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Demand forecasting with user-generated online information

Oliver Schaer, Nikolaos Kourentzes and Robert Fildes

The Department of Management Science
Lancaster University Management School
Lancaster LA1 4YX
UK

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Demand forecasting with user-generated online information

Oliver Schaer a,∗, Nikolaos Kourentzes a, Robert Fildes a

aDepartment of Management Science, Lancaster University Management School, UK

Abstract

Recently, there has been substantial research on augmenting aggregate forecasts with individual consumer data from internet platforms, such as search traffic or social network shares. Although the majority of studies report increased accuracy, many exhibit design weaknesses including lack of adequate benchmarks or rigorous evaluation. Furthermore, their usefulness over the product life-cycle has not been investigated, which may change, as initially, consumers may search for pre-purchase information, but later for after-sales support. In this study, we first review the relevant literature and then attempt to support the key findings using two forecasting case studies. Our findings are in stark contrast to the literature, and we find that established univariate forecasting benchmarks, such as exponential smoothing, consistently perform better than when online information is included. Our research underlines the need for thorough forecast evaluation and argues that online platform data may be of limited use for supporting operational decisions.

Keywords: Google Trends, Social media, Leading indicators, Product life-cycle, search traffic, electronic word-of-mouth

1. Introduction

Nowadays it is becoming increasingly easy for organisations to obtain individual consumer behaviour data from potential and actual customers by using internet platforms, such as Google or Twitter. Consumers seek online information on branded and non-branded content (Heinonen, 2011). Companies actively support purchase decisions by distributing branded content through internet channels,

∗Correspondance: O Schae, Department of Management Science, Lancaster University Management School, Lancaster, Lancashire, LA1 4YX, UK. Tel.: +44 1524 592911
Email addresses: o.schaer@lancaster.ac.uk (Oliver Schaer), n.kourentzes@lancaster.ac.uk (Nikolaos Kourentzes), r.fildes@lancaster.ac.uk (Robert Fildes)
which generates further interactions (Kuksov et al., 2013; Wang et al., 2012). Research has argued that information such as search traffic popularity, or numbers of shares on social networks can lead to improved forecast accuracy (e.g. Cui et al., 2017; Geva et al., 2017; Goel et al., 2010). While online shares reflect an electronic word-of-mouth process (Seiler et al., 2017; Babic Rosario et al., 2016), the popularity of a search keyword can be regarded as a proxy for consumer interest in a product (Du and Kamakura, 2012; Stephen and Galak, 2012), but also reflect the success of advertising activities (Srinivasan et al., 2016; Hu et al., 2014).

There are numerous time series modelling papers that incorporate information from the internet; for instance, in econometric now-casting such inputs can be useful to overcome publication lags of governmental economic indicators or market surveys (e.g. Vosen and Schmidt, 2011; Choi and Varian, 2009). Other example include predicting stock volatility (e.g. Bollen et al., 2011); influenza outbreaks (e.g. Ginsberg et al., 2009); tourist arrivals (e.g. Hand and Judge, 2012); car sales (e.g. Fantazzini and Toktamysova, 2015; Du et al., 2015); and retail sales (e.g. Boone et al., 2018; See-To and Ngai, 2016).

One important aspect is that most business decisions, such as allocating resources, inventory decisions or planning marketing expenditures, are based on forecasts and in turn imply some forecast lead time, which is relevant for the decision planning horizon. This makes the usefulness of online information for demand forecasting more contentious. Past research has supported both its usefulness (e.g. Lau et al., 2017; Brynjolfsson et al., 2016; Schneider and Gupta, 2016) and its limitations (e.g. Ruohonen and Hyrynsalmi, 2017; Li, 2016; Limnios and You, 2016). A further complication in assessing the value of such inputs for operational decision making comes from the typically weak forecast evaluation setup that is used and the short forecast horizons, which often do not relate realistically to business needs. Kalampokis et al. (2013) in their review of forecasting with social media data, report that more than one-third of studies do not test the claimed predictive abilities, using hold-out-sample or adequate predictive measures. Their review does not consider research that includes information originating from other than social media networks, for example, search traffic information; and omits any dedicated discussion on the forecasting approaches used.

The aim of this paper is to (i) provide a holistic review of the existing liter-
ature on forecasting with internet-based consumer behavioural data for a range of applications; (ii) discuss the limitations and challenges of using such data for predictive purposes and (iii) explore whether the usefulness of such information remains consistent during a product’s life-cycle. To exemplify this, consider a consumer who may research a product online prior to purchasing. The search is a leading indicator. Post-purchase the same consumer may search online for support information that does not lead to additional purchases. Therefore, it is reasonable to expect that the usefulness of online information changes over the life-cycle of a product. To support our critical review of the literature, first, we replicate one experiment by Choi and Varian (2012) and second, we model sales of video games and the consumption of viral video advertisements using social network shares.

Although the literature is overwhelmingly positive as to the benefits of search traffic and social media derived variables, we argue otherwise given the evaluation and experimental design of almost all studies. We question the realism of the forecasting setup (for instance the forecast horizon) for a number of papers and also find that several do not include adequate benchmarks. Furthermore, we find no support where the usefulness of the variable changes over the life-cycle of a product from our empirical experiment.

The paper is organised as follows; Section 2 provides a review of the literature that uses explanatory variables from internet platforms for forecasting. Section 3 highlights the challenges in handling online information. We then present in Section 4, two case studies to validate the findings of the literature. Section 5 discusses the usability of internet platform information and Section 6 presents the conclusions.

2. Forecasting with online user generated data

We present the literature in four subsections which are summarised in Table 1. The first horizontal grouping summarises Section 2.1, which surveys data sources. The columns reflect groups of forecast applications, which are detailed in Section 2.2. The second horizontal grouping classifies the forecast models used and is discussed further in Section 2.3. The last grouping lists forecasting principles, to which adherence is reviewed in Section 2.4. Overall, 95% of the surveyed studies
conclude in favour of using user-generated information for forecasting. A detailed table for each area of application is provided in the online supplement of this paper.

We limit our literature review to studies that assess the forecasting performance of time series models on relative short horizons, relevant to operational business forecasting. This precludes areas such as: predicting election outcomes (e.g. Mavragani and Tsagarakis, 2016; Huberty, 2015), product rankings (e.g. Hou et al., 2017; Liu et al., 2016; Goel et al., 2010), pre-launch forecasts (e.g. Kim et al., 2015; Xiong and Bharadwaj, 2014; Dellarocas et al., 2007) and marketing effectiveness (e.g. Kumar et al., 2016; Hu et al., 2014; Du and Kamakura, 2012). Although most of these studies suggest benefits from online user-generated data, their modelling approach as well the forecast target and accuracy measures used, differ substantially and would require a separate discussion that is out of scope for this paper. We do, however, include some of their findings on the handling of such data to support our discussion.

Table 1: Summary of the literature

<table>
<thead>
<tr>
<th>Areas of application (Section 2.2)</th>
<th>Economic indicators (n = 14)</th>
<th>Financial markets (n = 7)</th>
<th>Public health &amp; environment (n = 10)</th>
<th>Services (n = 16)</th>
<th>Consumer goods (n = 14)</th>
<th>Overall (n = 61)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data sources (Section 2.1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forum and blogs</td>
<td>0%</td>
<td>14%</td>
<td>10%</td>
<td>0%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Reviews</td>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
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<td>5%</td>
</tr>
<tr>
<td>Search traffic</td>
<td>100%</td>
<td>71%</td>
<td>70%</td>
<td>100%</td>
<td>79%</td>
<td>87%</td>
</tr>
<tr>
<td>Social networks</td>
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<td>29%</td>
<td>30%</td>
<td>6%</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td>Forecast modelling (Section 2.3)</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Multistep-ahead</td>
<td>21%</td>
<td>14%</td>
<td>30%</td>
<td>50%</td>
<td>29%</td>
<td>31%</td>
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<tr>
<td>Non-linear models</td>
<td>14%</td>
<td>14%</td>
<td>20%</td>
<td>0%</td>
<td>36%</td>
<td>16%</td>
</tr>
<tr>
<td>Nowcast model</td>
<td>64%</td>
<td>0%</td>
<td>60%</td>
<td>25%</td>
<td>36%</td>
<td>39%</td>
</tr>
<tr>
<td>Ordinal baseda</td>
<td>7%</td>
<td>43%</td>
<td>30%</td>
<td>6%</td>
<td>43%</td>
<td>23%</td>
</tr>
<tr>
<td>Volume basedb</td>
<td>100%</td>
<td>71%</td>
<td>70%</td>
<td>100%</td>
<td>71%</td>
<td>85%</td>
</tr>
<tr>
<td>Forecast evaluation (Section 2.4)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Adequate benchmarks</td>
<td>21%</td>
<td>0%</td>
<td>0%</td>
<td>31%</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>Hold-out-sample</td>
<td>93%</td>
<td>86%</td>
<td>100%</td>
<td>94%</td>
<td>93%</td>
<td>93%</td>
</tr>
<tr>
<td>Multiple time series</td>
<td>14%</td>
<td>71%</td>
<td>30%</td>
<td>31%</td>
<td>93%</td>
<td>46%</td>
</tr>
<tr>
<td>Rolling originc</td>
<td>93%</td>
<td>100%</td>
<td>90%</td>
<td>81%</td>
<td>86%</td>
<td>89%</td>
</tr>
<tr>
<td>Statistical testing</td>
<td>43%</td>
<td>71%</td>
<td>0%</td>
<td>31%</td>
<td>36%</td>
<td>34%</td>
</tr>
<tr>
<td>Report improvements</td>
<td>86%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>93%</td>
<td>95%</td>
</tr>
</tbody>
</table>

a sentiment information or product ratings
b search traffic popularity, shares or mentions
c also cross-validation
2.1. Data sources

Two review papers have been published that cover forecasting with social media networks (Phillips et al., 2017; Kalampokis et al., 2013). This study considers a wider range of internet sources for obtaining user-generated information. These are search traffic, social network sites, blogs and microblogs, forum posts and online product reviews. We do not specifically include studies which obtain data from news streams, such as the GDELT project (e.g., Fast et al., 2017), because such information may not reflect online consumer behaviour. It is worthwhile noting that we were unable to find any research that explores the predictive ability of many popular social media platforms such as Instagram, Snapchat, Pinterest and LinkedIn. The same is true for user-generated videos from platforms like YouTube, even though studies suggest that video blogs can lead to positive purchase intention (Lee and Watkins, 2016). The limited use of these data sources might partly be due to the difficulty to access and identify content.

Search traffic information is the most frequently used source present in 87% of the investigated studies, even accounting for 100% of applications in economics and services. Search engines tend to have a better coverage of the population and topics of past research, such as unemployment, are unlikely to be shared on social networks (D’Amuri and Marcucci, 2017). Most studies use data from Google Trends and fewer from Naver (Jun et al., 2017; Kim and Shin, 2016) or Baidu (Huang et al., 2017; Li et al., 2017) that are popular search engines in South Korea and China, respectively.

Microblogging platforms, such as Twitter (e.g. Bughin, 2015; Skodda and Ben-thaus, 2015; Rao and Srivastava, 2013) and Weibo (Chen et al., 2017) are the second most popular type of data source. The only study which involves social network sites is by Cui et al. (2017), who use Facebook. Bughin (2015) obtains social media information from SocialMention, a free aggregation service covering various platforms including Reddit. Another source is product reviews that have been collected from sources such as Amazon (Schneider and Gupta, 2016) or CNET (Luo and Zhang, 2013). Furthermore, Google search has been used to obtain forum data (Geva et al., 2017).
2.2. Forecasting applications

A typical application in economics is to forecast unemployment rate and claims. While various researcher report positive results (e.g. D’Amuri and Marcucci, 2017; Smith, 2016; Barreira et al., 2013) others struggle to improve accuracy (Li, 2016; Choi and Varian, 2012). Brynjolfsson et al. (2016) report benefits by stressing the importance of keyword selection. Researchers also look into housing market (Limnios and You, 2016; Wu and Brynjolfsson, 2015; Choi and Varian, 2009), private consumption (Vosen and Schmidt, 2011), exchange rates (Bulut, 2017), commodities (Yu et al., 2018; Elshendy et al., 2017) as well as consumer sentiment and gun sales (Scott and Varian, 2015). All but Limnios and You (2016) report improvements.

Financial applications include the predictions of financial market indices (Bollen et al., 2011), their returns (Perlin et al., 2017) or volatility (Dimpfl and Jank, 2016; Hamid and Heiden, 2015). Rao and Srivastava (2013) investigate stock market indexes but also currency exchange rate and gold prices. Other researchers forecast stock returns (Ho et al., 2017; Bijl et al., 2016). All studies report forecast improvements and Perlin et al. (2017) find search traffic to be particularly useful during the financial crisis.

When considering service-oriented applications, a large number of studies find improved forecast accuracy for tourism destinations (Li et al., 2017; Padhi and Pati, 2017; Park et al., 2017; Zeynalov, 2017; Choi and Varian, 2009) and attractions (Huang et al., 2017; Peng et al., 2016). In the case of Bangwayo-Skeete and Skeete (2015) search traffic outperforms the univariate benchmark only for one-third of the examined tourist destinations. Nonetheless, the authors conclude in favour of using this information, as in 77% of the cases accuracy was better or at least as good as the benchmarks. Önder (2017) did not find any clear indication whether search traffic is performing better on city or country level since. Her study reports improvements for both categories, but in several cases the benchmark is not outperformed (Önder and Gunter, 2016, report similar findings). Rivera (2016) reports that the benchmark is outperformed for 12 month ahead forecasts, but not for shorter ones. For hotel room demand forecasting, Pan et al. (2012) improve accuracy, but in a different study Pan and Yang (2016) find no statistically significant difference between using online information or not. Other service-oriented
applications include Telecom contract sales (Bughin, 2015) or the number of air passengers (Kim and Shin, 2016).

A majority of studies that focus on consumer goods, forecast on aggregated brand or product category level. For example, Cui et al. (2017) report improvements for fashion sales forecast using sentiment information. Various studies also investigate car sales. Researchers find improvements from either search traffic (Carrière-Swallow and Labbé, 2013; Seebach et al., 2011) or forum posts (Geva et al., 2017). Fantazzini and Toktamysova (2015) report search traffic to be particularly helpful at longer forecast horizons. However, Choi and Varian (2009) report mixed findings and Choi and Varian (2012) as well as Barreira et al. (2013) conclude that there is little support for including search traffic. Also, the search traffic augmented model of Jun et al. (2017) which forecasts global netbook sales fails to outperform the benchmark. They also fail to improve forecast accuracy for Nintendo Wii sales, indicating that forecasting at product level is more challenging. Geva et al. (2017) for instance report increased errors due to additional noise in the data. Nevertheless, several studies report accuracy gains even at product level for speciality food Stock Keeping Units (SKUs) with search traffic (Boone et al., 2018, 2015), but also with sentiment information for electronic products (Lau et al., 2017; Schneider and Gupta, 2016) or fashion products (See-To and Ngai, 2016).

In the area of public health, various studies have been concerned with flu outbreaks. Ginsberg et al. (2009) incorporate highly correlated search terms to predict the flu index which became the Google Flu indicator. Its service was discontinued in 2015, partly because of data reliability concerns (Lazer et al., 2014; Butler, 2013). Despite the critique of Google Flu, studies find the combination of Google Trends and autoregressive terms leads to better results (Lazer et al., 2014; Preis and Moat, 2014). Moreover, with further refinement of keyword selection, there are additional improvements (Brynjolfsson et al., 2016). Influenza outbreaks are also successfully forecasted with information from Twitter and blogs (Santillana et al., 2015; Won et al., 2013; Lampos and Cristianini, 2012).

Studies that focus on environmental events are sparse and online user-generated information is mainly used for posthoc analysis. Examples of usage are Lampos and Cristianini (2012), who predict the daily rainfall in the UK, and Chen et al.
that predict smog hazards. Both use information from microblogs. It is worth noting that we were unable to identify studies that consider energy demand as an application, even though this is closely related to local weather conditions.

2.3. Forecast modelling

The majority of studies use linear regression models (Schneider and Gupta, 2016; Ginsberg et al., 2009), augmented with autoregressive terms (e.g. Peng et al., 2016; Barreira et al., 2013; Seebach et al., 2011) and moving average terms (e.g. Li et al., 2017; Padhi and Pati, 2017; Pan and Yang, 2016). Linear vector models are also applied successfully (e.g Dimpfl and Jank, 2016; Fantazzini and Toktamysova, 2015). Other options include Bayesian structural models (Scott and Varian, 2015), dynamic linear models (Rivera, 2016) and Seemingly Unrelated Regression (Ho et al., 2017). Models that use the higher frequency of online information are also considered, e.g. Mixed-Data Sampling (Zeynalov, 2017; Smith, 2016; BangwayoSkeete and Skeete, 2015); or Dynamic Factor Models with mixed frequencies (Li, 2016).

Machine learning methods, typically incorporating sentiment information from social networks and review data (including mentions in forums), are also common. These include AdaBoost (Santillana et al., 2015), Support Vector Machines (Yu et al., 2018; Chen et al., 2017; Cui et al., 2017; Schneider and Gupta, 2016; Santillana et al., 2015), Random Forests (Cui et al., 2017) and Neural Networks (Yu et al., 2018; Chen et al., 2017; Lau et al., 2017; Geva et al., 2017; Bollen et al., 2011). These provide evidence of non-linearities in the relationships (e.g. Lau et al., 2017; Geva et al., 2017).

The majority of economic indicators are modelled with nowcasting models that include a contemporaneous internet variable to overcome the publication lag (except D’Amuri and Marcucci, 2017; Limnios and You, 2016; Barreira et al., 2013). Such models are also popular for forecasting influenza outbreaks (Xu et al., 2017; Preis and Moat, 2014; Ginsberg et al., 2009). However, some studies use nowcasting to forecast target variables in an operational context, which raises questions as to their usefulness due to the required lead times: for example, visitor arrivals (Huang et al., 2017; Zeynalov, 2017; Choi and Varian, 2009), Telecom sales (Bughin, 2015), car sales (Scott and Varian, 2015; Carrière-Swallow and Labbé,
A key aspect of the model building is the specification of the user-generated information variables. The data is incorporated directly in the case of search traffic and count data, such as search popularity, the number of mentions or shares. Note that Google Trends and Naver provide peak scaled indexes, where different keywords compare relatively to each other (see Jun et al., 2017). Baidu, on the other hand, provides absolute search values (see Vaughan and Chen, 2015). Other inputs are ordinal such as product ratings (Schneider and Gupta, 2016) or sentiment information. See-To and Ngai (2016) incorporate sentiment information in the form of the absolute number of positive and negative reviews per period, whereas others use the ratio of positive and negative mentions per period (e.g. Geva et al., 2017; Skodda and Benthaus, 2015). If content-based information is available, it is also important to take into account the rating for the comment itself, i.e. by weighting up-votes for helpful reviews (Schneider and Gupta, 2016). Although several studies find sentiment to provide additional benefits over volume based information (Lau et al., 2017; Geva et al., 2017; Bughin, 2015), such gains are still debatable, given the additional complexity. Kübler et al. (2017) indicate that the required method, as well as choice of metrics, depend on brand strength and industry segment. We discuss keyword selection and sentiment measure in more detail in Sections 3.3 and 3.4.

2.4. Forecast evaluation

The forecasting literature has established several forecasting principles that make the interpretation and comparison of forecasts more transparent. These include the need for adequate benchmarks (Armstrong, 2006; Armstrong and Collopy, 1992) and hold-out sample evaluation with rolling origins (Tashman, 2000). The selected error metrics should be conditional on the forecasting objective and a number of alternatives should usually be included as the result may be contradictory (Davydenko and Fildes, 2013; Fildes and Ord, 2002). For example using relative error metrics when the objective is to compare models. Koning et al.
(2005) also stress the importance of statistically testing the performance of competing models. The surveyed literature adherence to these practices in a mixed manner, as Table 1 depicts.

There are issues about the clarity of the experimental setup. For example, Yu et al. (2018), Araz et al. (2014) and Won et al. (2013) provide very little details about the model specifications of user-generated variables. Various studies are also unclear on the set up of the evaluation sample (Chen et al., 2017; Jun et al., 2017; Önder, 2017; Choi and Varian, 2009). Although, most studies use hold-out samples with rolling origins some of the studies evaluate them on very few observations (Elshendy et al., 2017; Araz et al., 2014). Other studies do not report extensive forecast results, which makes it difficult to identify any performance improvements (Bangwayo-Skeete and Skeete, 2015; Carrière-Swallow and Labbé, 2013).

If claims are to be made about the generalisability of the results, multiple time series should be used. As the online supplement attests, less than half of the investigated literature report results for multiple series, and some of the remaining studies do not investigate more than two series (e.g. Rao and Srivastava, 2013; Seebach et al., 2011). However, in some cases carrying out experiments for multiple time series is not possible for applications that focus on highly aggregated variables. Nonetheless, these could, for example, be split into regions to provide more robust results such as in (Bulut, 2017; Önder and Gunter, 2016; Bangwayo-Skeete and Skeete, 2015; Lampos and Cristianini, 2012). One-third of the surveyed literature also includes statistical testing of the forecast results that typically strengthen their findings. However, in the case of Bulut (2017) they lead to contradictory results since none of the search traffic augmented models outperforms the random walk on the MSPE, but the test find them to be significantly better. The contradiction maybe explained by the distribution of the forecast errors. This led the authors to still draw a positive conclusion on the usefulness of search traffic data.

A further issue is that the conditionality of forecasts is unclear. For example, it is unclear whether Hand and Judge (2012) use a 4 observation long test set in a rolling origin manner or whether the horizon is set to four. The study by D’Amuri and Marcucci (2017) provides 12-month ahead forecast, but the maximum lag length of search traffic is four, requiring unseen future information. Several studies also lack clarity as to whether the future search traffic volume is considered as
known or not in the test set (Önder, 2017; Önder and Gunter, 2016; Bangwayo-Skeete and Skeete, 2015; Won et al., 2013). Li et al. (2017) report significant improvement for 4-weeks-ahead forecasts, using 5 lags of search traffic, but are unclear if the values of the shorter lags were considered known or not. Barreirra et al. (2013) indicate that the 36 month out-of-sample forecast uses future values. Less than one-third of the surveyed studies considered multistep-ahead forecasts. It is questionable how relevant one-step-ahead forecasts are in a business context that for example require stock keeping (Boone et al., 2018; Lau et al., 2017; Geva et al., 2017; See-To and Ngai, 2016; Seebach et al., 2011).

A further critique of the existing literature is that studies often fail to provide a thorough comparison with adequate benchmarks. For example the studies by Kim and Shin (2016); Won et al. (2013); Lampos and Cristianini (2012); Ginsberg et al. (2009) and partly Choi and Varian (2009) report no benchmarks at all. Lau et al. (2017); Xu et al. (2017); Peng et al. (2016); Skodda and Benthaus (2015) and Hand and Judge (2012) only compare forecast performance amongst models that include online information. Most papers use at least one benchmark that is the univariate equivalent of the proposed model using the additional internet variables. However, established, and common in practice models, such as exponential smoothing or the random walk, are often absent. If such benchmarks outperform both the univariate and the enhanced models, then there is little value in them. Therefore, the apparent lack of a thorough (or even valid in some cases) forecast accuracy evaluation diminishes the value of the reported improvements.

To exemplify this, Cui et al. (2017) report gains over the company forecast, but there is too little information on how the company forecast is produced or whether it was any good at all. This critique echoes the arguments by Li (2016), Önder (2017) and Fantazzini and Toktamysova (2015), who all report cases where the random walk outperforms models that use search traffic information for some evaluation periods. Jun et al. (2017) and Rivera (2016) similarly find that the simple Holt-Winters method performs better than forecasts that used additional internet information. In a study by Lazer et al. (2014) the Google Flu index model is outperformed by a univariate model. A further downside of not using established benchmarks is that it makes any meta-analysis of performance very difficult. Including the random walk would help to draw overall conclusions.
To further illustrate the importance of including a wide variety of benchmark models we replicate one of the experiments conducted by Choi and Varian (2012) and extend its range of contenders. In addition to the proposed seasonal autoregressive model, we further include the random walk (RW), as well as the Simple Exponential Smoothing model (SES) and the Holt-Winter model (HW). Table 2 provides the Mean Absolute Percentage Errors (MAPE). The result suggests that the Holt-Winters model performs best in both evaluation periods. Furthermore, none of the models differ significantly at a 95% level when evaluated with the Friedman and Nemenyi tests (Demšar, 2006).

Table 2: MAPE for motor vehicles and parts (Choi and Varian, 2012)

<table>
<thead>
<tr>
<th>Leadtime</th>
<th>AR</th>
<th>ARX</th>
<th>RW</th>
<th>SES</th>
<th>HW</th>
</tr>
</thead>
<tbody>
<tr>
<td>06/2005</td>
<td>6.34%</td>
<td>5.67%</td>
<td>6.88%</td>
<td>6.70%</td>
<td>4.37%</td>
</tr>
<tr>
<td>12/2007</td>
<td>8.87%</td>
<td>6.97%</td>
<td>5.87%</td>
<td>5.75%</td>
<td>4.84%</td>
</tr>
</tbody>
</table>

leadtime = 1, italic signifies original models

In the introduction, we posed the question whether such predictive information remains relevant over the life-cycle of a product or service. There is some evidence from the marketing literature that reports the impact of social network variables changing over time, due to changes in the level of customer engagement (Kumar et al., 2016). Smith (2016) finds changing coefficients of Google Trends indicators, some switching from positive to negative, over the life-cycle. It is unclear whether this indicates a spurious or changing relationship. Experiments which have included a rolling window evaluation with re-estimation do not provide insights on the changes of the coefficients and in particular do not discuss the life-cycle aspect (e.g. Cui et al., 2017; Geva et al., 2017; Bughin, 2015).

2.5. Summary

To summarise the literature review we note that a majority of investigated papers report positive findings for all types of user-generated data sources. The most frequently applied models are linear in the form of an ARX model, both in nowcasting and forecasting. However, the conclusions of these studies must be tempered by their many limitations, in particular the absence of adequate benchmarks, lack of model transparency as well as what information the forecasts are
conditional on. To be useful in operational planning decisions they also need to be focussed on a meaningful forecast horizon. Given these weaknesses in the forecast evaluation framework, we therefore cannot conclude as to which applications are likely to benefit from user-generated information.

3. Handling user generated online information

3.1. Data consistency and reproducibility

Reproducing the results of forecasting experiments is a major concern for research (Boylan et al., 2015). Lazer et al. (2014) question how stable and reliable are measurement sources such as Google Trends over time. For instance, changes in the search algorithm employed by Google can disrupt the performance of predictive models. Such changes are dependent on decisions by the search engine provider that might be based on commercial interests. Changes in search algorithms not only require model re-calibration, but also hinder scientific replication. Recently, Google restricted the maximum window length for weekly data to 5 years. Hence, to obtain weekly data from 2004, stitching and re-scaling are required (Johansson, 2014, provides a tutorial with one way of combining). This increases the risk of obtaining different values for the search traffic.¹

Furthermore, Google Trends index depends on samples which are re-drawn from day-to-day (Varian, 2017). According to Barreira et al. (2013) this sampling instability explains some of the inconsistencies in the results of their now-casting exercise. Carrière-Swallow and Labbé (2013) report all queries within 24-hours to be identical, but across a 50-day sample, the same query sample exhibit a standard deviation of more than 15%. Although, D’Amuri and Marcucci (2017) report that the cross-correlation between series of different days is never below 0.99, they take the average of 24 downloads over 12 days from two different IP’s for forecasting unemployment rate. Li (2016) replicates one of the experiments by Choi and Varian (2012) but achieves different out-of-sample forecasts between the original

¹We were not able to find any official changelog of Google Trends but the issue is discussed in forums; for example https://www.en.advertisercommunity.com/t5/Water-Cooler/Inconsistent-trends/m-p/1175227 or https://productforums.google.com/forum/#!topic/websearch/HVYS9OnEjOo;context-place=topicsearchin/websearch/category$3Amac
data and the newly obtained sample, highlighting issues of sample instability from Google Trends that makes the replication of experiments more difficult. Li (2016) suggests that taking multiple samples is a good solution, but it is unknown how many samples are needed to approximate the “true” sample.

The research of Lazer et al. (2014) also points out that other platforms have similar issues. For example, a study by Ho et al. (2017) reports that they were unable to report the number of messages prior to 2011 due to changes to the Yahoo!Finance website. Ruths and Pfeffer (2014) raise concern that social media platforms can enforce changes in data streaming and filtering. For instance, the additional “like”-buttons Facebook introduced to express emotions have an unknown effect on data continuity. Although for practitioners reproducibility is a minor concern, the reliability of the models and the need for continuous monitoring of the specifications is of importance.

3.2. Data bias

One of the disadvantages of user-generated information is potential selection sample bias. This bias exists on all platforms and affects search traffic, product reviews as well as social network platforms (Brynjolfsson et al., 2016; Ruths and Pfeffer, 2014). This is because the platforms are not accepted equally in all countries, and furthermore, not the entire population is using the platform equally often. For example, Brynjolfsson et al. (2016) mentions the case that elderly people might not use online technologies to search for products and services. This makes the right choice of platform crucial in order to align with the forecast target.

Bias not only appears in the representation of the population, but also in terms of content type. On social network platforms, such as Facebook, users tend to share a positive image (Barash et al., 2010), and research suggests that negative feelings are more likely to be expressed on forums (Leung, 2013). Moreover, not all customers write reviews and the reflected opinion might not represent the overall opinion of customers. Dellarocas et al. (2007) report customers with strong positive or negative opinion are more likely to post. Moreover, reviews from early adopters have been found to be systematically positively skewed due to potential self-selection bias and the fact that early buyers may have different preferences and requirements than late buyers. Therefore, ratings generally tend to decline
over the product lifetime (Godes and Silva, 2012; Li and Hitt, 2008) which impacts sales (Moe and Trusov, 2011).

The often reported J-shaped distribution of online ratings (e.g. Schneider and Gupta, 2016) can have many sources including fraud, selection bias or herding effects (Aral, 2014). Fraud might be due to manipulation by companies and their competitors. Mayzlin et al. (2014) find evidence of fake hotels reviews on TripAdvisor with negative reviews by competitors, but also positive ones created by the owners. Lee et al. (2017) shows that in the movie industry Twitter sentiment is often positively manipulated in the pre-launch phase and drops after release when actual viewers comment. Such manipulation may not only impact sales, but also affect the willingness to post and, therefore, change the final product perception (Moe and Schweidel, 2012). Positively manipulated reviews lead on average to 25% increased final ratings, suggesting an asymmetric herding bias (Muchnik et al., 2013).

Although, these biases are well studied, very little is done to address them in forecast models. Nonetheless, cleansing data post-hoc, might eliminate important signals, since a manipulated negative review that is still online will potentially affect sales and future reviews. Even if it were removed, it is hard to track how it has affected other remaining reviews.

3.3. Keyword selection

One of the major complication of using search traffic information is to select keywords (Goel et al., 2010). That keyword selection matter is demonstrated in the research by Brynjolfsson et al. (2016) discussed before. Geva et al. (2017) describes keyword selection to be a trade-off between accuracy and coverage. Studies that tried to incorporate a very high coverage (Scott and Varian, 2015; Ginsberg et al., 2009) base their selection to identifying keywords with the highest correlation from very large datasets (using Google Correlate one can find correlated search queries to any given time series). While this method effectively filters amongst million of possible queries, it remains prone to return spurious correlated time series (Lazer et al., 2014) and requires a well-designed forecast evaluation to prevent over-fitting. It also introduces major variable selection challenges due to the number of multi-collinear inputs.
A large part of the investigated literature uses a judgemental selection based on only a few keywords, such as product or brand name (e.g. D’Amuri and Marcucci, 2017; Geva et al., 2017; Seebach et al., 2011) or words like “dow” for Dow Jones Index (e.g. Dimpfl and Jank, 2016; Hamid and Heiden, 2015). Other studies use more descriptive keywords for example “Gifts for colleagues” to predict a wine and cheese SKU (Boone et al., 2018) or “Vacation” to reflect economic income (Bulut, 2017). While this approach allows a better interpretation of variables selected it might miss out important information. To broaden the numbers of keywords Li et al. (2017) and Peng et al. (2016) use a seeding technique. They initially define a range of keywords that was then used in a second step to gather recommended keywords by the search engine. Perlin et al. (2017) count the frequency from a large list of financial specific words in academic books to derive from a list of 15 selected words. Similarly, Padhi and Pati (2017) identify 63 keywords from different literature sources and interviews with destination clients. Researchers also tried to identify specific keywords to obtain pre-purchase searches only. Von Graevenitz et al. (2016) for instance use scrappage subsidies searches as pre-purchase indicators of new car purchases. Hu et al. (2014) use composite search queries that excluded unrelated search keywords for new car sales such as “repair”. Siliverstovs and Wochner (2018) use Google Knowledge Graph that covers linguistic and semantic related keywords to a topic. For example, it can combine search queries for a place covering different languages.

Another approach is to use automatic generated categories that search engines provide. These categories cover several related keywords for areas like travel destinations or industry sectors (e.g. Von Graevenitz et al., 2016; Bughin, 2015; Fantazzini and Toktamysova, 2015; Scott and Varian, 2015; Wu and Brynjolfsson, 2015; Vosen and Schmidt, 2011; Choi and Varian, 2012). Brynjolfsson et al. (2016) criticise such categories being opaque and might include irrelevant keywords that could harm the predictive ability. Instead, they suggest a crowd-sourcing approach. They asked more than 500 persons to write down five terms that came to their mind when seeing a particular word. Not only did they achieve higher forecast accuracy, but they also found that the forecast accuracy improves steadily when increasing the number of selected variables (up to 20). This result is in contrast to selection via Google Correlate and WordNet lexical database, where forecasting
performance decreases when additional variables are added, indicating poor selection in these cases. Although crowd-sourcing via services such as Amazon Turks might be relatively cheap, it can quickly become expensive if keywords for several hundreds of products are required.

Another approach is judgemental pre-selection, which has not been applied to keywords selection yet. Sagaert et al. (2018) report that for selecting macroeconomic leading indicators using experts to pre-selecting a set of variables leads forecast accuracy gains over using the full set of variables, with LASSO modelling.

3.4. Sentiment analysis

With sentiment analysis one can investigate the opinion towards an entity within a written text, for instance, the attitude people have towards a brand or product. It differs from count or popularity data in that it captures a sentiment orientation (also called valence), classified into positive, neutral or negative (Liu, 2015). Some of our surveyed studies, introduce further levels to describe intensity or strength of the sentiment (e.g. Hou et al., 2017; Skodda and Benthaus, 2015) or capture mood dimensions (Bollen et al., 2011).

The sentiment can either be self-declared (Ho et al., 2017) or derived with additional analysis. Studies use content analysis (e.g. Geva et al., 2017; Cui et al., 2017), measure the text complexity (Elshendy et al., 2017), or count n-grams for messages (Liu et al., 2016; Lampos and Cristianini, 2012).

There is a large variety of methods for classifying sentiment. Typically, the manual approach is very time-consuming (e.g. Liu, 2006) and therefore, text mining algorithms are common. One can derive classification rules by training bespoke sentiment classifiers using machine learning methods or use pre-defined lexicons. The lexicons are typically based on language and slang dictionaries, but can also be built to cover domain-specific knowledge (e.g. Chen et al., 2017; Tirunillai and Tellis, 2012). There are lexicons built on semi-supervised classifiers such as SentiWordNet (Baccianella et al., 2010). These are popular due to their simplicity and reproducibility (Geva et al., 2017; See-To and Ngai, 2016; Rao and Srivastava, 2013). Lau et al. (2017) provide a comparison between different sentiment classification algorithms. They find that for forecasting product demand most lexicons are not granular enough to reflect consumers preferences well and suggest
the use of abstract based classifiers, i.e. the sentiment is measured for each aspect (feature) of the product individually such as for the battery or screen.

The survey of Ravi and Ravi (2015) also highlights various limitations of sentiment analysis, one being that current methods still struggle with irony and sarcasm. Together with spelling mistakes, data becomes noisy, and a significant amount of manual intervention and supervision is required. This raises the question of how well-suited reviews are for forecasting tasks, when operational costs are considered. For this reason, Schneider and Gupta (2016) suggest using a bag-of-words model, which counts the frequency of each word, together with dimensionality reduction techniques. This method is computationally fast and able to run almost unsupervised. However, Cui et al. (2017) points out that bag-of-words classifiers are not well suited for short and heterogeneous text such as often seen in social networks comments. We are unaware of any research that compares demand forecasting performance of bag-of-words models against lexicon or machine learning methods.

4. Empirical evaluation

4.1. Case studies

Based on our review of the literature we argue that it is not possible to assert conclusively about the benefits of search traffic or social network information. More specifically, we are interested in the application to operational forecasting, as there is limited research on this area. We attempt to answer whether online platform information is useful by conducting an empirical evaluation using two distinct case studies. First, we look at forecasting physical video games sales using search traffic information from Google Trends, throughout the product life-cycle. Second, we aim to forecast YouTube views of corporate viral online videos using social network shares.

We have selected these two case studies due to the nature of the target variables. Although direct sales of video games over the internet are increasing, roughly three-fifths are still sold as physical copies (statistic for the US market, Statista, 2017). Accurate demand forecasts are, therefore, vital for the supply chain management. Concerning the second case study, the very nature of viral videos implies that
social network shares drive the process (e.g. Abisheva et al., 2014; Broxton et al., 2013; Crane and Sornette, 2008). Corporate videos are used to promote the offered services and products, where together with their virality can be considered as the electronic word of mouth (Babic Rosario et al., 2016), which in turn support sales. Knowing future video views helps marketers to plan and adjust their advertising activities (Liu-Thompkins, 2012).

4.2. Data

The first dataset consists of 78 global physical video game sales on a weekly frequency. The data was obtained from VGChartz; a company specialised in collecting physical video game sales (http://www.vgchartz.com). The same data provider has been used by various researchers (e.g. Ruohonen and Hyrynsalmi, 2017; Xiong and Bharadwaj, 2014; Goel et al., 2010). The video games considered were launched after November 2005 and belong to different genres, including blockbuster titles such as the Call of Duty or the FIFA football game series. We cover the period of sales up to February 2015 and limit the length of the time series up to the point that 95% percent of the total recorded sales is reached, to filter out high intermittency observed towards the end of the life-cycle. The median length of time series is equal to 160 weeks (minimum 66 and maximum 447 weeks). For each game title, we downloaded the corresponding Google Trends data (www.google.com/trends). For our dataset, we downloaded the Google Trends information on a weekly frequency and used the game title as the search keyword. Where available, we used “Topic search” over “Search term”. This option, provided by Google, makes use of Google’s Knowledge Graph Search API and combines several keywords associated with the topic for different languages. We find that “Topic search” typically correlates better with our target variable.

The second dataset contains viral corporate online videos. We collected videos views by building a web crawler that tracked corporate YouTube channels using the Google’s YouTube Data API, over the period from March 2015 to April 2016. Each time a new video was published on the YouTube channel of an organisation, the crawler started tracking cumulative views at a 15 minutes interval. In addition to video views, we also collected the cumulative number of shares from Facebook, Twitter, Google+ and LinkedIn using the YouTube video URL as a unique identi-
fier. Note that at times there were outages either at the Google API or our server, introducing missing values. These were imputed using linear interpolation. Furthermore, we noticed that Google adjusts YouTube view counts on an irregular, but quite frequent, basis. This can result in a negative change of the cumulative views, which should not be possible. We believe this is due to algorithms used to avoid artificial or erroneous view counts from bots and synchronisation errors. In order to remove these effects, we treated these as missing values and used linear interpolation to impute them.

We selected the 300 most shared videos on Facebook from our dataset. From the selected videos many exhibit substantial amount of intermittent views towards their mature phase. Similarly to the video games dataset, we have shortened the series when a certain threshold of zero views has been reached. We model the series both at an hourly and an aggregate daily level. In the case of the hourly dataset, this was set to 12 continuous zero observations, while for the daily dataset this was set to 6. Some videos were excluded as they did not have a sufficient number of observations to facilitate a thorough evaluation. The total is further reduced as we only compare time series which contain enough shares in at least two social networks. This allows us to investigate Facebook shares versus further social networks. The final dataset consists of 63 videos with an average 122 days of observations (minimum 72 and maximum 179 days).

We provide two example time series for the two data types in Figure 1. The example containing sales and search traffic is scaled for illustration purposes. Note that for clarity the example of the YouTube video is without social shares. For the “GoPro - Best of 2015” video clip we captured 3.6 million views and more than 25 thousand mentions on social networks (www.youtu.be/IyTv_SR2uUo).

4.3. Experimental setup

Our aim is to assess the predictive usefulness of internet variables, across the life-cycles of the products, and follow the requirements laid out in Section 2.4. In order to facilitate this, we employ a rolling window approach. The window has a fixed size of \( w \) observations that rolls up to the point \( T - h \) where \( T \) is the available sample size, and \( h \) is the forecast horizon. For each dataset, we consider a number of different window sizes and forecast horizons (Table 3). Smaller window sizes
resulted in very poor forecasts and were excluded. The rolling window setup allows us to consider the launch phase or the mature phase of the life-cycle of a product separately.

At each forecast origin, we construct forecasts that rely on the additional internet inputs and appropriate univariate benchmarks. For the additional variables to be useful, they have to lead to more accurate out-of-sample forecasts. We assess the performance at each forecast origin using the Average Relative Mean Absolute Error (AvgRelMAE; Davydenko and Fildes, 2013):

\[
\text{AvgRelMAE}_{i,h} = \sqrt[n]{\prod_{r=1}^{n} \left( \frac{\text{MAE}_{i,r}}{\text{MAE}_{b,r}} \right)},
\]

\[
\text{MAE} = \frac{1}{j} \sum_{t=1}^{j} |y_{t+h} - \hat{y}_{t+h}|,
\]

where \( n \) is the number of times series and \( j \) the number of forecast origins for each series. First, the Mean Absolute Error (MAE) across all origins, for a given time series and horizon is calculated for each forecast \( i \). These are then divided by the MAE of the Naïve forecast (MAE_{b,r}) and summarised using a geometric mean to produce the reported AvgRelMAE for each horizon.

This metric has favourable statistical properties and provides an intuitive com-
parison between forecasts, where an improvement over the benchmark is given by value lower than 1. Subtracting the \( \text{AvgRelMAE} \) from 1 provides the percentage accuracy gain of a forecast over the benchmark.

Finally, to evaluate whether any differences are due to randomness or not, we employ the non-parametric Friedman test and the post-hoc Nemenyi test (Koning et al., 2005; Demšar, 2006). We use the Friedman and Nemenyi tests as implemented for R (R Core Team, 2016) in the TStools v.2.1.0 package (Kourentzes and Svetunkov, 2016).

Table 3: Experimental settings for the different datasets

<table>
<thead>
<tr>
<th>Dataset</th>
<th>Window sizes ((w))</th>
<th>Forecast horizons ((h))</th>
<th>Explanatory lags ((l))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Video games</td>
<td>20, 24, ..., 52</td>
<td>1, 6, 12</td>
<td>1, 2, ..., 6</td>
</tr>
<tr>
<td>Online videos (daily)</td>
<td>20, 24, ..., 72</td>
<td>1, 6, 12</td>
<td>1, 2, ..., 6</td>
</tr>
<tr>
<td>Online videos (hourly)</td>
<td>24, 36, ..., 120</td>
<td>1, 12, 24</td>
<td>1, 2, ..., 72</td>
</tr>
</tbody>
</table>

4.4. Methods

We use the following regression model:

\[
y_t = \alpha_0 + \sum_{i=1}^{m} \alpha_i y_{t-i} + \sum_{j=1}^{k} \beta_j x_{t-j} + \epsilon_t,
\]

where \( y_t \) is the target variable and \( x_t \) is the explanatory online information variable; \( m \) and \( k \) represent the number of autoregressive terms and numbers of lags of the explanatory, respectively, and \( \epsilon_t \) is a Gaussian zero-mean error.

As proposed by Hyndman and Khandakar (2008), we make our series stationary by using the KPSS and the OCSB tests to identify level and seasonal-differences, respectively. This also eliminates any spurious connections between \( y_t \) and \( x_t \).

The challenge in (1) is the specification of \( m \) and \( k \). Furthermore, one can consider sparse specification, as not all lags may be informative (Hastie et al., 2015). In the aforementioned literature different approaches have been employed to specify the relevant lags. Granger causality is one of them (e.g. Ruohonen and Hyrynsalmi, 2017; Tirunillai and Tellis, 2012). Another popular modelling approach is to use information criteria, such as AIC, to identify the lag-order (for
example, as in Hyndman and Khandakar, 2008). However, note that in the presence of explanatory variables the number of potential models becomes prohibitive very quickly. A stepwise approach can be used to manage the problem, however the stepwise search strategy has been criticised for inadequate search of alternatives, due to its greedy search nature (Hastie et al., 2015). The problem is exacerbated further by limited sample size.

Considering the case where all social network information is available, in the extreme case, our model needs to estimate up to 297 parameters using only 24 observations. To solve this problem we rely on lasso regression that provides an effective and efficient search of the model space and achieves sparsity, if needed, even when the number of coefficients exceeds the available sample size. Lasso works by penalising the model fit with the absolute of the sum of the coefficients, scaled by a shrinkage factor. This forces the coefficient of uninformative variables to zero. For details of lasso, as well as a discussion of alternative selection schemes see Hastie et al. (2015). We fit the lasso regression using R and the package glmnet v.2.0-5 (Friedman et al., 2016) with its default settings.

Hereafter, we refer to these forecasts as ARX for the video games dataset and ARX (FB) or ARX (All) if only shares in Facebook or more platforms are considered for the video dataset.

We allow up to 6 autoregressive terms. For the hourly dataset we include additionally up to 3 seasonal autoregressive terms. Furthermore, the model is augmented by up to $l$ lags of the explanatory variables (Table 3). To simulate a true forecasting situation we restrict the included lags to always be of order at least equal to the forecast horizon or longer, as the in-between values would not be available. For example to forecast 3-steps ahead only lags of order 3 or more are considered, as shorter lags would imply knowledge of the future values of the explanatory variable.

To further complete our experiment we also discuss the case where we allow contemporaneous explanatory variables in our model, producing now-casting results. Although this is of limited operational benefit, it allows us to relate our experiment with the nowcasting literature that has used such variables.

We compare our ARX forecasts against various benchmarks from different model families. The first, represents the univariate autoregressive model that uses
the same specification method to ARX. Second, we include an ARIMA model, the orders which are identified using AIC corrected for sample size (AICc), based on the model selection procedure by Hyndman and Khandakar (2008). Furthermore, we use exponential smoothing, the form of which is automatically selected by using AICc (Hyndman et al., 2008). Finally, we include a Random Walk (Naïve) forecast. In cases where the hourly online video time series is seasonal, we further add a seasonal Naïve as a benchmark. The benchmarks are implemented using the forecast v.7.2 package for R (Hyndman, 2016).

4.5. Results

4.5.1. Overall results

Table 4 presents the results for window sizes \( w = \{20, 24, 52\} \) and for forecasting horizons \( h = \{1, 3, 6\} \) weeks, across the complete life-cycle for both video game and online video dataset. Results for other tested windows between 24 and 52 weeks are very similar and therefore omitted. The striking result is that the Naïve is consistently the best or at least as good (with no significant statistical differences) as its competitors, followed closely by ETS and ARIMA.

<table>
<thead>
<tr>
<th></th>
<th>( w = 20 )</th>
<th>( w = 24 )</th>
<th>( w = 52 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>( h = 1 )</td>
<td>( h = 3 )</td>
<td>( h = 6 )</td>
<td>( h = 1 )</td>
</tr>
<tr>
<td>( h = 3 )</td>
<td>( h = 6 )</td>
<td>( h = 1 )</td>
<td>( h = 3 )</td>
</tr>
<tr>
<td>( h = 6 )</td>
<td>( h = 1 )</td>
<td>( h = 3 )</td>
<td>( h = 6 )</td>
</tr>
</tbody>
</table>

Video games: \( n = 78 \)

<table>
<thead>
<tr>
<th>Model</th>
<th>( w = 20 )</th>
<th>( w = 24 )</th>
<th>( w = 52 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARX</td>
<td>1.188</td>
<td>1.171</td>
<td>1.005</td>
</tr>
<tr>
<td>AR</td>
<td>1.147</td>
<td>1.148</td>
<td>1.001</td>
</tr>
<tr>
<td>ARIMA</td>
<td>1.069</td>
<td>1.072</td>
<td>1.094</td>
</tr>
<tr>
<td>ETS</td>
<td>1.066</td>
<td>1.072</td>
<td>1.038</td>
</tr>
<tr>
<td>Naïve</td>
<td>( 1.000^\dagger )</td>
<td>( 1.000^\dagger )</td>
<td>( 1.000^\dagger )</td>
</tr>
</tbody>
</table>

Online videos (daily frequency): \( n = 63 \)

<table>
<thead>
<tr>
<th>Model</th>
<th>( w = 20 )</th>
<th>( w = 24 )</th>
<th>( w = 52 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARX (All)</td>
<td>1.185</td>
<td>1.165</td>
<td>1.246</td>
</tr>
<tr>
<td>ARX (FB)</td>
<td>1.184</td>
<td>1.174</td>
<td>1.249</td>
</tr>
<tr>
<td>AR</td>
<td>1.187</td>
<td>1.216</td>
<td>1.305</td>
</tr>
<tr>
<td>ARIMA</td>
<td>1.108</td>
<td>1.096</td>
<td>1.121</td>
</tr>
<tr>
<td>ETS</td>
<td>1.082</td>
<td>1.104</td>
<td>1.290</td>
</tr>
<tr>
<td>Naïve</td>
<td>( 1.000^\dagger )</td>
<td>( 1.000^\dagger )</td>
<td>( 1.000^\dagger )</td>
</tr>
</tbody>
</table>

\( \dagger \) Different at 95%-significance to ARX and all other benchmark models.

In most cases, the worst performing model is the simple AR that is outperformed by the ARX, on average by about 2.8% on the video game and 2% for
online video dataset. We find, no evidence that this difference is significant. On
the one hand, this supports findings from the literature that search traffic can
improve forecasts, but on the other hand, it also verifies our criticism of weak
experimental design. When benchmarked against more appropriate univariate alter-
natives, here all ETS, ARIMA and Naïve, we cannot support that conclusion.
Closer examination of the individual time series reveals that in the presence of ade-
quate benchmarks there is no case where ARX ranks first across all benchmarks,
but it is easy to identify a single benchmark that would typically be worse than
ARX. The need for thorough benchmarking has been fundamental in forecast-
ing research (Armstrong and Collopy, 1992) and contrasting our results with the
mostly positive impression from the literature helps to highlight how important
that is.

4.5.2. High frequency and nowcasting

Table 5 provides the results for the hourly time series. Although the forecast
horizons are now too short to support many operational decisions, looking at
higher frequency data allows us to explore whether intra-day lags may be more
informative. In this scenario, although the Naïve is no longer best, overall we do
not observe benefits from including the additional variables. In fact, AR is in all
cases more accurate than either ARX (All) or ARX (FB). For longer window sizes
\((w = 120)\) ARX (FB) outperforms the Naïve, but is in turn outperformed by other
univariate benchmarks.

Table 5: Overall forecasting results online videos (hourly) \(n = 63\)

<table>
<thead>
<tr>
<th></th>
<th>(h = 1)</th>
<th>(h = 12)</th>
<th>(h = 24)</th>
<th>(h = 1)</th>
<th>(h = 12)</th>
<th>(h = 24)</th>
<th>(h = 1)</th>
<th>(h = 12)</th>
<th>(h = 24)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARX (All)</td>
<td>1.083</td>
<td>1.114</td>
<td>1.231</td>
<td>1.080</td>
<td>1.066</td>
<td>1.114</td>
<td>1.021</td>
<td>1.011</td>
<td>1.029</td>
</tr>
<tr>
<td>ARX (FB)</td>
<td>1.057</td>
<td>1.113</td>
<td>1.222</td>
<td>1.018</td>
<td>1.018</td>
<td>1.052</td>
<td>0.981</td>
<td>0.996</td>
<td>1.018</td>
</tr>
<tr>
<td>AR</td>
<td>1.002</td>
<td>1.058</td>
<td>1.198</td>
<td>0.951</td>
<td>0.953</td>
<td>0.972</td>
<td>0.941</td>
<td>0.935</td>
<td>0.939</td>
</tr>
<tr>
<td>ETS</td>
<td>0.953*</td>
<td>0.970*</td>
<td>0.993</td>
<td>0.943</td>
<td>0.901*</td>
<td>0.913</td>
<td>0.942</td>
<td>0.853*</td>
<td>0.856*</td>
</tr>
<tr>
<td>ARIMA</td>
<td>0.984</td>
<td>1.000</td>
<td>1.032</td>
<td><strong>0.942</strong></td>
<td><strong>0.902</strong></td>
<td><strong>0.894</strong></td>
<td><strong>0.935</strong></td>
<td>0.881</td>
<td>0.871</td>
</tr>
<tr>
<td>Naïve</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
</tr>
<tr>
<td>sNaïve</td>
<td>1.407</td>
<td>1.041</td>
<td><strong>0.975</strong></td>
<td>1.368</td>
<td>1.004</td>
<td>0.953</td>
<td>1.363</td>
<td>0.992</td>
<td>0.945</td>
</tr>
</tbody>
</table>

* Different at 95%-significance to ARX model.

Table 6 presents the now-casting results. For convenience, we provide the one-
step-ahead forecast errors as well. The difference in the specification between the
two is that the latter permits contemporaneous inputs of the variables. The results suggest that there are improvements, yet still the Naïve is more accurate for both datasets.

<table>
<thead>
<tr>
<th>Forecasting</th>
<th>Now-casting</th>
</tr>
</thead>
<tbody>
<tr>
<td>w = 20</td>
<td>w = 24</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>ARX</td>
<td>1.188</td>
</tr>
<tr>
<td></td>
<td>1.145</td>
</tr>
<tr>
<td>ARX (All)</td>
<td>1.185</td>
</tr>
<tr>
<td>ARX (FB)</td>
<td>1.184</td>
</tr>
<tr>
<td></td>
<td>1.164</td>
</tr>
</tbody>
</table>

**4.5.3. Performance across life-cycle stages**

Since the search traffic seems not to add much value over the entire life-cycle, we investigate different life-cycle stages. Table 7 presents the results for the scenario of three-week-ahead forecasts with a window size of 20, for different weeks since launch. Recalling the typical nature of the demand pattern shown in Figure 1a, one would expect that search traffic information would be particularly useful towards the beginning of the life-cycle, where there are lots of spikes. However, as we can see from the results, ARX performs poorly for the first few origins and only towards the end of life it starts to outperform the simpler AR model. In this sense, the forecasting performance of the search traffic model is much worse during the first year of sales than any univariate model. We found this behaviour to be consistent with other window sizes and forecasting horizons.

Table 8 provides the forecasting results for the online videos across life-cycle. We classify the life-cycle phases according to Rogers (2003), with the splits accounting for the percentage of total views. The results show that social network information is not able to deliver additional forecasting performance in any of the life-cycle phases and the forecasting performance is quite consistent during the entire life-cycle, apart from the innovator phase.
Table 7: Forecasting performance for video games over life-cycle

<table>
<thead>
<tr>
<th>Weeks after launch</th>
<th>28-35</th>
<th>36-43</th>
<th>44-51</th>
<th>52-EOL</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARX</td>
<td>1.665</td>
<td>1.308</td>
<td>1.200</td>
<td>1.110</td>
</tr>
<tr>
<td>AR</td>
<td>1.560</td>
<td>1.292</td>
<td>1.184</td>
<td>1.161</td>
</tr>
<tr>
<td>ETS</td>
<td>1.046</td>
<td>1.119</td>
<td>1.046</td>
<td>1.071</td>
</tr>
<tr>
<td>ARIMA</td>
<td>1.244</td>
<td>1.190</td>
<td>1.081</td>
<td>1.049</td>
</tr>
<tr>
<td>Naïve</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
</tr>
</tbody>
</table>

\[ w = 20, h = 3 \]

\[ ^\dagger \text{Different at 95%-significance to ARX and all other benchmark models.} \]

\[ ^* \text{Different at 95%-significance to ARX model.} \]

Table 8: Forecasting performance for online videos over life-cycle

<table>
<thead>
<tr>
<th>Life-cycle phases (%-of life-time views)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovators</td>
</tr>
<tr>
<td>(2.5%)</td>
</tr>
<tr>
<td>ARX (All)</td>
</tr>
<tr>
<td>ARX (FB)</td>
</tr>
<tr>
<td>AR</td>
</tr>
<tr>
<td>ETS</td>
</tr>
<tr>
<td>ARIMA</td>
</tr>
<tr>
<td>Naïve</td>
</tr>
<tr>
<td>sNaïve</td>
</tr>
</tbody>
</table>

\[ w = 24, h = 12 \]

\[ ^* \text{Different at 95%-significance to ARX model.} \]

5. Discussion

5.1. Reasons for poor performance

The reader may ask why did the models with the explanatory variables from online platforms perform so poorly compared to the benchmarks? Or why did the Naïve perform that well? Both datasets contain noisy time series with demand spikes, due to renewed interest by the consumers/viewers. Such time series are notoriously difficult to predict without causal information, which can explain the competitiveness of the Naïve forecast against the other univariate forecasts. This paper set out to evaluate the usefulness of online platform variables for this purpose. We found that in many cases the ARX forecasts outperformed some of the benchmarks, but in no cases, all of them, and overall the impression was that the inclusion of these variables helped only marginally, if at all.
Although our empirical evaluation has its limitations, and we do not claim that the results generally hold for other applications and datasets, it should encourage researchers and practitioners to think critically about the predictive capabilities of such data.

As discussed in Section 2, a large number of publications were not strictly in a predictive setup, or when such was used, the forecast horizons were too short to support operational decision making. Requiring forecasts for longer horizons implies an expectation that any causality between internet search traffic or social network shares and sales will hold. However, it is not uncommon that internet searches and buying decisions are made instantly or with a very short lag. Such impulsive buying decisions do not allow the manager to take any reactive operational decisions. Our experiments support this interpretation and also agree with the findings by Ruohonen and Hyrynsalmi (2017) who raise similar concerns. It is unfortunate that the surveyed literature has mostly neglected this; reporting forecasting results that do not match realistic applications does not add new insights into the usefulness of such information.

As we have highlighted in Section 2.4, an unhelpful characteristic of many of the published papers has been their weak experimental design, in particular concerning their choice of benchmarks. In our two case studies, we found many cases were the ARX model outperformed single benchmarks, typically its univariate equivalent, but when tested against a set of well known and reliable univariate models it was never the best performing. We have stressed the need for thorough evaluation (Armstrong, 2006; Armstrong and Collopy, 1992). However many publications, in this relatively new modelling research, come from various disciplines that do not strongly adhere to these principles. Therefore, it is important to retain a critical view of the usefulness of such information against well established and tested forecasting models. This is particularly relevant for practitioners, who would need to invest in developing new systems.

5.2. Challenges in practice

There are many potential pitfalls when collecting data from internet sources which we discussed in Section 3. For instance, we underestimated the effort needed for data cleaning. Our data obtained from social networks and YouTube contained
many arbitrary spikes and changes in volume. We assume that these numbers vary
because of potential click bait validation and synchronisation between servers.

User generated content has been praised for its availability at high frequency,
i.e. hourly or even minutes (Tirunillai and Tellis, 2012). However, at a high sam-
pling frequency, the collected values may become unreliable, which may also ex-
plain to some extent the weak forecasting in our results. While the fast data-stream
allows for very granular sampling rate, increased volatility, multiple-seasonalities
and intermittency are introduced.

One further complication in practice might be how timely the data becomes
available. Most studies, including the one at hand, collect the data ex-post which
makes it relatively easy to find matchings keywords. However, given a relatively
new product, such signals might not be easy to identify, as search volume or reviews
need to build up first. There is a lack of research as to when such signals appear
strong enough and when they decline towards the end of the product life-cycle.

As discussed in Section 3.3, a further complication can be the selection of
keywords. In our case, we used the video game title, which turned out to be highly
correlated to sales. In practice, not all products or services will have such a distinct
search keyword, and the signal can become distorted by unrelated search events to
the product in question. Another issue is that the desired keyword may have too
little search volume (Barreira et al., 2013). This limitation becomes more severe
when looking at a disaggregate level. Cui et al. (2017) and Seebach et al. (2011)
both suggest using hierarchical disaggregation methods for generating SKU level
forecasts. However, we are unaware of any study that evaluates the forecasting
performance of categorical and geographical disaggregation methods with internet
platform data.

6. Conclusions

In this paper, we investigated whether search traffic and social network shares
are helpful in improving demand forecasting. We first looked at the existing lit-
erature and identified limitations regarding their experimental design, both from
a statistical and practical point of view. Although the majority of publications
argued favourably as to the value of such data, our recommendation for researchers
and practitioners is to take a more critical stance in using it for forecasting.
From a forecasting point of view, we did not find substantial differences regarding predictive power in different phases of the life-cycle. However, it is beyond the scope of this study to explore the usefulness of this information prior to launch. There is active research in this area with promising findings (e.g. Kim et al., 2015; Xiong and Bharadwaj, 2014; Kulkarni et al., 2012). It may still be very useful in different forecast settings, such as nowcasting or by providing insights into consumer behaviour. However, we underline the need for adequate benchmarking and thorough forecast evaluation. All benchmarks used in this study are well researched and understood forecasting models, which nowadays are trivial to deploy and automate in a practical setting. At least, these should be outperformed before the inclusion of additional explanatory variables would be warranted. Researchers and practitioners should also be aware of the data complexity, potential biases and dependency from the platform providers.

Naturally, our evaluation has limitations, but it supports aspects of our critical stance towards the literature. One could argue that our comparison is unfair since ARIMA or ETS could also be augmented with additional variables. Although this is a limitation of our design, specifying ARIMA or ETS with automated explanatory variable selection is challenging and neither approach lend to readily select variables with a lasso. We also looked exclusively at linear models and preferred modelling approaches that could be automated and scaled up, reflecting the needs of the practice. Although we did not find any evidence of non-linearity by exploring the datasets in our case studies, this will not be true for every application. For example, Cui et al. (2017) postulate that non-linear models are the most effective to include social media information. Our work leaves space for experimenting with more exotic linear or non-linear models.

A. Supporting tables for the literature review

Supplementary tables to this article are available online.

References


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