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Business Forecasting: The Value of a Qualified Guess

Gerry Raker

(Editor's note: This is Gerry's last column for *GrowerTalks* and we've been honored to have him as a contributor. Thankfully, we'll still get to see him at industry events and bug him for the occasional quote as an article source. Thanks for adding your insights to our publication, Gerry!—JZ)

Being in business would be easier if we could predict the future, but the fact is that the only thing certain about the future is its uncertainty. Nevertheless, stakeholders in your business—be they investors, lenders, vendors or employees—find it easier to make decisions in the present if they can relate to a financial snapshot of where your business is going to end up at some future point in time. The format and presentation may vary depending on the audience, but the facts of the communication are driven from a forecast. A forecast is a financial plan or budget for your business. It's a prediction based on past events and management insight of your projected income and expenses.

Creating an accurate business forecast is important, but very challenging. Typically, business management spends copious amounts of time analyzing trends and trying to measure the possible impact of changes in their business relationships and in their own organizations relative to sales and cost, supply and distribution. Each of these important considerations is wrapped up in the larger circles of influence created by our small industry's economies of supply and demand, which in turn are fueled by the demographics and habits of its aging owners and emerging consumers. All of this is part of a larger set of social movements and national government policies, themselves being molded by reactions to the pros and cons of big business and global enterprise, depending on perspective.

Once the assumptions have been made about how their business relates to all of this, horticultural consideration must be given to scenarios dealing with favorable or unfavorable portions of hot, cold, wet and dry weather—each of these served up in a timely or untimely manner with variable durations and magnitudes of force.

I could go on, but the idea is that just like other forms of fortune telling, accurately forecasting where your business is going to end up in a year or two can have its shortcomings. There are simply too many interactive variables and a deviation in any one of them can cause the forecasted scenario to change.

So why bother? Even though predicting financial variables that are dependent on supply and demand in a consolidating industry and its highly competitive markets is next to impossible, there are still benefits.

Forecasting isn't a process that brings certainty to an uncertain world, but it's a way of attempting to understand that uncertainty and preparing for it. Unlike a prediction that's just a guess, a forecast must have a logic to it that can be articulated and defended. So even though forecasts rely on trends and assumptions, it's essential that they're all analyzed and logically tested so that the forecast is ultimately based on only those aspects that are relevant and likely to occur and those that are large enough to have an impact. Once your forecast paints the picture of where you want your business to be, other aspects of sound business management are enabled.

Now you can plan, select goals, evaluate resources and alternatives, and create the strategy to achieve the goals. Actual results can be compared to planned results to trigger operational changes instead of relying on subjective judgment. Smart decisions and quick responses may even influence the future and turn uncertainty into opportunity.

The forecast that you started the year with may not fulfill itself exactly as planned, but at the end of the day, a forecast shouldn't be judged good or bad solely by how accurate it is, but also on how well it enabled you to evaluate your assumptions on the fly and make the necessary course corrections. It should also be noted that despite the importance of forecasting, there's a danger of getting involved in the minutia when the most important thing is actually running your business well. When all is said and done, there are no substitutes for value and service. **GT**

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