

Use a Dummy for Smarter Forecasting

Abstract

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Changes in conditions may alter relationships between independent variables (IV) and dependent variables (DV) in multiple regression models used to forecast sales or other DVs. Such changes may result from a major exogenous event as an economic or environmental disaster (e.g. hurricane, economic crash, terrorist event, etc.) or a major shift in marketing strategy (e.g. repositioning, product improvement, etc.) This teaching moment shows how to visually present the concept of using a dummy variable to build a smarter sales forecast when changing conditions alter the historically manifest relationships between IVs and DVs.