
Contents

Foreword—Tom Wallace	xiii
Foreword—Anne G. Robinson	xv
Acknowledgments	xvii
Prologue	1
Chapter 1 Fundamental Issues in Business Forecasting	5
The Problem of Induction	5
The Realities of Business Forecasting	6
The Contest	7
What Is Demand?	10
Constrained Forecast	13
Demand Volatility	15
Inherent Volatility and Artificial Volatility	17
Evils of Volatility	19
Evaluating Forecast Performance	22
Embarking on Improvement	24
Notes	26
Chapter 2 Worst Practices in Business Forecasting: Part 1	29
Worst Practices in the Mechanics of Forecasting	30
Model “Overfitting” and “Pick-Best” Selection	32
Confusing Model Fit with Forecast Accuracy	41
Accuracy Expectations and Performance Goals	43
Failure to Use a Naïve Model or Assess Forecast Value Added	47

Forecasting Hierarchies	48
Outlier Handling	50
Notes	54
Chapter 3 Worst Practices in Business Forecasting:	
Part 2.....	55
Worst Practices in the Process and Practices of Forecasting	55
Politics of Forecasting	57
Blaming the Forecast	60
Adding Variation to Demand	61
Evangelical Forecasting	64
Overinvesting in the Forecasting Function	66
Forecasting Performance Measurement and Reporting	69
Forecasting Software Selection	74
Editorial Comment on Forecasting Practices	76
Notes	78
Chapter 4 Forecast Value Added Analysis.....	81
What Is Forecast Value Added?	82
The Naïve Forecast	83
Why Is FVA Important?	90
FVA Analysis: Step-by-Step	92
Further Application of FVA Analysis	101
Case Studies	102
Summary: The Lean Approach to Forecasting	107
Notes	108
Chapter 5 Forecasting without History	111
Typical New Product Forecasting Situations	111
New Product Forecasting by Structured Analogy	114
Organizational Realignment	120
Summary	131
Notes	132

Chapter 6 Alternative Approaches to the Problems of Business Forecasting.....	133
Statistical Approach	134
Collaborative Approach	136
Supply Chain Engineering Approach	142
Pruning Approach	145
Summary	149
Notes	150
Chapter 7 Implementing a Forecasting Solution	151
Why Do Forecasting Implementations Fail?	151
Preproject Assessment	153
Requesting Information or Proposals	154
Evaluating Software Vendors	155
Warning Signs of Failure	157
Notes	159
Chapter 8 Practical First Steps.....	161
Step 1: Recognize the Volatility versus Accuracy Relationship	161
Step 2: Determine Inherent and Artificial Volatility	165
Step 3: Understand What Accuracy Is Reasonable to Expect	166
Step 4: Use Forecast Value Added Analysis to Eliminate Wasted Efforts	167
Step 5: Utilize Meaningful Performance Metrics and Reporting	168
Step 6: Eliminate Worst Practices	169
Step 7: Consult Forecasting Resources	170
Notes	173
Chapter 9 What Management Must Know About Forecasting	175
Aphorism 1: Forecasting Is a Huge Waste of Management Time	175

Aphorism 2: Accuracy Is Determined More by the Nature of the Behavior Being Forecast than by the Specific Method Being Used to Forecast It	177
Aphorism 3: Organizational Policies and Politics Can Have a Significant Impact on Forecasting Effectiveness	179
Aphorism 4: You May Not Control the Accuracy Achieved, But You Can Control the Process Used and the Resources You Invest	180
Aphorism 5: The Surest Way to Get a Better Forecast Is to Make the Demand Forecastable	182
Aphorism 6: Minimize the Organization's Reliance on Forecasting	183
Aphorism 7: Before Investing in a New System or Process, Put It to the Test	184
Notes	185
Epilogue	187
Glossary	189
Appendix Forecasting FAQs	193
Accuracy Expectations	193
Performance Benchmarks	196
Performance Measurement and Reporting	198
The Naïve Forecast	208
Forecast Value Added Analysis	211
Forecast Modeling	220
Politics and Practices of Forecasting	224
Demand Volatility	227
Forecasting Process	230
Judgment	237
Forecasting Organization	238
Low Volume/Intermittent Demand	239
New Product Forecasting	241
Forecasting Hierarchy	242
Software Selection	245
Index	247