BTEC UNIT Seventeen: Marketing Intelligence

Unit Code: K/601/0955

* Estimating the market demand and potential is an important part of the product planning process. Companies will only invest in projects that earn them a sufficient return on investment; properly forecasting sales and market demand will require a lot of time before a company invests in a new project. Larger companies will devote entire departments to researching and developing products based on consumer demand and market potential.

MARKET DEMAND

* Market demand is the current desire of consumers for the new product or service. Market demand can be determined using surveys, customer reviews or customer requests regarding a need for an item. Companies will use market demand as the base figure for how many units they might sell of their new product or service. Sales beyond the market demand fall under total market potential.
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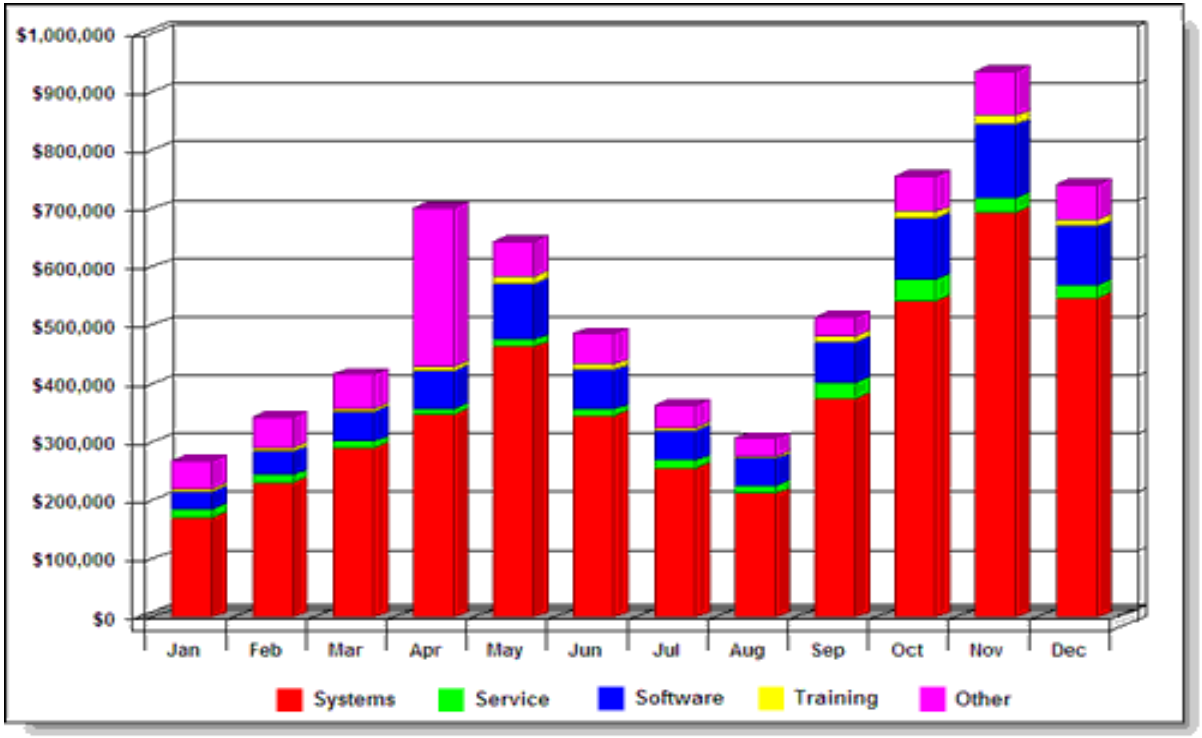
Market Potential

* The total potential sales of a product within a given period of time and for a given geographic area. This is an optimum figure representing the total sales of all prospects that could use the product. Market potential is a macro number and is only used as a benchmark. It is always higher than sales potential.

Sales Forecasting

* Sales forecasting is especially difficult when you don't have any previous sales history to guide you, as is the case when you're working on preparing cash flow projections as part of writing a business plan. Here, Terry Elliott provides a detailed explanation of how to do sales forecasting. –Ed.
* There are all sorts of ways to estimate sales revenues for the purposes of sales forecasting.
* One point to remember when forecasting is that if you plan to work with a bank for financing, you will want to do multiple estimates so as to have more confidence in the forecast. How do you do this?

SALES FORECAST GRAPH



Demand Vs. Sales

* **Sales Demand** is were businesses are forced to look well ahead in order to plan their investments, launch new products, decide when to close or withdraw products and so on. The sales forecasting process is a critical one for most businesses. Key decisions that are derived from a sales forecast include:
* - Employment levels required - Promotional mix - Investment in production capacity
* ***Market Demand*** *for a product is the total volume that would be bought by a defined customer group, in a defined geographical area, in a defined time period, in a given marketing environment. This is sometimes referred to as the Market Demand Curve.*
* For example, consider the UK Overseas Mass Market Package Holiday Industry. What is Market Demand?
* Using the definition above, market demand can be defined as:
* **Defined Customer Group:** Customers Who Buy an Air-Inclusive Package Holiday **Defined Geographical Area:** Customers in the UK **Defined Time Period**: A calendar year **Defined Marketing Environment:** Strong consumer spending in the UK but overseas holidays affected by concerns over international terrorism

Differences in Forecasting Demand for a Product Vs. a Service

* Forecasting demand is a critical planning process for all businesses. The more accurate you are when projecting customer demand, the better prepared you are to put the necessary products or people in place to meet it. The process and implications of forecasting product demand are much different from those involved in service demand.
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People vs. Products

* The primary difference in product versus service demand planning is the resources you prepare. With product demand, your goal is to acquire the necessary inventory and have it in place at the point customers want it. With service demand forecasting, your objective is to have the necessary staff in place to deliver the demanded services. Some companies, such as construction businesses, must plan for both product and service demand.

Excess Costs

* Inflating demand expectations is costly whether dealing with products or people, though the cost factors vary. If you inflate product demand, you risk having to store, manage and handle nonmarketable inventory, which is costly. If you inflate service demand, you may hire full-time employees who remain idle. One advantage with service demand forecasting is that you can hire part-time or temporary workers and release them or send them home early to lower costs. With inventory, you usually have to clearance the excess, attempt to send it back to the supplier or throw it out if it is perishable.
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Risks of Under Forecasting

Underestimating demand is a damaging scenario because you risk alienating new or existing customers. With products, customers may become upset if you don't have goods available when they want them. You risk a lost sale and negative marketplace feedback. When you under forecast for service demand, you may be able to bring in part-time, temporary or seasonal workers. However, this process can cause delays in meeting project or service deadlines you set with customers.

Collaboration

* Forecasting product demand generally involves collaboration with suppliers. When a retailer projects demand for goods in a given store, it makes purchases from a supplier. When you forecast service demand, you typically manage the supply of or allocation of service workers internally. You schedule workers to perform the services. Some companies rely on independent contractors, which may require you to issue contracts well ahead of project orders. However, you avoid paying salaries to unproductive employees.

Sales Forecasting Techniques

* A number of **sales forecasting techniques** are available for the use of businesses, big and small.
* (i) **Top-down forecasting** is a technique commonly used in industrial applications. This is the method commonly used for industrial applications. First, the management makes an estimation of the sales potential before developing the sales quotas. The last stage is the construction of a sales forecast. However, when the underlying assumptions of the past are not applicable, problems arise with this method. Over time, the correlation between the quantity demanded and the economic variables may become weak or change.

Sales Forecasting Techniques

* (ii) **Bottom-up forecasting** is a technique used by analysts wherein the market is broken into segments and the demand for each segment is calculated separately. Industry surveys, intention to-buy surveys and sales force composites are used by analysts to gather data. An aggregate of the segments is used to prepare a total sales forecast.
* This is not a simple technique because the data may not always be accurate or uncomplicated. The data's usefulness depends on the accuracy, completeness and honesty of the customers' responses. It also depends on the importance given to the survey by the sales staff.
* The two forecasting techniques comprise many methodologies which can be classified as causal, qualitative, times-series analysis and regression.

Qualitative Techniques

* Qualitative techniques depend on non-statistical methods of preparing a sales forecast. A company invites the opinion of experts, sales executives, the sales team, the supervisor of the sales department as well as external experts or consultants. Qualitative methods can be said' to be judgmental composites of sales expected or anticipated. These techniques are often preferred in situations when
* (i) the variables affecting consumer buying habits have changed;
* (ii) current data is unavailable;
* (iii) none of the qualitative techniques prove successful in a particular situation;
* (iv) the planning horizon is beyond the reach of the standard quantitative methods
* (v) when the data has not taken into account the technological advances or breakthroughs that have occurred or are expected to occur.

The Probability Assessment Method (PAM)

* The Probability Assessment Method (PAM) forecasts sales volume by employing the opinion of internal experts. This provides probabilities between approximately 1-99 per cent on certain target volumes. To translate these estimates into a cumulative probability curve, analysts plot the volumes by the probabilities they are assigned. This curve helps in forecasting.

Programme Evaluation and Review Technique

* The PERT or Programme Evaluation and Review Technique involves estimates of ‘pessimistic’, ‘optimistic’ and ‘most likely’ future circumstances. These three estimates are considered and weighed by analysts to form an expected value which helps in the computation of a standard deviation. In this manner, analysts convert the small businessman’s estimates into measures of dispersion and central tendency. Due to the standard deviation, it is possible for the forecaster to estimate on interval of confidence around the anticipated value.

References

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