



SNS COLLEGE OF TECHNOLOGY

Coimbatore-35
An Autonomous Institution

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DEPARTMENT OF MCA

19CAT607 – PRINCIPLES OF MANAGEMENT **I YEAR I SEM**

UNIT II – PLANNING

TOPIC 8 –Forecasting, Process and Important



Introduction

- Forecasting is the technique of estimating the relevant future events and problems on the basis of past and present behavior or happenings.
- It involves detailed analysis of the past and present events to get a clear cut idea about probable events in the future. So, forecasting may require the use of various statistical techniques though it is not necessary.



Meaning of Forecasting

- It is a systematic guessing of the future course of events with the help of analysis of past and present events. It provides basis for a planning.



Definition

- Neter and Wasserman state “Business forecasting refers to the statistical analysis of the past and current movement in the given time series so as to obtain clues about the future pattern of those movements”



Characteristics

- Forecasting is concerned with future events.
- It is necessary for planning process. Planning is not possible without forecasting.
- The impact of future events has to be considered in the planning process.
- It is a guessing of future events. So, the future events that might happen could be guessed only to some extent.
- Inference or conclusions are drawn from past and present relevant events under scientific forecasting.



Characteristics

- It considers all the factors which affect organizational functions.
- The analysis of various factors may require the use of scientific, mathematical and statistical techniques.
- Personal observation also helps forecasting
- The application of scientific, mathematical and statistical techniques is much more reliable than the use of ordinary tools for obtaining conclusions.



Forecasting Process

Through preparation
of Foundation



Estimation of
Future



Collection of
Results



Comparison
of Results



Refining the
Forecast



Importance of Forecasting

- The need and importance of forecasting can be found out with the help of key role played for forecasting in the management process especially in planning process.



Importance of Forecasting

Pivotal role in an Organization

Key to Success

Development of a Business

Effective Control

Implementation of Project

Co-ordination

Primacy to Planning



Areas of Forecasting





Forecasting Techniques or Type or Methods

- Various techniques of forecasting are used in the field of business. An accurate forecasting may reduce the degree of uncertainty. In practice, more than one technique can be combined for making the forecasting effective.



Methods

Similarity events method

- Forecasts is made on the basis of events happened in the past that are similar to current events.

Jury of executive option

- The opinion of experts like Sales, Finance, purchase and the like is sought under this method and the meritorious one is accepted.



Methods

Survey method

- Quantitative and qualitative information is collected from field survey and from this forecasting is done.

Sales person's opinion

- Sales persons are closer to the consumers and their opinions are taken into consideration for correct sales trend.



Methods

Business Barometers

- Index numbers indicate the direction of the business and can give advance signals for likely changes in the future.

Expectations of consumer

- A survey is conducted in order to know the future needs of consumers and an overall forecast is made. This is also known as “Marketing research Method”



Methods

Time series analysis

- In this method, future activities are the extension of the past. Forecasts are based on the assumptions that the business conditions affecting its steady growth or decline are reasonably expected to remain unchanged in the future.

Delphi method

- It is developed by Rand Corporation to forecast the military events. It is used when past data are not available. Opinions are taken from experts through questionnaire and then summarized and again given to experts for expected future evaluations.



Methods

Extrapolation

- Estimation of future behavior from the known data. Careful study of the past behavior is essential for correct forecasting.

Regression analysis

- It is use to find the effect of changes of relative movements of two or more inter- related variables.



Methods

Input and output analysis

- In this method forecast can be made if the relationship between input and output is known.

Econometric models

- Various cause variables are responsible for effect on one variable. The best example is Gross National Product.



Advantages of Forecasting

- The anticipation of future problems and events will make it imperative to accelerate early achievements of objectives. Some of the advantages or merits are briefly discussed below.
- Facilitates Planning
- Ensures —Co-ordination
- Easy Controlling



Limitation of Forecasting

- Forecasting is to be made on the basis of certain assumptions and human judgments. Faulty assumptions and human judgments will yield wrong results.
- It can not be considered as a scientific method for guessing future events, as it does not specify any concrete relationship between past and future events.
- Too much of expectation will cause disappointment and impair the initiative of the executives.



Limitations of Forecasting

- It requires high degree of skill and the process must be undertaken by specialists. This is difficult in practice.
- Proper forecasting needs adequate reliable information and it is very difficult to collect reliable information. Hence, correct forecast is impossible.
- There is no certainty of occurrence of future events predicted by forecasting.



Limitations of Forecasting

- The more number of days constituting the period of forecasting higher will be the degree of error. Forecasting can not be applied to a long period.
- Heavy cost and time involved in forecasting but, benefit derived from them will not be worthy. Collection of data requires lot of time and money. So, smaller organization, cannot afford the cost and time required for forecasting.



Differences between Forecasting & Planning

NO.	FORECASTING	PLANNING
1	It is basis for planning	Planning is basis for future course of action.
2	No decision can be taken without the help of forecasting	Planning helps to arrive at certain decision. They are regarding what is to be done, how is to be done and when is to be done.
3	Forecasting is done at the middle or lower level of management;	Planning is done at the top level of management.



Differences between Forecasting & Planning

NO.	FORECASTING	PLANNING
4	A few members are involved in forecasting process	A large number of persons are involved in planning process
5	Does not stimulates activity among employees	Planning stimulates some activity to achieve the objectives of the organization.
6	It is a tool of planning	It is not tool for forecasting
7	It is done by experts	It can be done by any person.