Demand forecasting

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Survey methods of demand forecasting ….continuation

. Surveys of Managerial Plans:

- Surveys of managerial plans can be an important source of data for forecasting.
- The rationale for conducting such surveys is that plans generally form the basis for future actions.
- For example, capital expenditure budgets for large corporations are usually planned well in advance. Thus a survey of investment plans by such corporations should provide a reasonably accurate forecast of future demand for capital goods.

Survey methods of demand forecasting ….continuation

i. Market Experiments:

- Market experiments (actual or simulated) are performed to generate demand forecasts.
- A potential problem with survey method is that survey responses may not translate into actual consumer behavior.
- Consumers do not necessarily do what they say they are going to do.
- This weakness can partially be overcome by use of market experiments designed to generate data prior to the full-scale introduction of a product or implementation of a policy.

Survey methods of demand forecasting ….continuation

Market experiment can be performed in two forms:

(a) Test Market:

- In order to set a market experiment the firm first selects a test market that may consist of several cities, a region of the country, or a sample of consumers taken from a mailing list.
- The experiment may incorporate a number of features such as evaluating consumer perception of a new product in the test market.
- In other cases, different prices for an existing product might be set in various cities in order to determine demand elasticity.
- A third possibility would be a test of consumer reaction to a new advertising campaign.

Survey methods of demand forecasting ….continuation

Market experiment can be performed in two forms:

(a) Test Market:

- There are several factors that managers should consider in selecting a test market. The location should be of manageable size.
- If the area is too large it may be expensive and difficult to conduct the experiment and to analyze the data.
- Second, the residents of the test market should be representative of the overall population of the United States in age, education, and income otherwise the results may not be applicable to other areas.
- Finally, it should be possible to purchase advertising that is directed only to those who are being tested.

Survey methods of demand forecasting ….continuation

Market experiment can be performed in two forms:

(b) Laboratory Tests:

- Another way of conducting market experiment is consumer clinic or controlled laboratory experiment.
- Here, consumers are given some money to buy in a stipulated store goods with varying prices, packages, displays etc. and consumers' responsiveness to these variations are studied.
- Thus the laboratory experiment yields the same results as the field market experiment.
- Market experiments have an advantage over surveys in that they reflect actual consumer behavior,

Survey methods of demand forecasting ….continuation

Limitations:

The market experiment methods have certain serious limitations that reduce the reliability of the method considerably:

i. Experimental methods are very expensive so small firms cannot afford them.

ii. Experimental methods are based on short-term and controlled conditions that may not exist in an uncontrolled market. Hence the results may not be applicable to the uncontrollable long-term conditions of the market.

Survey methods of demand forecasting ….continuation

Limitations:

iii. Changes in socio-economic conditions taking place during the field experiments, such as local strikes or lay-offs, advertising program by competitors, political changes, natural calamities, may invalidate the results.

Despite these limitations, however, market experiment method is often used to provide an alternative estimate of demand.

Steps involved in demand forecasting

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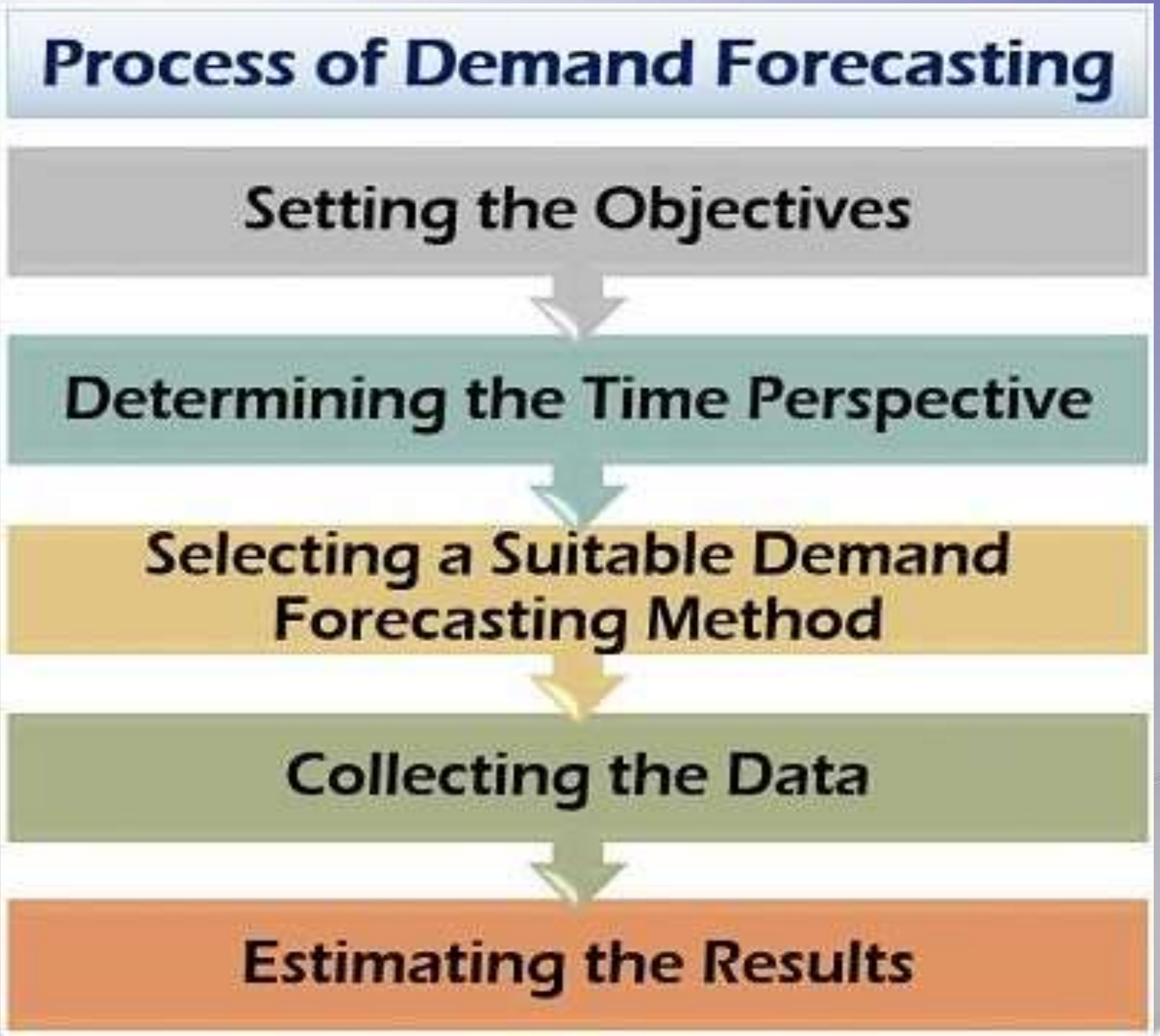

1. Setting the Objective:

Refers to first and foremost step of the demand forecasting process. An organization needs to clearly state the purpose of demand forecasting before initiating it.

a. Deciding the time period of forecasting whether an organization should opt for short-term forecasting or long-term forecasting

b. Deciding whether to forecast the overall demand for a product in the market or only-for the organizations own products

c. Deciding whether to forecast the demand for the whole market or for the segment of the market

d. Deciding whether to forecast the market share of the organization

2. Determining Time Period:

- Involves deciding the time perspective for demand forecasting. Demand can be forecasted for a long period or short period.

- In the short run, determinants of demand may not change significantly or may remain constant, whereas in the long run, there is a significant change in the determinants of demand.

- Therefore, an organization determines the time period on the basis of its set objectives

3. Selecting a Method for Demand Forecasting:

- Constitutes one of the most important steps of the demand forecasting process Demand can be forecasted by using various methods.

- The method of demand forecasting differs from organization to organization depending on the purpose of forecasting, time frame, and data requirement and its availability.

- Selecting the suitable method is necessary for saving time and cost and ensuring the reliability of the data.

4. Collecting Data:

- Requires gathering primary or secondary data.

- Primary' data refers to the data that is collected by researchers through observation, interviews, and questionnaires for a particular research.

- On the other hand, secondary data refers to the data that is collected in the past; but can be utilized in the present scenario/research work.

5. Estimating Results:

- Involves making an estimate of the forecasted demand for predetermined years.
- The results should be easily interpreted and presented in a usable form.
- The results should be easy to understand by the readers or management of the organization.