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**December, 2011**  
**Volume V Issue 12**

#### *Forecasts*

**By Jack Miller**

As in the past, I arranged for Santa Claus to guest write the Christmas edition of MarketIntellibits, but it didn't work out - there was a problem with the weather forecast. Here in Connecticut, we had snow on Halloween instead of Christmas, and this was a problem for Santa's sleigh. But, you can read Santa's earlier Christmas edition here: [http://www.mktintell.com/files/Happy\\_Holidays.pdf](http://www.mktintell.com/files/Happy_Holidays.pdf)

But what went wrong? Bad weather? Bad forecast? Bad execution? Lack of contingency plan?

Let's look at this and see what we can learn.

The thing about forecasts is that they're often wrong. Some would say they're always wrong; it's just a matter of by how much.

First, as has often been said, we need to plan because we can't forecast accurately. If Santa had planned for the possibility that snow would come on Halloween instead of Christmas, he'd be here today, writing this newsletter. With a good plan, a bad forecast need not be a problem.

They why bother to forecast? If forecasts are wrong, what good are they? We have to plan because we can't forecast, but at the same time, a forecast can be a planning tool. It works like this:

- Develop a forecast.
- Analyze and understand the assumptions the forecast is based on. These may be variables related to economic activity, competitive reactions, or a host of other factors.
- Analyze and understand the implications if the assumptions are wrong – this often takes the form of a sensitivity analysis.
- Develop contingency plans.
- Monitor the evolution of the assumptions, and implement contingency plans as needed.

By monitoring the assumptions, you can see how the reality will differ from the forecast, even before the reality becomes clear.

There are some good analogies from sports. The simplest and most familiar is football. The quarterback calls the play in the huddle, but if the defense lines up differently than expected (i.e. differs from the forecast), he can change the play. Obviously, the quarterback must anticipate this, and have the backup plan in mind even as they break the huddle. Then, once the play begins, if it is a pass play the quarterback has a primary receiver, but if that receiver is covered, there are one or more alternates (contingency plans).

A better analogy is less familiar, but is from one of my favorite sports, curling. In curling, there are four players involved in every shot. The skip calls the shot: it might be for the stone to curl to a specific spot, or it might be to move some of the stones already in place. The thrower delivers the stone as called by the skip, and the other two players sweep in front of the stone to make it go straighter and further. Even at the highest levels, the shot is rarely delivered perfectly, just as forecasts are rarely perfect. So, there is a need to plan. The sweepers sweep either to execute the shot called, or, if the shot is off, to execute a "Plan B" (contingency plan). The skip should anticipate what might happen if the shot is off, and let the team know what Plan B is. As the stone travels, the four players communicate, so that the skip knows early on what the shot is going to do, and can call for more or less sweeping as needed.

Do you forecast? Why? Is your forecast a planning tool, or just a target? Do understand the assumptions the forecast is based on? Is your business plan tied to the forecast? Do you understand the implications if the forecast is wrong? Do you have a method to detect early signs that the forecast is wrong? Do you have contingency plans? Is your team organized to quickly and effectively implement contingency plans?

Market-Intell can help your team examine your forecasts, test your assumptions, and develop contingency plans.

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