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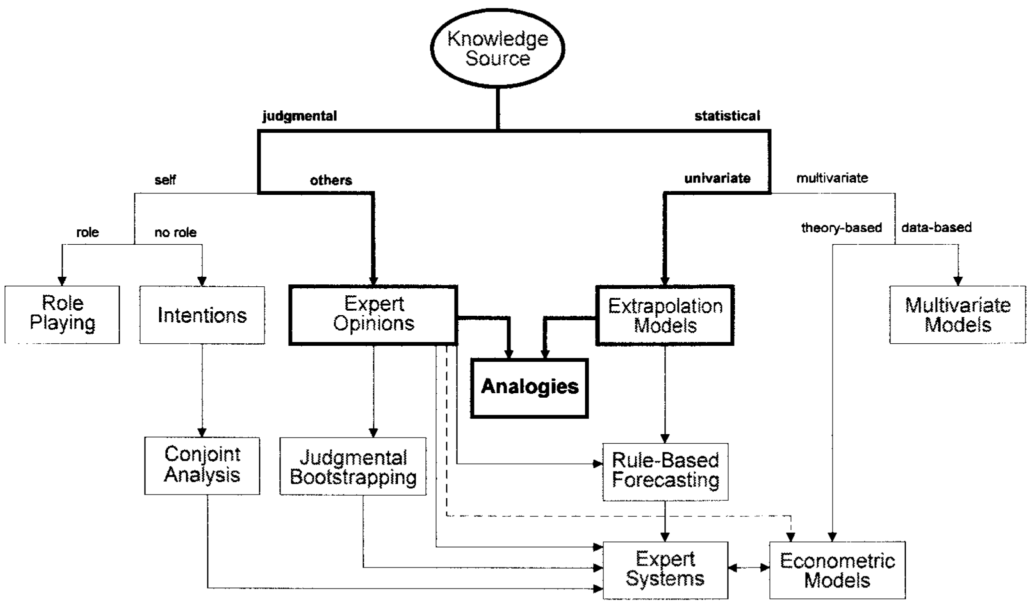
ANALOGIES

"There are three kinds of people, those who can count and those who can't."

Anonymous



To make forecasts in new situations, we often try to think of analogies. For example, to forecast the sales of a new product, such as a new luxury automobile, consider the sales of similar new products in the past. Studies of the Kennedy administration's decision to invade Cuba's Bay of Pigs revealed that the decision makers relied heavily on analogous situations in trying to forecast the outcomes of various strategies. Analogies can be used for time-series or cross-sectional forecasts.

A formal use of analogies can help in expert forecasting. It might reduce biases due to optimism or an unrealistic view of one's capabilities. If you were asked how you expected to perform in a task, such as, how long it would take you to write a book, you might consider similar tasks you had done in the past.

In "Forecasting Analogous Time Series," George Duncan, Wilpen Gorr and Janusz Szczypula from Carnegie Mellon University look at conditions in which analysts can improve forecasts by using information from related time series. One principle is to use pooling when time series are volatile. As might be expected, pooling of analogous series improves accuracy compared with using only the time series of interest.

Many organizations probably pool analogous data. What is surprising is that little research has been done on such topics as how to select analogies, how to pool results, when to pool, and how much gain one might achieve by pooling data from analogies.