

1.2 Forecasting, planning and goals

Forecasting is a common statistical task in business, where it helps to inform decisions about the scheduling of production, transportation and personnel, and provides a guide to long-term strategic planning. However, business forecasting is often done poorly, and is frequently confused with planning and goals. They are three different things.

Forecasting

is about predicting the future as accurately as possible, given all of the information available, including historical data and knowledge of any future events that might impact the forecasts.

Goals

are what you would like to have happen. Goals should be linked to forecasts and plans, but this does not always occur. Too often, goals are set without any plan for how to achieve them, and no forecasts for whether they are realistic.

Planning

is a response to forecasts and goals. Planning involves determining the appropriate actions that are required to make your forecasts match your goals.

Forecasting should be an integral part of the decision-making activities of management, as it can play an important role in many areas of a company. Modern organisations require short-term, medium-term and long-term forecasts, depending on the specific application.

Short-term forecasts

are needed for the scheduling of personnel, production and transportation. As part of the scheduling process, forecasts of demand are often also required.

Medium-term forecasts

are needed to determine future resource requirements, in order to purchase raw materials, hire personnel, or buy machinery and equipment.

Long-term forecasts

are used in strategic planning. Such decisions must take account of market opportunities, environmental factors and internal resources.

An organisation needs to develop a forecasting system that involves several approaches to predicting uncertain events. Such forecasting systems require the development of expertise in identifying forecasting problems, applying a range of forecasting methods, selecting appropriate methods for each problem, and evaluating and refining forecasting methods over time. It is also important to have strong organisational support for the use of formal forecasting methods if they are to be used successfully.