

## The Purpose of Forecasting

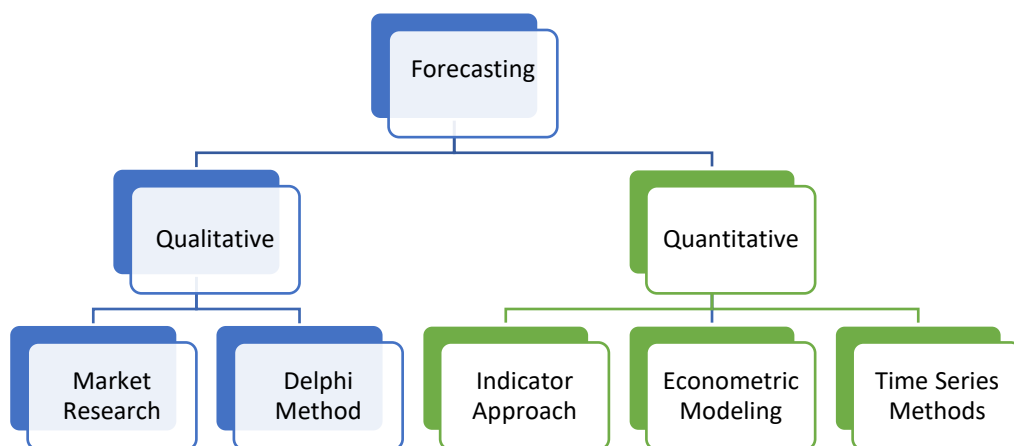
Forecasting in the simplest terms is a business's way of predicting the future using mainly historical data as the input. Just as a weather forecast allows you to plan your outfit for the day ahead, a business forecast enables the organisation to prepare for the future by implementing actions which confront or counteract changes in the economic climate.

Due to operating in an uncertain environment it gives organisations an estimation of what the future will hold, thus, allowing the business to make informed decisions. The more accurate the forecasting, the more effective the business strategies and project plans which stem from it will be.

For example, a demand forecast can enable companies to take advantage of economies of scale by bulk buying materials in order to reduce production costs. Furthermore, it enables the company to estimate future cash inflow.

## Methods of Forecasting

Forecasting approaches include both quantitative and qualitative models:



- **Qualitative Models** – typically are more successful for short-term predictions and are based on the opinions or judgement of consumers and experts within the field.
  - This method may be more relevant when there is insufficient historical data or when there is a lack of data surrounding the future of your industry, for example if a new constraint is entering the market which has never occurred before, such as a new tax law.
- **Quantitative Model** – primarily uses historical data combined with potential economic conditions to predict future trends and relationships.
  - Quantitative models can incorporate primary data, such as sales numbers, or secondary data, such as census statistics.
  - In general, a quantitative model will aim to benefit the business by seeking to establish a cause and effect relationship between multiple different variables.
  - The more historical data included within a forecast, the more accurate its likely to be.

---

## Assumptions Surrounding Forecasting

When producing a forecast certain assumptions regarding the future need to be made, more accurate assumptions will result in a better forecast.

For example:

- Are there any changes likely to occur within the market? Such as increased competitors.
- What impacts customer behaviour within the market? Do sales fluctuate depending on the season?

However, even where a forecast incorporates accurate assumptions, sometimes unpredictable economic events such as COVID – 19 will render a forecast irrelevant, thus, companies must ensure forecasts are updated regularly and built with flexibility in mind.

To conclude, forecasting is a vital element when running a business as it allows the company to prepare for the future and implement strategic plans. Therefore, if your company is not forecasting, it's worth considering the benefits it may have on your company.

---

**Please contact us for more information.**

Website: [www.surreyhillsaccountancy.co.uk](http://www.surreyhillsaccountancy.co.uk)

Email: [info@surreyhillsaccountancy.co.uk](mailto:info@surreyhillsaccountancy.co.uk)