Survey methods of Demand Forecasting

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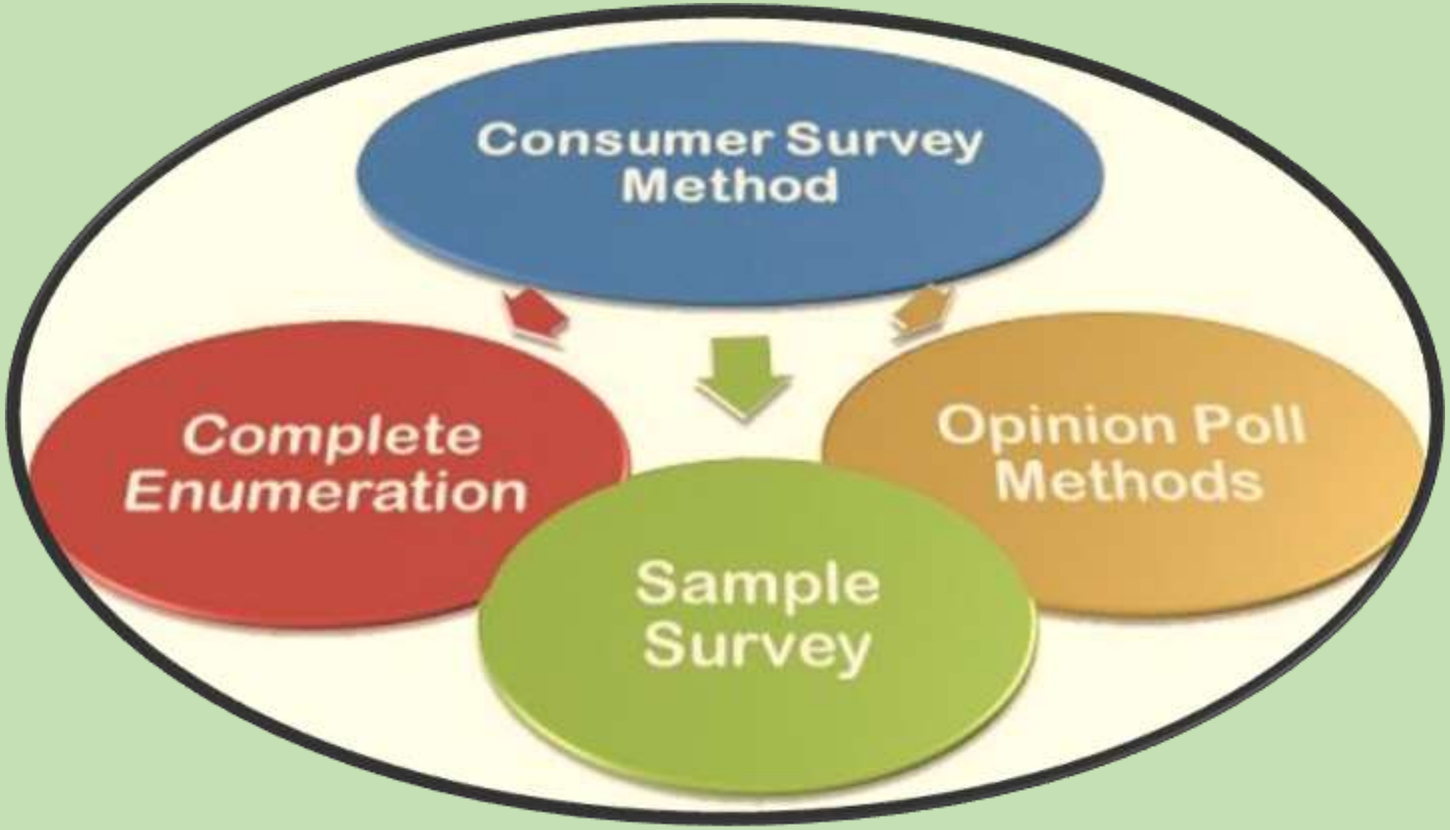
Methods of demand forecasting.:

1. Survey Methods
2. Opinion Poll Methods
3. Statistical Methods.



Survey Methods:
Under survey methods, surveys are conducted about the consumers' intentions, opinions of experts, survey of managerial plans, or of markets. Data obtained through these methods are analyzed, and forecasts on demand are made. These methods are generally used to make short-run forecast of demand.

Consumers' Survey:
Consumers' survey method of demand forecasting involves direct interview of the potential consumers. Consumers are simply contacted by the interviewer and asked how much they would be willing to purchase of a given product at a number of alternative product price levels.

Consumers' survey may take any form as:

a. Complete Enumeration

b. Sample Survey, or

c. End-Use Method

a. Complete Enumeration Method:

In complete enumeration survey, all the consumers of the product are contacted and asked to indicate their plans to purchasing the production in question for the forecast period.

The probable demand of all the consumers are summed up to obtain the sales forecast.

This method facilitates the collection of firsthand information and is free from bias.

The method has its share of **disadvantages** too. This method can be applied in case of those products only whose consumers are located in a certain region.

If the consumers of the product are widely dispersed, this method proves to be costly and time consuming.

Demand estimation through this method may not be reliable because consumers have not thought out in advance what they would do in these hypothetical situations.

a. Complete Enumeration Method:

Disadvantages

Consumers may not be aware of their exact demand and hence may not be able or willing to answer the questions;

The consumers may give hypothetical answers to hypothetical questions;

Their responses may be biased according to their own expectations about the market conditions;

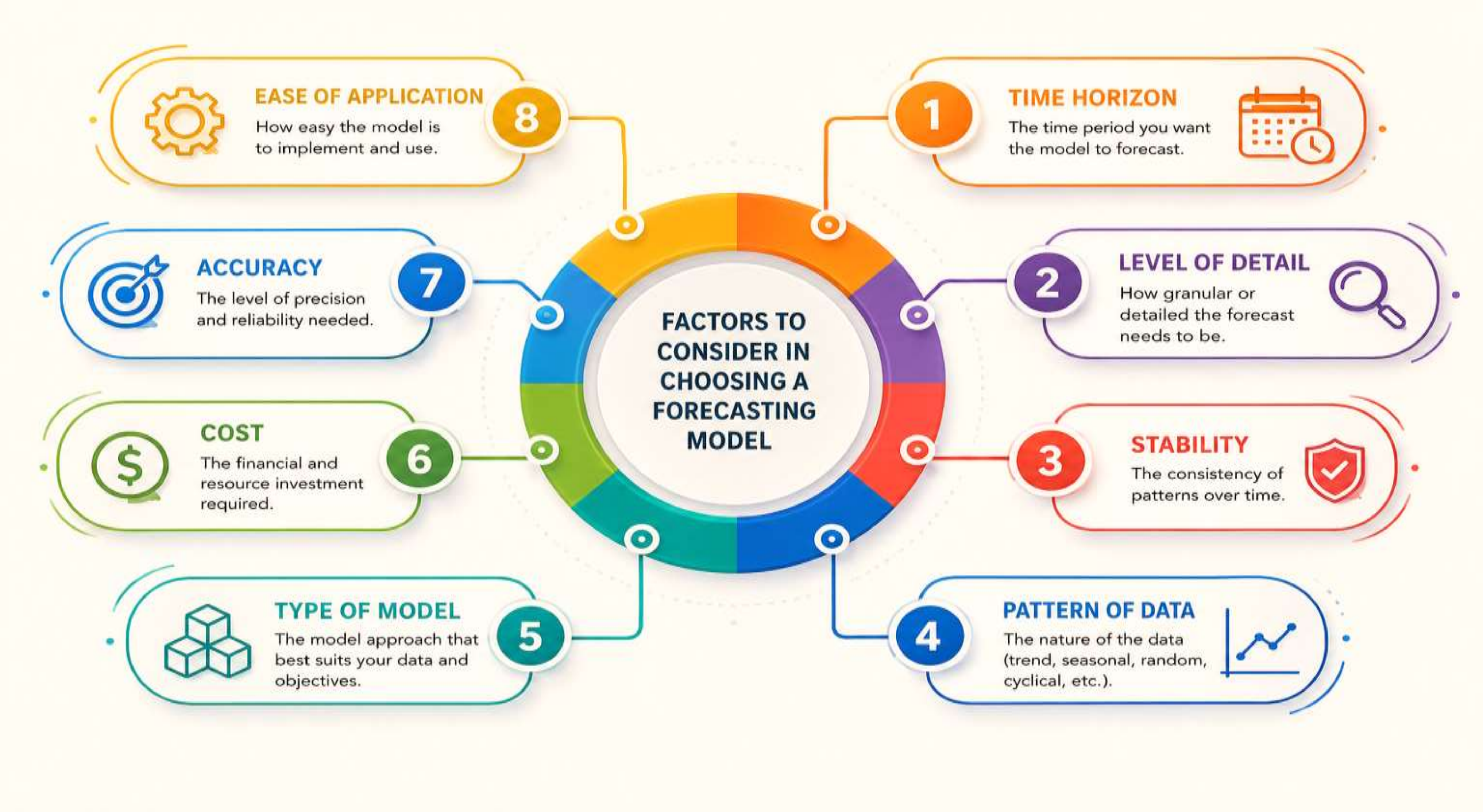
b. Sample Survey Method:

Useful data for forecasting demand can also be obtained from surveys of consumer plans.

Unlike the complete enumeration method, under the sample survey method, only a few potential consumers from the relevant market selected through an appropriate sampling method, are interviewed.

The survey may be conducted either through direct-interview or mailed questionnaire to the sample consumers.

This method is simpler, economical and time- saving as compared to the complete enumeration survey.


FACTORS TO CONSIDER IN CHOOSING A FORECASTING MODEL
1
TIME HORIZON
The time period you want the model to forecast.
2
LEVEL OF DETAIL
How granular or detailed the forecast needs to be.
3
STABILITY
The consistency of patterns over time.
4
PATTERN OF DATA
The nature of the data (trend, seasonal, random, cyclical, etc.).
5
TYPE OF MODEL
The model approach that best suits your data and objectives.
6
COST
The financial and resource investment required.
7
ACCURACY
The level of precision and reliability needed.
8
EASE OF APPLICATION
How easy the model is to implement and use.

b. Sample Survey Method:

Disadvantages

Although surveys of consumer demand can provide useful data for forecasting, their value is highly dependent on the skills of their originators.

Meaningful surveys require careful attention to each phase of the process. Questions must be precisely worded to avoid ambiguity.

The survey sample must be properly selected so that responses will be representative of all customers.

Finally, the methods of survey administration should produce a high response rate and avoid bias

Poorly phrased questions or a nonrandom sample may result in data that are of little value.

c. End-Use Method:

The end-use method of demand forecasting has considerable amount of both theoretical and practical values.

This method involves a survey of firms in all industries using the product and projects the sale of the product under consideration based on demand survey of the industries using this product as an intermediate product.

Demand for the final product is the end-use demand of the intermediate product used in the production of this final product.

The end-use method of demand forecasting consists of four distinct stages of estimation:

(1) Obtain the information about the potential uses of the product in question.

(2) Determine suitable technical ‘norms’ of consumption for each and every use of the product under study.

The end-use method of demand forecasting consists of four distinct stages of estimation:

(3) For the application of the norms, it is necessary to know the desired or targeted levels of output of the individual industries for the reference year and also the likely development in other economic activities which use the product and the likely output targets.

(4) Finally, the product-wise content of the item for which the demand is to be forecast, is aggregated which gives the estimate of demand for the product as a whole for the terminal year in question.

Advantages of End-Use Method:

(1) It helps to estimate the future demand for an industrial product in considerable detail by types and size.

2) The method assists to trace and pinpoint at any time in future as to where and why the actual consumption has deviated from the estimated demand.

2. Opinion Poll Methods:

The opinion poll methods make demand estimation by using opinions of those who possess knowledge of the market, such as professional marketing experts and consultants, sales representatives and executives.

The collective judgment of knowledgeable persons can be an important source of information.

In fact, some forecasts are made almost entirely on the basis of personal insights of key decision makers.

This process may involve managers conferring to develop projections based on their assessment of economic conditions facing the firm.

In other circumstances, the company's sales personnel may be asked to evaluate future prospects.

In still other cases, consultants may be employed to develop forecasts based on their knowledge of the industry.

These methods include:

i. Experts' Opinion:

The researcher identifies the experts on the commodity whose demand forecast is being attempted, and probes with them on the likely demand for the product in the forecast period.

This method consists of securing views of the salesmen and/ or sales management personnel.

The combined view of the sales force as to future sales expectations may be secured by carefully scrutinizing at successive executive levels and future sales estimates submitted by the salesmen individually.

Another method would be to rely only on the specialized knowledge of the company's sales executives in preparing sales forecasts.

The advantages of this method consist of:

(a) This method makes use of specialized knowledge of persons closest to the market;

(b) Provides sales force with greater confidence in getting sales quotas developed;

(c) Greater stability through magnitude of sample;

(d) Placing of responsibility for the forecasts on those who are expected to produce results.

The disadvantages advanced are that:

(a) Salesmen are poor estimators being unduly optimistic;

(b) Salesmen are often unaware of the broad economic patterns and cannot forecast long-term trends;

(c) The sales force's time is in this way curtailed for the primary job of selling; and;

(d) Salesmen may intentionally understate the demand if quotas are set on the basis of this information.

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ii. Delphi Method:

Under Delphi method opinions are collected from experts and efforts are made to match them.

This is done by bringing the experts together, arranging meetings and arriving at some narrow range for the forecast under attempt to give the interval forecast directly and for arriving at a point forecast by tampering it with the overall assessment of the researcher or the coordinator of the forecasting exercise.

Generally, the forecast proceeds through the following stages:

(i) Request is made to all the experts of product to give their individual estimates for the likely demand.

(ii) iii) If the range of variations is still large the exercise continues till the coordinator is able to arrive at an acceptable range.

Generally, the forecast proceeds through the following stages:

(iv) Declare the so arrived range as the interval demand forecast for the product for the period for which it is done.

(v) Take a simple average of the lower and upper values of the forecast and declare the point forecast for the variable under forecasting.

The usefulness of expert opinion depends on the skill and insight of the experts employed to make predictions.

One problem with the Delphi method can be its expense. Frequently, the most knowledgeable people in an industry are in a position to command large fees for their work as consultants