

Uses and Methods of Business Forecasting

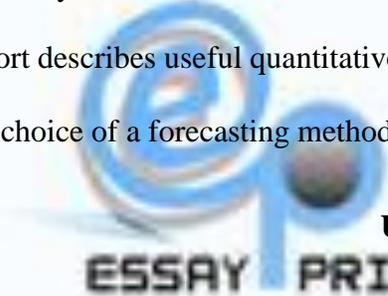
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Small and large businesses are gradually embracing business forecasting as a conduit to make strategic efforts to elevate their sales turnover as well as improve the enterprise and corporate standing of their ventures. Financial forecasts, for example, are invaluable to depicting the broader picture of the sales volume. Executives typically consider varied forecasts before making corporate determinations, at the strategic level, which have a profound impact on their corporate entity's ability to sustain itself. This implies that identifying future business hitches become possible due to the principles of business forecasting. The efficacy of forecasting is primarily reliant on the method of business forecasting which a business entity opts to use. This report describes useful quantitative methods of business forecasting, the factors which influence the choice of a forecasting method and the uses of business forecasting.



Uses of Business Forecasting

From a surface-level angle, the most elemental use of business forecasting that any economist could identify is that of predicting future events which have a strategic impact on a business' sustainability, performance, and profitability. However, a scrutiny of forecasting would reveal that these statistical tools provide an informed basis for budgeting. Hung and Lin (2013) argued that forecasting enables decision-makers to create budgets, which could withstand the test of future uncertainties. This supposition, in other words, directly implies that business forecasting is an invaluable tool for financial professionals since the application of historic data offers the elemental foundation for preparing budgets which factor in anticipated expenses, at length. Therefore, budget-wise, forecasting creates a sense of readiness to finance a business' operations in future.

Secondly, forecasting is used in the creation of feasible business plans. Chase Jr (2013) argued that quantitative data analysis technologies have offered an informed basis through which business strategists and entrepreneurs could craft business plans which factor in future dynamics which could be elusive when examined from a peripheral standpoint. In as far as economic forecasting might not often achieve a one hundred percent accuracy level, forecasting genuinely makes the creation of business plans to be logical based on the information which business planners obtain from predicting certain future dynamics (Chase Jr, 2014). The sense of direction which business forecasting offers during the preparation of a business plan enables a prospective enterprise, large or small, to get the most of its target markets.

Thirdly, forecasting is used in sustaining an enterprise' competitive edge. Hung and Lin (2013) mentioned that business forecasting enables the creation of competitive strategies which elevate a firm's competitiveness. For instance, for a firm which accurately predicts that customers are likely to purchase its services and products when it embarks on rigorous publicity campaigns in a selected target locality, it would increase its clientele; thereby, upsetting its competitors.

Finally, business forecasting is used in creating a sense of focus among managers, especially at the strategic level. In blunt terms, forecasting is regularly used to inspire executives to deliberate continually on where their corporate establishment is headed. When forecasts point toward potential troubles, a company could devise calculated moves to preclude the identified issues.

Different Methods of Forecasting

Exponential smoothing and rule of thumb are important time series methods of forecasting. Render, Stair, Hanna, and Hale (2014) that the underpinning premise in time series methods is that they factor in the historical data patterns which lay a basis for identifying replications which would happen. In exponential smoothing, the company considers the variations in previous data based on the period existing between a varied historical data. More recent data could be preferable in many cases. In the rule of thumb variant of time series methods, business analysts use historical data with little to no changes for selected time periods.

Another method is causal forecasting. This method has a cause-effect dimension in that relies on the relationship between varying variables (Render, Stair, Hanna & Hale, 2014). Examining relationships could be done using regression analysis, whereby, the impact of the sales volume, for example, on the staff morale could be established through statistically evaluating the connection between staff morale and the sales volume.

Finally, the Delphi method is also invaluable. This method value the experiential knowledge and technical know-how expert who have immense experience about the issue in question (Render, Stair, Hanna & Hale, 2014). Consultations with the specialists continue until the firm reaches an accord.

Factors Influencing Choice of a Forecasting Method

An economic forecasting method largely depends on particular factors which determine the suitability of a forecasting method on business. Firstly, is future time period (Bontempi, Taieb, and Le Borgne, 2012). A company that would want to forecast its market growth and coverage for coming seven-years, for instance, would need to apply entirely different methods

from a similar firm that want to predict its market growth for the next two months. This is because the time period between the two companies has a profound effect on the results.

Secondly are technological advances and the availability of their specialists. Since modern business forecasting is reliant on computer programs, the level of technological advancements in forecasting that are available in a given area affects the choice of forecasting method. Executives would most likely utilize the most available statistical tools which are comparatively easier to find the statistical practitioners who have the requisite expertise of how to use them (Chase Jr, 2013).

Thirdly, is the availability and type of input data. The forecasting process, according to Hung and Lin (2013) relies immensely on input data. Where the input data is considerably complex, more advanced, statistical forecasting tools would be helpful while in cases where the input data is comparatively simplistic, the forecasting method would not necessitate sophisticated forecasting methods. Walmart has, for example, being consistent in using forecasting methods which factor in the complexity of its historical data.

Finally, is the accuracy level in particular cases where risk is a weighty factor. For executives who would opt to have highly accurate forecasts, they would have to utilize more expensive methods (Bontempi, Taieb, and Le Borgne, 2012). For that reason, in case the executives would traverse both financial and geographical limitations to obtain the most presumably accurate prediction methods.

Conclusion

This paper has scrutinized business forecasting from an analytical angle of investigating invaluable quantitative methods used in making sound predictions. The argument above

encapsulate how economic forecasting does not, at all times, lead to results which are void of forecasting errors which arise from varied economic and business dynamics, but aims to make sound predictions which result in the best possible managerial decisions. Since deciding on a method substantially depend on different factors, it is important that executives deliberate carefully on the method of forecasting to ascertain that they achieve the selected method reflects the best interests of the corporate organization they represent. This discussion forms a structural basis for evaluating the right business forecasting techniques which reflect the overarching objectives of a business organization.

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