Study Notes- B.B.A. I st year, Business Economics

Demand Forecasting

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Introduction

Business is full of uncertainties and so is the behaviour of the consumer. We see changes in consumer tastes, preferences over time, new products enter the market and new techniques occur. In short, for calculations and specifications of a firm regarding its product, size of output, nature of commodity, quality and sales strategy etc. depends on demand. The most successful firm is one where estimates of demand are very near to the actual demand. It is crucial for both new firms and those planning to expand the scale of production.

Meaning & Definition of Demand Forecasting

In simple words, a demand forecast refers to the production or estimation of a future situation under given circumstances. Some of the important definitions of demand forecasting are as follow:-

According to Philips Kotler " The company's sales forecasts is the expected level of Company sales based on choosing marketing plan and assumed environmental conditions"

According to Cundiff and Still "Demand forecasting is an estimate of sales during a specified future period which is tied to a proposed marketing plan and which assumes a particular set of uncontrollable and a competitive forces.

Thus, demand forecasting is a projection of firm expected level of sales based on true sale marketing plan and environment.

Thus, demand forecasting may be defined as an estimate of sales of products of a company for a certain future period of time. This forecast is made on basis of past performance and present circumstances.

Objectives/ significance of demand forecasting

The objectives of demand forecasting are as follow:-

- Short term objectives
- Long term objectives

Objective of demand forecasting

Short term objectives

- Formulation of production policy
- Regular availability of labour
- Regular supply of raw materiall
- Arrangement of funds
- Price policy formulation

Long term objectives

- Labour requirement
- Arrangement of funds
- To decide about expansion

Short term objectives

The short term objectives are as follow:-

Formulation of production policy:- Sales forecasting enables to formulate the appropriate production policy to overcome the problems related to production and under production.

Regular availability of labour:-Demand forecasting enables us to properly arrange the skilled as well as unskilled workers to meet the production requirements scheduled during a given period of time.

Regular supply of raw material:- By determining the volume of production during a given period of time the entrepreneur can forecast the raw material required in future.

Arrangement of funds:- demand forecasting enables the management to evolve a suitable price strategy. It is so that price does not fluctuate so much during ths periods of inflation.

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Long term objectives

The objectives of demand forecasting in long term are as follow:-

Labour requirements:- Labour cost is the most important component in the cost of production. In the long run, techniques of production may change. Therefore, trained and skilled labours are needed for new job responsibilities. Thus, demand forecasting helps to arrange the skilled labour.

Arrangement of funds:- Assessing the long-term financial needs the long term demand financial needs, the long term demand forecasting enables the management to arrange the long-term finances on reasonable conditions.

To decide about expansion:- Apart from above, the long term demand forecasting enables to plan for a new project, as well as expansion and modernization of the existing unit

Steps of Demand forecasting

In order to have an accurate and meaningful forecasting, the management should proceed according to a systematic plan. The various steps involved in demand forecasting are discussed as under:-

- **Determination of objectives**:- For effective demand forecasting one should have a clarity of objectives. A firm may use demand forecast to determine various things viz. allocation of funds for sales promotion, fixation of price, inventory control etc. approach

- **Selection of product:**- Before forecasting, the entrepreneur might have to select the goods for which forecasting has to be done. Forecasting may be needed for consumer goods or capital goods.

- **Selection of method**:- The next step involved in demand forecasting is selection of method according to which forecasts have to be made. In fact, the scope and success of a particular method depends upon the area of Investigation, degree of accuracy, availability of data etc.

- **Collection of data:**- After selecting the method of demand forecasting and identifying the different factors affecting the demand of a particular product the collection of data is done.

- **Use of Statistical Techniques**:- After obtaining the data, they passed through statistical techniques to deduct the relationship between the different variables, of some may be dependent variable and other independent variables.

- **Interpretation of data:**- After the Statistical Techniques are applied on the data to study the dependent and independent variables the results are analysed and interpreted to get interpreted to get the appropriate information out of them. The correct interpretation of data is very important as the various policies will be based on the some interpretations.

- **Finalizing and implementing the various policies**:- After the data have been interpreted the various policies are detected for implementation. This mean the final implementation of business policies by a business firm based upon the demand forecast.