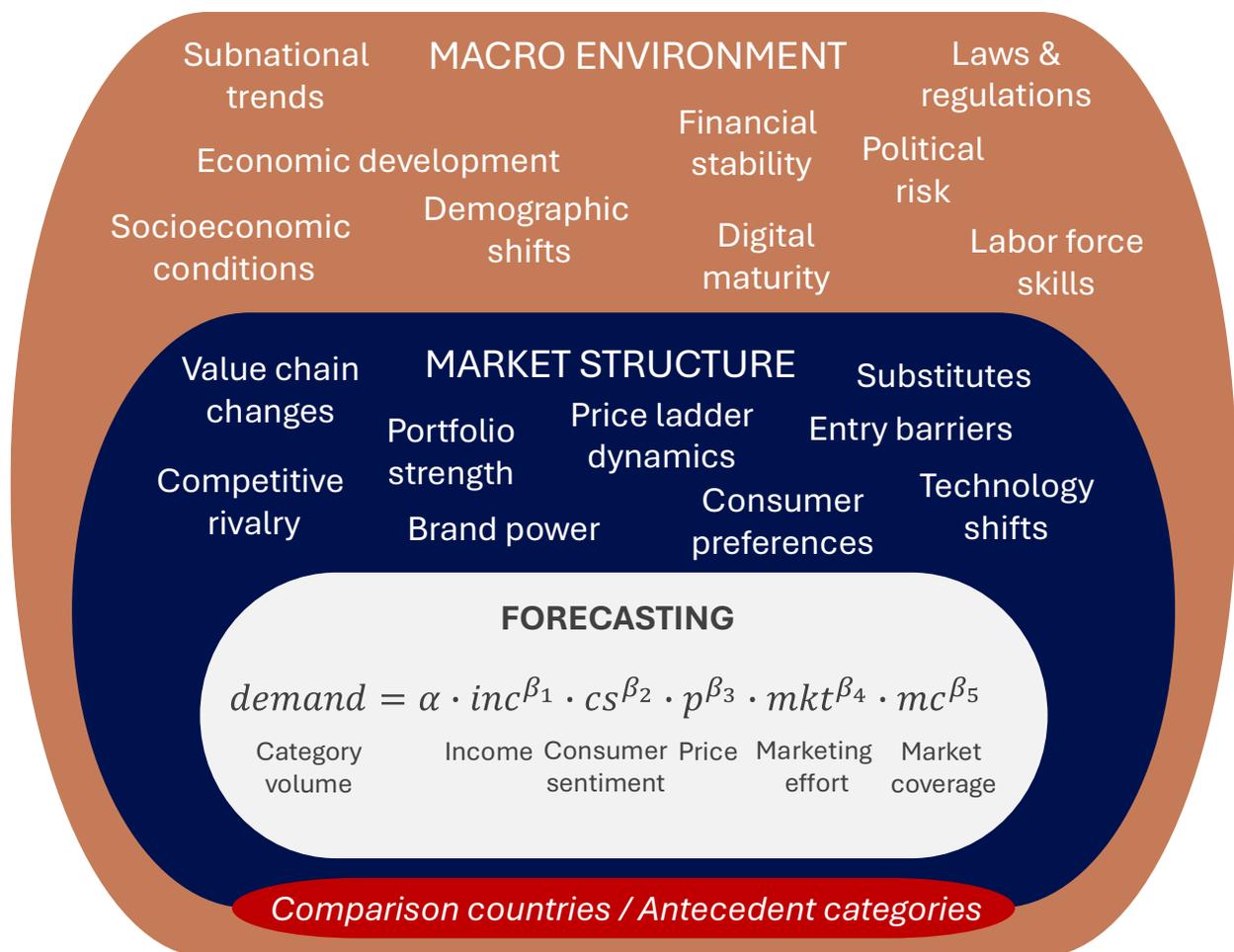


TELLUSANT QUICK READS

PREDICTING IS NOT FORECASTING

Creating a forecast is only one part of prediction. We illustrate with an example of how a country's market for a category will evolve.

Prediction ≠ Forecast



Source: Tellusant thought

- 1 You start with a review of the macro environment. Income growth rates, socioeconomic composition, political risk, and other factors. As a CEO said in a meeting: "It's all about macro!"

- ② You then analyze the market structure for the category. Who are the players and how have their shares changed? What will new technology like LLM play? How do the price ladders look (they often look bad)? This is done for the entire market, not only your company.
- ③ You develop the mathematical forecast. In the graph we include the simplest forecasting model¹ we can imagine, developed by Golder and Tellis.

The forecast should use as simple logic as possible, but not simpler (Occam's razor). It should cover the entire category, not only your company. If you predict growth without regard for competitor actions, you probably exaggerate your outlook.

The predictive work often starts and ends with the forecast. We expect people who develop such a forecast to be able to answer questions about the macro environment and the market structure and to have an informed discussion about how the forecast changes when macro and market changes.

- ④ You should look outside the category and market at hand. Much is to be learned from other countries and categories.

For example, if you want to understand the cheese category in China, you have to understand cheese in Taiwan, South Korea, and Japan, and among people of Chinese ancestry in, e.g., the U.S. To understand cheese in China you also must understand the antecedent milk market.

This is called pooling. Predictions are too myopic if you look at your own country, your own category, and maybe only your own company.

The implications of all of this are:

- a) Predictions should not be made by forecasting specialists who are great with statistical models. The specialists play a role but are only one part of the solution.
- b) Predictions are done by teams, not individuals. The teams must have macro and market skills and not only forecasting skills.
- c) Do not invest too much in finding and using the most sophisticated statistical methods. Predictive success has little to do with this. It has to do with the higher order cognitive process that pulls together macro, market, and forecast in a coherent hole.

¹ Golder, Peter N. and Tellis, Gerard J. (1998), Beyond Diffusion. J. Forecast. Vol. 17, 259-280. Available at SSRN: <https://ssrn.com/abstract=905749>. The Golder-Tellis model is incredibly simple yet immensely flexible. Take the logarithm of both sides and it turns into a linear regression. Drop a few independent variables and you get income or price elasticity. Add other variables as needed.