

The Collaborative forecasting movement has gained momentum from allowing two separate companies working better together to a within company platform for adjusting forecasts. The recommended approach is to adjust the forecast for an event as opposed to adjusting the model for an event. You can see a meta analysis of the outcome of this practice of adjusting baseline forecasts in the recent International Journal of Forecasting here

http://econpapers.repec.org/article/eeeintfor/v_3a25_3ay_3a2009_3ai_3a1_3ap_3a3-23.htm

Looking at 4 supply chain companies and 60,000 forecasts and outcomes the synopsis of the article is this:

"large adjustments help and small adjustments hurt."

So, this paper should make a lot of people pause about the convention of how/when we adjust forecasts. There are certain periods in a product life cycles (ie death) that are not reproduced in the past that can require adjustments. Our view is that some forecasters and some software companies have chosen to embrace this approach as the standard where you adjust for events as opposed to treating them in the the statistical model. In other words, if you take the QUALITATIVE adjustments and make them QUANTITATIVE and use them in the model then you will have a measured impact that is statistically valid and can then be leveraged to automatically adjust your forecast as opposed to how somebody "feels" how much the promotion will lift sales.

In summary, if the forecast team "knows something" that could be incorporated into the model then this is the action that should be taken. The problem is that most software packages are inadequate to this task(google "Transfer function modeling"). If the software is inadequate then the software you might be using is the wrong software so as to be able to incorporate this knowledge.

For example, if you know that the 5th day of the month is low and the forecasting software you are using can't capture this pattern and project it then you are forced to adjust the forecast.

Note that the journal article has 3 additional commentaries published in the regarding the article discussed and 1 rejoinder from the authors. So, there is a lot of good reading here with about 35 pages in total here.

You can see more about how Autobox utilizes causal variables into the modeling process here <http://autobox.com/capable.mp4>