

Forecasting

Meaning of Forecasting

Forecasting refers to the practice of predicting what will happen in the future by taking into consideration events in the past and present. Basically, it is a decision-making tool that helps businesses cope with the impact of the future's uncertainty by examining historical data and trends.

Business forecasting is an act of predicting the future economic conditions on the basis of past and present information. Forecasting provides a basis for planning. Forecasting includes both assessing the future and making provision for it. As a result, planning cannot be done without forecasting. Thus, forecasting is the projection of future events/ conditions in the environment in which plans operate. Forecasting aims at understanding various uncertainties and complexities associated with the environment.

Forecasting is an essential element of planning. It means estimating future on a systematic basis.

Features-

1. Concerned with future events –

Forecasting is concerned with future events. It is a systematic effort to peep into the future. It is essentially a technique of anticipation.

2. Necessary for planning process –

Forecasting is necessary for the planning process. It is the basis for planning. Decisions cannot be taken without the help of forecasting. Therefore, it is an integral part of the planning process.

3. Consideration of relevant facts –

Forecasting considers all factors which affect organizational functions. It is a technique to find out the economic, social, and financial factors affecting the business.

4. Art of reading the future –

Forecasting is not an exact science. It involves looking ahead and projecting the future events. It requires the use of scientific, mathematical, and statistical techniques for reading the future course of events.

5. Elements of guess-work –

Forecasting involves elements of guess-work. Personal observations help in guessing future events to a great extent. Estimates for the future are based on the analysis of past and present circumstances.

Importance

1. Contribution to business success –

The success of a business depends on the accurate forecasts made by the various departments. It helps to identify and face environmental challenges with determination. Risks and uncertainties can be reduced to a great extent with the help of forecasting. It contributes greatly to the success of the business by warning business against trade cycles.

2. Promotion of new business-

Forecasting is of utmost importance in setting up a new business. It is not an easy task to start a new business as it is full of uncertainties and risks. With the help of forecasting the promoter can find out whether he can succeed in the new business; whether he can face the existing competition; what is the possibility of creating demand for the proposed product etc.

3. Exactness in decision-making –

Forecasting brings exactness and accuracy in managerial decisions. It improves the quality and validity of management decisions. It enables a manager to probe the future economic, social, and political factors that might influence his decisions.

4. Implementation of project –

Forecasting enables the entrepreneur to achieve success. It helps the entrepreneur to gain experience and implement a project on the basis of his experience.

5. Estimation of financial requirements-

The importance of forecasting can't be ignored in estimating the financial requirements of a concern. Efficient utilization of capital is a delicate issue before the management. No business can survive without adequate capital. But adequacy of either fixed or working capital depends entirely on sound financial forecasting.

6. Co-Operation and co-ordination-

Forecasting is not one man's job. It needs proper co-ordination of all departmental heads in a company. Thus, by bringing participation of all concerned in the process of forecasting, team spirit and coordination is automatically encouraged.

7. Facilitating control –

Forecasting helps in achieving effective control by providing relevant future information to the management in advance. The management can be aware of its strengths and weaknesses through forecasting. It discloses areas where adequate control is necessary for the efficient and effective operations of the enterprise. It helps in revealing the weak spots in the organization and thereby improves performance.

8. Smooth working of an organization –

Forecasting ensures smooth and continuous working of an organization. The business can be saved from the adverse impact of trade cycles through accurate forecasting of sales for the concerned period. It helps the organization to estimate expected profits on the basis of forecasted revenues and costs.

Disadvantages

1. Forecasts are never 100% accurate-

Let's face it: it's hard to predict the future. Even if you have a great process in place and forecasting experts on your payroll, your forecasts will never be spot on. Some products and markets simply have a high level of volatility. And in general, there is just an endless number of factors that influence demand.

2. It can be time-consuming and resource-intensive-

Forecasting involves a lot of data gathering, data organizing, and coordination. Companies typically employ a team of demand planners who are responsible for coming up with the forecast. But in order to do this well, demand planners need substantial input from the sales and marketing teams. In addition, it's not uncommon for processes to be manual and labor-intensive, thus taking up a lot of time. Fortunately, if you have the right technology in place, this is much less of an issue.

3. It can also be costly-

On a related note, hiring a team of demand planners is a significant investment. When you add to that the cost of using good quality tools, upfront costs can add up. But investing in advanced software, high-quality talent and solid forecasting processes is just that: an investment. We're confident you'll see a return when all of that is done right.