Getting the best out of forecasting software

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Services
• Short courses (open & bespoke)
• Consultancy
• MSc summer projects
• Software development
• Knowledge-transfer partnerships
• PhD research projects

Expertise
• Marketing analytics
• Supply chain forecasting
• Forecasting & planning processes
• Machine learning

Applied in a wide variety of sectors (eg FMCG, govt, pharma)
Who’s forecasting? Why is software important?

- Analysts
- Demand planners
- Software suppliers
- Researchers

Application areas

Forecasting software: the issues

• Identifying a list of requirements
  – Matching the software to the job

• Choosing the right software
  – Must have
  – Like to have
  – The software source/ supplier

• Getting the best from the chosen software
The process of organisational forecasting

The Forecasting Process: A Task-Analytic Perspective

[Diagram showing the forecasting process with steps such as Definition of the problem, Data gathering, Establishing organizational assumptions, Sufficient data for statistical modeling, Exploratory data analysis, etc.]
A stylised view of producing a forecast

Define Data base

Define Data base + revisions

Market intelligence (MI)

Functional forecasts (FF): Advice

Select a range of forecasting methods

Select & estimate/revise forecasting model

User reconciliation: e.g. Logistics supply shortages

Two forms of information
- MI
- Advice

Combine forecasts using MI and FF
Key elements

• Selection
  – Short-listing
    • What job is to be done
  – Open source (R, Python) vs proprietary (SAS, IBM)

• Tuning for organizational forecasting
  – So you’ve spent £1M; it’s producing forecasts for operations: now what?

• Incorporating judgment (MI)
Types of software: The OR/MS survey

• 100+ forecasting software products identified
• 20 respondents: now on-line updating
• Survey biennial for 20 years

• General Purpose Statistical
• Specialist forecasting
• Econometric
• Forecasting support systems
  • Demand planning/ call centre
• Mathematical/ statistical languages
  • R, Python, MATLAB

Choosing the type of software

• So what’s wrong with Excel?

• Need to match organizational processes
  • The users’ expertise?
  • The data
  • One-off vs operational forecasting

• Open source vs proprietorial

Discussion question: What are the current issues?
Benchmarking organisation’s forecasts

- Sample of time series
  - Actuals
  - Statistical forecasts + judgmental adjustments

- Competitive methods
  - In an ideal world
  - In the real world as is
  - Forecast Value added (from judgmental adjustments)?

- Agreed accuracy measures
  - Out-of-sample rolling origin
  - Avoid sensitivity to ‘outliers’ e.g. data near zero
    - (Davydenko and Fildes, in Gilligand et al., Business Forecasting, Wiley & SAS)
  - Match with decision problem (aggregation, forecast horizon)
  - Segmentation and monitoring

*It’s ‘horses for courses’!*
How are forecasts typically produced?

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<tbody>
<tr>
<td>Judgment alone</td>
<td>30%</td>
<td>25%</td>
<td>24%</td>
<td>23%</td>
<td>23%</td>
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<tr>
<td>Statistical methods exclusively</td>
<td>29%</td>
<td>25%</td>
<td>32%</td>
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<td>29%</td>
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<td>Average statistical and judgment</td>
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<td>17%</td>
<td>-</td>
<td>18%</td>
<td>18%</td>
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<tr>
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<td>33%</td>
<td>44%</td>
<td>38%</td>
<td>38%</td>
<td>38%</td>
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<tr>
<td>Sample size</td>
<td>240</td>
<td>149</td>
<td>59</td>
<td>42</td>
<td></td>
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</tbody>
</table>

Even in macroeconomic and weather forecasting, judgment is added to a (complex) statistical model.
How are forecasts typically produced?

- Benchmark extrapolative statistical forecast
- Causal model forecast
- Selection and parameter tuning, e.g. seasonal model, smoothing parameter
- Explanatory variable/Special events
- Expert information
- Final forecast
Improving the process

- Improving on default automatic settings
  - Benchmark against: naïve, other software.
  - Improving setup within existing software.

[Bar chart showing percentage error for Naïve, SAP current, ForecastPro, and SAP new]
Improving the process

• Current SAP-APO
  • Evaluate accuracy: statistical vs ‘final’ gives value added
  • Only some judgmental adjustments increase accuracy
Improving the process – model choice

**Current** (e.g., SAP APO automatic)
- Modify parameters and method choice algorithms (within SAP)
- Accuracy Improvements? Sanofi-Aventis gains are 35%

**Implementation**
- Modified SAP + choice algorithm
- Judgmental feedback on value added
  - Fewer adjustments (only with substantive knowledge)

**Benefits** (Sanofi-Aventis)
- Fewer adjustments, fewer meetings!
- $3M savings
- Improved service to customers
Factors affecting the use of different forecasting methodologies

Choice of methodology affects:
- the forecast error rate.
- the acceptability of the final forecast to users.
Software dimensions

- Software and hardware requirements
- Data handling
  - Integrates with other programming languages (e.g., R)
- Forecasting features
  - Selection of estimation and hold out
  - Rolling origin evaluation
  - Error measures
  - Benchmark forecasting e.g., random walk
  - Multiple seasonalities
  - Prediction intervals
- Hierarchical forecasting
- Judgmental forecasting/ adjustments
Software dimensions

• Exploratory analysis and graphics
  • Time series and seasonal plots
  • Autocorrelation
  • Transformations
  • Decomposition (into trend, seasonal and noise: Census X-13 ARIMA)
  • Explanatory variables

• Forecasting methods
  • Exponential Smoothing methods and ETS models
  • ARIMA
  • Intermittent demand
  • Growth and diffusion curves
  • Regression (Lasso)
  • Machine learning and AI
Can we get software on-the-cheap?

• Open source: zero cost (?)
  • Support
  • Licenses
  • Open source ethics!

• Quality of implementation and scalability

• State-of-the art
  • Often packages are from inventors of methods/models
  • Designed for research and/or production systems?
Forecast as a service

• Outsource forecasting
  • Specialist companies/consultants
  • Online services (e.g. Amazon)

• Transparency of forecasting?
  • Appropriate models/methods or forced to what is available?
  • Integration with in-house expertise and use of soft information?

• Cost
  • Running cost
  • Organisation cost – analytics as a competitive advantage
Choosing the supplier

- Must haves
- Would likes
- Technical requirements
  - Input limitations
  - Computational limitations (e.g. for the retailer, 40K SKUs x 400 stores, daily)
- Validity of methods and comparative accuracy
- Support
  - Technical
  - Training
- Price!
Resources

Centre for Marketing Analytics and Forecasting (forecasting-centre.com)

CMAF R forecasting packages:
- **MAPA**: forecasting with multiple temporal aggregation;
- **thief**: forecasting with temporal hierarchies
- **nnfor**: (shallow) neural networks for time series forecasting
- **smooth**: ETS and ARIMA (incl. high frequency data and explanatory variables)
- **tsintermittent**: forecasting intermittent series
- **diffusion**: life-cycle modelling
- **TStools**: supporting functions for time series modelling (available on Github)
- **greybox**: supporting functions for time series modelling
- **GTT**: handle Google Trends data
Take-aways

• Software choice must match organizational processes
  • Data
  • People
  • Decision requirements

• Software quality variable!
  • Models must be benchmarked & tuned

• Managerial intervention a key feature of forecasting
  • Model selection
  • Parameter tuning
  • Adjustments

Delivering the final forecast
Thank you for your attention!
Questions?

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