

A B2B case study: Building a company- wide forecasting process

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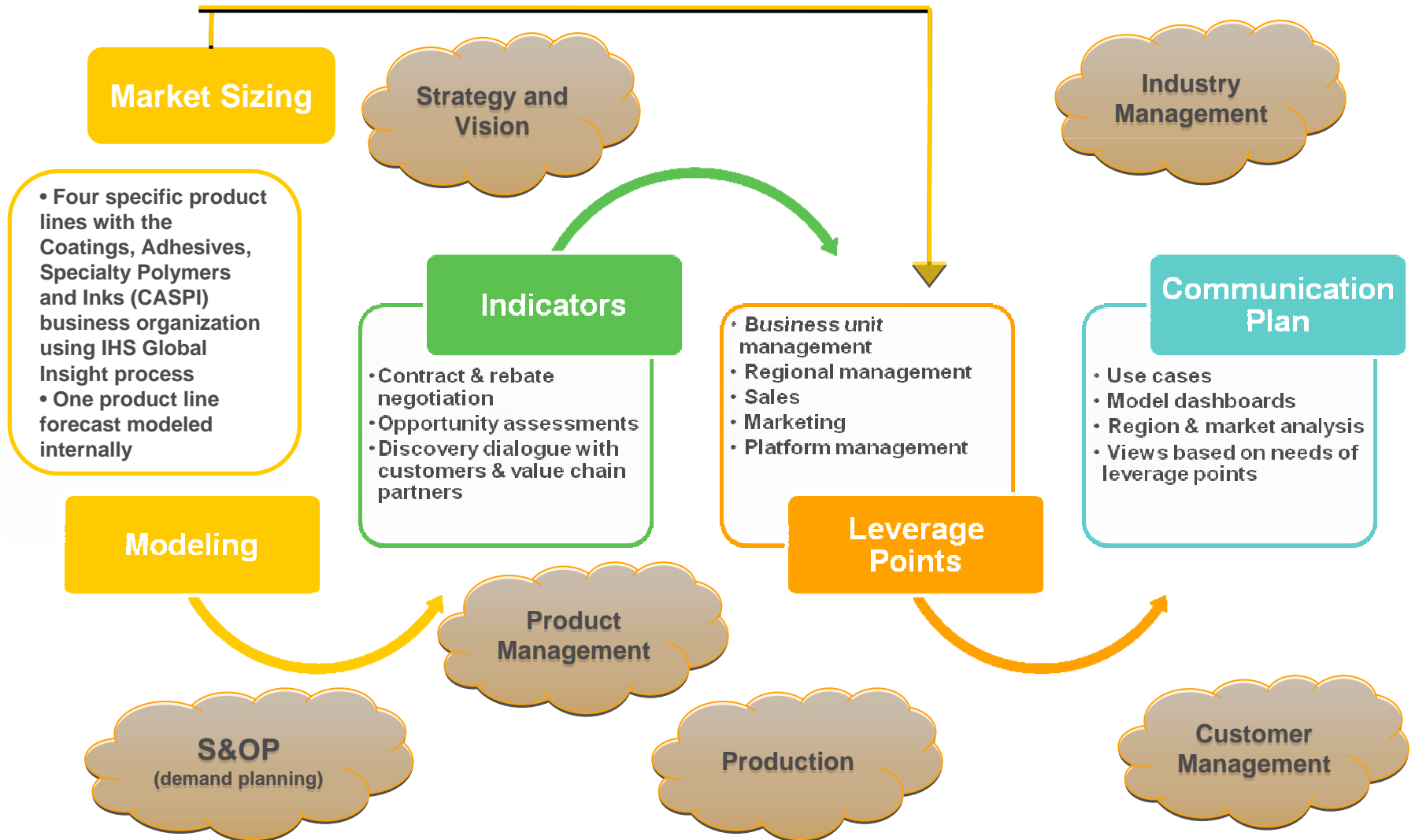
Forecasting Challenges: NABE Manufacturing Roundtable

Our challenge:

- As the economy emerges from the worst recession since WWII, Eastman Chemical Company needs to understand how the recovery will impact our business
 - What are the economic indicators that influence demand for our business?
 - What is the relative importance of these indicators?
 - How sensitive is the demand for our products to price changes?
 - What does the economic outlook suggest for our product demand over the next 5 years?
 - How can we monitor changes in the outlook and interpret the marginal change in the demand for our products?
 - Are there market segments that should be targeted to help stimulate demand for specific products?
- How does this analysis enhance our business planning process?

Our plan:

Econometric indicators & modeling



Our process:

Leverage external experts while building internal capability

- Utilized a consultant to construct econometric models for all the major business units within the CASPI business organization
 - Key drivers were identified for each major market group within the different business units based on our current sales and volume
 - Statistical models were developed for each business unit/region combination. The basis of these forecasts is proprietary.
- Participate in a Business Forecasting Research Working Group
 - Developed internal models
 - Identify coincident indicators to construct a coincident index for our global business with regional views
 - Use the coincident index to construct a leading index to signal turning points in our overall global business.

An example:

Identification of leading indicators

Identified Coincident Indicators	Potential Leading Indicators
Industrial Production: Automobiles	<ul style="list-style-type: none">• Consumer expectations• Unemployment claim• Real personal income• Housing permits• Stock prices• Mfrs. new orders for consumer goods• Mfrs. new orders for capital goods• ISM manufacturing new orders index• ISM, PMI (Purchasing Managers Index)• Average weekly hours in manufacturing• Interest rate spread between 10-year T-bond and FFR
Real Consumer Spending on Food & Other Nondurables	
Factory Operating Rate	
Industrial Production Index: Basic Organic Chemicals	
Real Revenue Paint and Coating Manufacturing	
Real Consumer Spending	

Identification of leading indicators may allow us to detect changes in our business six to 12 months in advance of peaks and troughs