Chapter 1

REPORTING A FORECAST

If [the forecast of demand] is too low, particularly in a given enterprise's own markets, for the short run, the company may be led to stock inventories sparsely. This could mean the offerings of poor choice or no choice to potential buyers. Firms who are not in the rare position of being a monopoly can suffer important losses in sales...

In a longer run sense, a forest products company must plan forestation on the basis of long term forecasts... Electric and gas utilities must plan ahead for many years - a decade or two or three - to be as sure as possible that the available capacity is in place to meet the forecasted demand for energy.

... If the forecast is too optimistic, production of goods may be overstocked, leading to distress selling at a low profit or a loss. Too many employees may have been hired, requiring painful lay-off decisions. Also, excess capacity in fixed capital could result...

[Klein, 1984].

This extract highlights the need to forecast. However, having made a forecast, what happens if nobody believes it? This chapter first argues for the inclusion of all the staff affected by a forecast in the forecast attempt. Yet, it is recognized that there will be occasions when it will become necessary to persuade others of the accuracy of certain forecasts. In these cases it is argued that multiple methods should be used. These range from the emotive to the "rational." It is assumed that force is not an option. The forecaster is therefore required to persuade, much as advertising methods try to persuade. Success in this appears to be best achieved by using a

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Chapter 1: Reporting a Forecast

whole range of methods beyond simply presenting the figures. Charisma, peer pressure, vivid images, running experiments, and the careful selection of metaphors all appear to have the power to persuade, as does the rational approach of simply avoiding "the rules bad argument." 1. The chapter concludes by reviewing the feedback literature. Presenting a forecast is a feedback report on managers' past actions. Much has been written about the impact of such reports. A review of what has been learned may be useful in suggesting how best to prepare and present such a report.

Persuasion methods might seem a strange place to start a book on forecasting. They are not. The way a forecast is undertaken will largely determine its chances of being believed. This section is, therefore, a "how to forecast" piece just like the one on moving averages. The only difference is that the organizational variables, rather than the calculation variables, will be discussed.

Commercial forecasting is not a matter of sitting alone in your office while collecting and analyzing the facts (for example, see Jenkins' [1982] comments). Rather, like all organizational activities, it is a group exercise requiring the establishment of an organizational system. The word "system" is used because it underlines the need for the forecast attempt to be carefully integrated with other processes within the organization. The effectiveness of a forecasting system is determined by how it drives the decision-making system. To start with, it is usually wise to fully involve the decision makers in the forecast attempt. It is not sufficient for the forecast to be determined by the company's most capable staff. Unless the forecast is implemented, and unless it has some impact on senior-level management decision making, there is no useful forecasting system. The result of not involving decision makers are most clearly exposed by the comment: "We forecasted the problem months ago, but the senior managers would not listen." The forecast was ineffective. For a practical example, see Dino et al. [1982]: who describe the Xerox experience.

An unpleasant forecast can be hard for people to accept...

1. For an excellent book on this topic see "Influence" by R.B. Cialdini.