Lessons From Experience: Forecasting With Numbers

Introduction

The story that you are about to read is from actual events that occurred in the field. Its purpose is to provide you with a real-world example from a seasoned professional in the business world.

Forecasting With Numbers

Working in the jewelry industry involves forecasting; that is, forecasting which jewelry pieces will be in demand and then determining how many to order.

While working at a jewelry company, one of my tasks was to place orders for various jewelry products for the store. But for me at that time, forecasting meant looking at last year's orders and then simply copying those numbers. I never gave much thought to why I was ordering what I did; I just did it. As it turned out, my orders were off the mark—not just by a little bit, but by a lot. The store got stuck with a surplus of items that eventually went on clearance for less than what we paid for them, all because I didn't use a financial model or take into account external factors that could have affected the jewelry items. Today, I implement many financial models and include net present value (NPV) so that I have a better understanding about what I'm ordering, and so I can be more accurate in forecasting.

It is important to take away the following from this scenario:

- Financial models are crucial when forecasting.
- Subjectivity and objectivity are equally important.