

KEY TAKEAWAYS FROM
**IBF Town Hall Leveraging
Macroeconomic and External
Data for Better Forecasting**

IBF TOWN HALL: LEVERAGING MACROECONOMIC AND EXTERNAL DATA FOR BETTER FORECASTING

Key takeaways are derived from a town hall discussion on leveraging external data for more accurate business forecasting and planning, moderated by Eric Wilson, Director of Thought Leadership at the Institute of Business Forecasting,



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01 HARNESS THE POWER OF MILLIONS OF DATASETS IN MINUTES WITH CLOUD COMPUTING

Integrating external data into traditional business forecasts can seem like a daunting task, but cloud computing makes it faster and easier than ever before. As Rich Wagner explains, “Within minutes, we can compare one of your products or categories...to 4 million external datasets mathematically and it'll tell us what's the lead time... for things that are 3 or 6 months in advance and then rank them by the statistical correlation.” Not only does cloud computing eliminate the routine and mundane handwork, but it also can uncover critical correlations business leaders never thought of before.

02 COMBINE BUSINESS LOGIC AND CUTTING EDGE TECHNOLOGY TO IDENTIFY THE MOST CRITICAL LEADING INDICATORS

Leveraging external data means starting with millions of datasets, but business forecasting models don't actually need a large number of variables. By combining business logic with cloud computing, business leaders can pull out the most critical leading indicators specific to their business. As Wagner explains, “How you look at data matters, and if you look at data just as it happens, it's very noisy.” To sort through this noise while also avoiding overlapping or duplicate drivers, Wagner highlights that you want to “find 5 or 6 key drivers and make sure they're a good category of data.”

03 AUTOMATE DATA VALIDATION TO KEEP UP WITH FAST-CHANGING MARKET FORCES

External forces are moving faster and with more volatility than ever before. This creates a unique challenge to businesses that rely on having the right variables within their predictive models. This is why Kendall Churchwell emphasizes the importance of cross-sectional data validation. To keep up with everchanging market forces, Churchwell explains, “You need to really be automating [that process] and looking at it every month to see what changed to make sure you adjusted it.”

04 EXTERNAL DATA IS THE FOUNDATION OF ANY GOOD PREDICTIVE MODEL

Data is the foundation of any business model, but far too often companies focus more on choosing what algorithm to build their models with and lack the critical data they need to build robust forecasts. As Wagner explains, this is a problem because “if you don't have the right data in your model, it doesn't matter what algorithm you're going to use.” The best way to get the foundation right is to “get somebody that aggregates data. You don't want to spend all day building data connectors because you're going to want to update this data, every week, month, and year.”

05 UTILIZE ECONOMETRIC REGRESSION MODELING FOR TRANSPARENCY AND EXPLAINABILITY

While model stability and accuracy are important, it's critical not to overlook the importance of transparency and explainability. The type of algorithmic models may depend on a companies' needs and forecasting horizons, but Wagner explains that he typically favors a multiple regression econometric model because “you can literally see how much each variable in the model is pushing up and pulling down your forecast.” Churchwell agrees and further explains that the forecast needs to be “something that you can explain it versus being a black box” otherwise businesses are left without “any insight to the how it came up with those numbers.”

06 LEVERAGE AI AND ML TO TURN DATA INTO ACTIONABLE INSIGHTS

Even with the right data foundation and the most transparent models, it can be difficult for business leaders to turn the output into actionable insights. This is where the power of machine learning comes in so leaders can spend more time using the data to drive critical decisions. Rather than sort through pages of data, Joe Cervino describes the benefit of having “machine learning and AI that helps us to...go figure out what the data is telling me versus just running a bunch of information along the way.” Cervino concludes, “it's the execution side that's very critical.”

07 PROPER DATA UTILIZATION IS CRITICAL ACROSS ALL AREAS OF AN ORGANIZATION

One of the biggest mistakes when it comes to utilizing data is not communicating critical insights across the internal team from the demand leaders to the product managers, all the way up to the C-suite. As Cervino explains, “What's key for forecasting or demand leaders is to understand the dynamic changes when they're happening, and then working with our product managers and our commercial leaders.” Cervino concludes, “If you keep it in silos...it's not gonna help the organization move forward. So what we've utilized is an S&OP process that allows us to have a platform, to communicate changes in the market.”

08 INQUISITIVE AND SELF-MOTIVATED LEADERS ARE THE KEY TO THIS DIGITAL TRANSFORMATION

Data science is a rapidly changing field and it can be difficult to keep up with changing technology and practices. Churchwell explains “Every time you log on, there's just new algorithms that are coming out.” While companies can invest more in analytics and external services, Churchwell highlights the value of having leaders with “an inquisitive mind.” Wagner agrees, “You've got to be that self-motivator and... be a change agent”.

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