# Contents

## Chapter 1
### Introduction to Business Forecasting 1

- **Introduction** 1
- **Comments from the Field** 2
- **Quantitative Forecasting Has Become Widely Accepted** 2
- **Forecasting in Business Today** 3
  - *Krispy Kreme* 5
  - *Bell Atlantic* 5
  - *Columbia Gas* 6
  - *Segix Italia* 6
  - *Pharmaceuticals in Singapore* 6
  - *Fiat Auto* 7
  - *Brake Parts, Inc.* 7
- **Some Global Forecasting Issues:**
  - *Examples from Ocean Spray Cranberries* 7
- **Forecasting in the Public and Not-for-Profit Sectors** 8
- **Forecasting and Supply Chain Management** 10
- **Collaborative Forecasting** 12
- **Computer Use and Quantitative Forecasting** 15
- **Qualitative or Subjective Forecasting Methods** 16
  - *Sales Force Composites* 16
  - *Surveys of Customers and the General Population* 18
  - *Jury of Executive Opinion* 18
  - *The Delphi Method* 18
  - *Some Advantages and Disadvantages of Subjective Methods* 19
- **New-Product Forecasting** 20
  - *Using Marketing Research to Aid New-Product Forecasting* 20
  - *The Product Life Cycle Concept Aids in New-Product Forecasting* 21
  - *Analogue Forecasts* 22
    - New Product and Penetration Curves for VCR Sales 23
    - *Test Marketing* 24
    - *Product Clinics* 24
    - *Type of Product Affects New-Product Forecasting* 25
    - *The Bass Model for New-Product Forecasting* 25
    - *Forecasting Sales for New Products That Have Short Product Life Cycles* 27
- **Two Simple Naive Models** 30
- **Evaluating Forecasts** 34
- **Using Multiple Forecasts** 36
- **Sources of Data** 37
- **Forecasting Total Houses Sold** 37
- **Overview of the Text** 39
  - **Comments from the Field** 41
- **Integrative Case: Forecasting Sales of The Gap** 41
  - **Comments from the Field** 47
- **John Galt Partial Customer List** 48
- **An Introduction to ForecastX 7.0** 49
  - *Forecasting with the ForecastX Wizard™* 49
  - *Using the Five Main Tabs on the Opening ForecastX Screen* 49
- **Suggested Readings and Web Sites** 52
- **Exercises** 53

## Chapter 2
### The Forecast Process, Data Considerations, and Model Selection 56

- **Introduction** 56
- **The Forecast Process** 56
- **Trend, Seasonal, and Cyclical Data Patterns** 59
Chapter 5
Forecasting with Multiple Regression 225

The Multiple-Regression Model 225
Selecting Independent Variables 226
Forecasting with a Multiple-Regression Model 227
The Regression Plane 233
Statistical Evaluation of Multiple-Regression Models 235
Three Quick Checks in Evaluating Multiple-Regression Models 235
Multicollinearity 240
The Demand for Nurses 241
Serial Correlation: A Second Look 242
Serial Correlation and the Omitted-Variable Problem 244
Alternative-Variable Selection Criteria 246
Accounting for Seasonality in a Multiple-Regression Model 248
Extensions of the Multiple-Regression Model 260
Advice on Using Multiple Regression in Forecasting 262
Forecasting Jewelry Sales with Multiple Regression 267
Forecasting Consumer Products 275
Integrative Case: The Gap 278
Using ForecastX™ to Make Multiple-Regression Forecasts 282
Suggested Readings 284
Exercises 284

Chapter 6
Time-Series Decomposition 298

The Basic Time-Series Decomposition Model 298
Deseasonalizing the Data and Finding Seasonal Indices 301
Finding the Long-Term Trend 308
Measuring the Cyclical Component 308
Overview of Business Cycles 309
Business Cycle Indicators 310

The Cycle Factor for Private Housing Starts 311
The Time-Series Decomposition Forecast 315
Forecasting Shoe Store Sales by Using Time-Series Decomposition 316
Forecasting Total Houses Sold by Using Time-Series Decomposition 319
Forecasting Winter Daily Natural Gas Demand at Vermont Gas Systems 321
Integrative Case: The Gap 321
Using ForecastX™ to Make Time-Series Decomposition Forecasts 325
Suggested Readings 327
Exercises 327
Appendix: Components of the Composite Indices 339

Chapter 7
ARIMA (Box-Jenkins)–Type Forecasting Models 343

Introduction 343
The Philosophy of Box-Jenkins 344
Moving-Average Models 346
Autoregressive Models 351
Mixed Autoregressive and Moving-Average Models 356
Stationarity 357
The Box-Jenkins Identification Process 361
Comments from the Field: An Overview of INTELSAT Forecasting 366
ARIMA: A Set of Numerical Examples 366
Example 1 366
Example 2 367
Example 3 370
Example 4 372
Forecasting Seasonal Time Series 379
Total Houses Sold 379
Intelligent Transportation Systems 383
Integrative Case: Forecasting Sales of The Gap 385
Using ForecastX™ to Make ARIMA (Box-Jenkins) Forecasts 390
Chapter 8
Combining Forecast Results 402

Introduction 402
Bias 404
An Example 404
What Kinds of Forecasts Can Be Combined? 408
Considerations in Choosing the Weights for Combined Forecasts 409
Three Techniques for Selecting Weights When Combining Forecasts 413
Justice Is Forecast 415
An Application of the Regression Method for Combining Forecasts 416
Forecasting Total Houses Sold with a Combined Forecast 419
Comments from the Field: Combining Forecasts Can Improve Results 425
Integrative Case: Forecasting The Gap Sales Data with a Combination Model 426
Using ForecastX™ to Combine Forecasts 430
Suggested Readings 432
Exercises 433

Chapter 9
Data Mining 439

Introduction 439
Data Mining 440
Comments from the Field 443
The Tools of Data Mining 443
Business Forecasting and Data Mining 444
A Data Mining Example:
k-Nearest-Neighbor 445
Comments from the Field: Cognos 449
A Business Data Mining Example:
k-Nearest-Neighbor 449
Classification Trees: A Second Classification Technique 457
A Business Data Mining Example:
Classification Trees 461
Naive Bayes: A Third Classification Technique 464
Comments from the Field 472
Regression: A Fourth Classification Technique 472
Comments from the Field: Fool’s Gold 478
Summary 479
Suggested Readings 479
Exercises 479

Chapter 10
Forecast Implementation 482

Keys to Obtaining Better Forecasts 482
The Forecast Process 485
Step 1. Specify Objectives 486
Step 2. Determine What to Forecast 487
Step 3. Identify Time Dimensions 487
Step 4. Data Considerations 487
How to Evaluate and Improve a Forecasting Process 488
Step 5. Model Selection 488
Step 6. Model Evaluation 489
Step 7. Forecast Preparation 489
Step 8. Forecast Presentation 490
Step 9. Tracking Results 490
Choosing the Right Forecasting Techniques 491
Sales Force Composite (SFC) 491
Customer Surveys (CS) 493
Jury of Executive Opinion (JEO) 493
Delphi Method 493
Naïve 494
Moving Averages 494
Simple Exponential Smoothing (SES) 494
Adaptive—Response-Rate Single Exponential Smoothing (ADRES) 494
Holt’s Exponential Smoothing (HES) 495
Winters’ Exponential Smoothing (WES) 495
Regression-Based Trend Models 495
Regression-Based Trend Models with Seasonality 495
Comments from the Field 496
Regression Models with Causality 496