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Foresight: The International Journal of Applied Forecasting

53 Tesla Avenue

Medford, MA 02155 USA

[pamstroud@forecasters.org](mailto:pamstroud@forecasters.org)

# How to Evaluate, Manage, and Improve Your Forecasting Process

## Capsules of the Articles

by Len Tashman, *Foresight* Editor



### Overcoming Challenges in Operational Forecasting Projects

Ian Watson-Jones

Author Ian Watson-Jones of IBM Global Services describes key elements in successfully engineering a new forecasting process and gives us invaluable checklists of process, system, and organizational hurdles.

*“The keys to success in operational forecasting include effective stakeholder management, a proper business case, an efficient, consensus-driven business process, a plan for overcoming data quality issues, and hardware and software support for the new business requirements. But the linchpin is the creation of a process of change management.”*

### Book Review: *Competing on Analytics: The New Science of Winning* (2007)

Roy Batchelor

This new “bible” by Thomas Davenport and Jeanne Harris has been assigned as motivational reading for analysts. It is a pep talk on the benefits of quantitative analysis. Roy Batchelor’s insightful review questions

the evidence for *competing on analytics*.

*“Competing on Analytics is an upbeat, consciousness-raising tract clearly aimed at general managers rather than quant specialists. It should be piled high in the lobbies of companies like Accenture and SAS who specialize in selling analytics to companies. But don’t read Competing on Analytics too carefully, though, or you might start to have some doubts about its argument.”*

### How to Track Forecast Accuracy to Guide Forecast Process Improvement

Jim Hoover

Software Editor Jim Hoover reflects on why organizations have neglected the critical task of tracking of forecast accuracy, and offers a step-by-step guide for getting back on track.

*“Relatively few firms track forecast accuracy over time. Apparent obstacles include data storage difficulties, outdated technology, inability to agree on appropriate metrics, and lack of impetus from the forecast process. The key steps involve determination of the appropriate (a) forecast-accuracy met-*

ric, (b) level of aggregation, (c) process attributes for storage, (d) targets for accuracy improvement, and (e) weights to be applied to targeted SKUs.”

## Can We Obtain Valid Benchmarks from Published Surveys of Forecast Accuracy?

Stephan Kolassa

Surveys are often cited by businesses as the source of comparative indicators of an organization’s forecasting performance. But do they provide useful performance standards? Stephan Kolassa’s article analyzes the major surveys and finds their results untrustworthy as benchmarks. Stephan’s discussion of the areas of non-comparability in surveys is an eye-opener. Internal benchmarking will be the more reliable process.

*“In benchmarking, comparability is the key. Benchmarks can be trusted only if the underlying process to be benchmarked is assessed in similar circumstances. However, published surveys of forecast accuracy are not suitable as benchmarks because of incomparability in product, process, time frame, granularity, and key performance indicators. A better alternative is a qualitative, process-oriented target that focuses on process improvement.”*

## A Guide To Delphi

Gene Rowe

There are ways to elicit opinions and forecasts from a group of experts without requiring the participants to face each other in a meeting room. The *Delphi* method replaces face-to-face meetings with questionnaires. Individual experts remain anonymous, but feedback on what others are saying is disseminated to the group and can lead to revised judgments. If properly executed, Delphi can clarify the bases of agreement or disagreement among the experts and may result in greater consensus. Gene Rowe describes the Delphi process, explains what Delphi offers to the forecaster, and examines the pitfalls in its implementation.

*“Rather than assembling experts in one place at one time, the Delphi method deliberately separates them to reduce the negative aspects of group interaction. These problems include sucking up to*

*the boss, the most outspoken people not being the most knowledgeable, social loafing (where some people remain anonymous and do not contribute to the debate), and the tendency of people within groups to discuss shared information rather than uniquely held information. The key for the practitioner is to enact the Delphi process in such a way that information quality becomes the key.”*

## How to Get Good Forecasts from Bad Data

Ellen Bonnell

Ellen’s five guiding principles span the gamut from nuts and bolts (how to deal with imperfect data) to the fundamental precept that the forecaster needs to address the *real problem*, which is not necessarily the request handed down by management.

1. *Accept that data do not have to be perfect. The data only need to predict the future.*
2. *Recognize that the definitions used for corporate reporting may not be suitable for forecasting.*
3. *Distinguish data that are relevant from data that are not.*
4. *Make sure the data you use and the forecasts you create address the real problem.*
5. *Quantify the impact of marketing and operational changes.”*

## Six Steps to Overcome Bias in the Forecast Process

Elaine Deschamps

Often a technically sound forecasts gets manipulated to satisfy political ends or to meet targets and plans Elaine Deschamps examines some common problems that organizations face and proposes six steps to overcome organizational politics and allow a technically sound forecast to prevail.

1. *Balance the twin goals accuracy and acceptability*

2. *Identify biases and get the politics “on the table”*
3. *Collaborate and communicate*
4. *Demystify the basis of the forecasts*
5. *Monitor accuracy at every stage of the process*
6. *Place the forecasting function in a neutral body with ownership of the forecast”*

## Managing The Introduction Of A Structured Forecast Process: Transformation Lessons From Coca-Cola Enterprises Inc.

### Simon Clarke

As Manager of Forecasting and Planning for Coca-Cola Enterprises, Aimon led a corporate team that engineered a radical transformation of the organization’s forecasting process. An unstructured, decentralized process became a disciplined, internally-collaborative management system. In this article Simon describes the hard lessons learned in managing the transformation. Here is a capsule of his advice.

- “• *Create a vision statement.*
- *Form a strong opinion and avoid compromises.*
- *Define measures of success and how these affect the bottom line.*
- *Be clear and specific on roles and responsibilities.*
- *Focus on process before software.*
- *Manage change as a priority.*
- *Hire the very best people.*
- *Spend more time with users than you think you can afford.”*

## How to Integrate Management Judgment with Statistical Forecasts

### Paul Goodwin

The evidence is now clear that the majority of judgmental adjustments to statistical forecasts do not improve accuracy. Paul Goodwin tells us when adjustments are likely to help and when the temptation to adjust should be resisted.

- “• *Only adjust statistical forecasts when you have important information about forthcoming events that was not available to the statistical forecast.*
- *Document the reasons for your adjustments.*
- *Employ software that can search a data base for “similar events”; events similar to those that currently mandate adjustments.*
- *When a group has to decide what adjustments to apply, consider a Delphi method (ref: Gene Rowe, A Guide to Delphi, page 35 in this volume.”*

