Critical thinking on corporate valuation

Business, Marketing

This paper examines existing literature with information regarding forecasting methods in modern corporations. It reviews the views provided in the literature to drawing a conclusion on the different aspects to which they see forecasting methods. We get an in-depth insight into the two broad forms of forecasting methods namely qualitative versus quantitative versions of forecasting.

According to Whaley (2010), forecasting methods are methods used by businesses to foretell specific events that are in-line with the business employing the methods. The forecasting methods will mainly used specific data that pertain to the businesses daily activities, that is past, present and future activities hence drawing a near certain picture of what to expect. On the other hand, Hyndman (2009) indicates that forecasting methods are used to identify short, medium or long-term forecast. Short-term forecasts are those that are used for scheduling of transportation, personnel etc. Medium term forecasts enable these corporations to determine resource requirements such as raw materials while long-term forecasts help them in strategic planning. In this case, decisions must factor in opportunities, environment as well as internal resources. Some of the forecasting methods mentioned by Hyndman (2009) include time series methods, explanatory models for forecasting and data mining methods for business forecasting.

Mentzer & Kahn (1995) suggest that forecasting methods can be broadly divided into two categories: Quantitative and qualitative. Quantitative forecasting methods focus more on mathematically based models such as exponential smoothing, moving average, regression, neural network but to

say a few. Qualitative forecasting features methods that are intuitive and/or subjective models. Such methods include sales force composite, jury/execution opinion and customer expectations.

Regression analysis is another quantitative forecasting method. They say that it relates sales to one or more independent variables (Wilson & Keating, 1994). Wilson & Keating (1994) also mention moving average, which is an average of specific past observation used to make future expectations, as another form of quantitative forecasting method. Another quantitative forecasting method they mention is Box – Jenkins. In this model, they focus on the correlative structure of sales data to develop a moving average from previous sales and foreseeable errors.

Another major quantitative model that is mentioned by the two authors is the life cycle analysis. In this model, the forecast judges the product by placing it either in the introduction, growth, maturity or declining stage of its lifecycle. The two authors continue to mention qualitative methods such as sale force composite. They state that it uses the combined forecast of each salesperson. They also mention the Delphi model as another qualitative model that uses the wisdom of experts but with the advantage of their anonymity unlike the jury of executive opinion that uses the executives' opinion to come up with a result without their anonymity being guaranteed.

Conclusion:

The short term forecasting methods enable lower level management achieve their objectives, medium term models on the other hand help out in the

determination of future resource requirements which goes a long way to prevent under or overstocking. Long-term methods, which are more important, compared to the rest help management, make crucial futuristic decisions. It is possible to conclude that forecasting methods both quantitative and qualitative are essential when it comes making certain corporate decisions that will affect its sales in the future whether short, medium or long term. When applied correctly the can help avert certain choices that may mean total failure on the part of corporate leadership.

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