groups of products?
2. every sales outlet, or for outlets grouped by region, or only for total sales?
3. weekly data, monthly data or annual data?

It is also necessary to consider the forecasting horizon. Will forecasts be required for one month in advance, for 6 months, or for ten years? Different types of models will be necessary, depending on what forecast horizon is most important.

How frequently are forecasts required? Forecasts that need to be produced frequently are better done using an automated system than with methods that require careful manual work.

It is worth spending time talking to the people who will use the forecasts to ensure that you understand their needs, and how the forecasts are to be used, before embarking on extensive work in producing the forecasts.

Once it has been determined what forecasts are required, it is then necessary to find or collect the data on which the forecasts will be based. The data required for forecasting may already exist. These days, a lot of data are recorded, and the forecaster's task is often to identify where and how the required data are stored. The data may include sales records of a company, the historical demand for a product, or the unemployment rate for a geographic region. A large part of a forecaster's time can be spent in locating and collating the available data prior to developing suitable forecasting methods.