

Demand Forecasting

Introduction:

- Forecast is becoming the sign of survival and the language of business.
- It helps an organization to reduce risks involved in business activities and make important business decisions.
- The more realistic the forecasts, the more effective decisions can be taken for tomorrow.

Meaning:

- A forecast is a prediction or estimation of a future situation which, by its nature, is unknown.
- It is an objective assessment of the future course of action.
- Forecast can be both physical as well as financial in nature.
- Demand forecasting is different from demand estimation in the sense that the former predicts the future trend of sales, while the latter tries to find out the expected present sales level.

Types of Forecasting:

Passive Forecasting

Where prediction about the future is based on the assumption that the firm does not change the course of its action.

Active Forecasting

Where forecasting is done under the condition of likely future changes in the actions by the firm.

Purpose of Forecasting:

- The purpose of forecasting differs depending on the length of the time span: short-run and long-run forecasts.
- **Short-run forecast**
 - Here, seasonal patterns are of much importance.
 - Helps in preparing a suitable sales/price policy and proper scheduling of output in order to avoid over-stocking or costly delays in meeting the orders.
 - Helps in deciding about necessary modifications in advertising and sales techniques.

Purpose of Forecasting: contd....

- **Long-run forecast**

Helps in capital planning, reducing waste in materials, man-hours, machine time, and capacity.

- Long-run forecasting is normally used for ‘new unit’ planning, expansion of the existing units, planning long-run financial requirements and man-power requirements.

Scope of Forecasting

- Period of Forecast**
- Levels of Forecast**
- General Purpose or Specific Purpose Forecasts**
- Forecasts of Established Products or New Products**
- Types of Commodity for which Forecast is to be Undertaken**
- Miscellaneous Factors to be included or not**

Scope of Forecasting (contd.)

□ Period of Forecast

To decide about the length of period for which the forecasting exercise is being taken up.

- Short period
- Long period

□ Levels of Forecast

Forecasting may be undertaken at any one of the following levels;

➤ Macro-level forecasting

It is concerned with business conditions over the whole economy. These business conditions are measured with the help of some appropriate indices like those relating to national income, industrial production, wholesale prices etc.

Scope of Forecasting (contd.)

➤ **Industry- level forecasting**

Such forecasts can give indications to a firm regarding the direction in which whole will be moving.

➤ **Firm- level forecasting**

A big firm will like to do forecasting of its own product independent of the rest of the firms in the industry.

➤ **Product-line forecasting**

It helps the firm to decide which of the product or products should have priority in the allocation of firms limited resources. eg. Hindustan Lever may like to know whether it should produce more of Surf or Lux or Dalda.

Scope of Forecasting (contd.)

□ General Purpose or Specific Purpose Forecasts

- Forecast may be classified into (i) general and (ii) specific

Though general forecast is useful for a firm, it will be even more helpful if the general forecast is broken down into specific forecasts with respect to commodities, areas of sale, domestic and export markets etc.

□ Forecasts of Established Products or New Products

Problems and methods of forecasting differ in these two cases. For the established products, past sale trend and competitive conditions are known, while this is not so for the new products.

Scope of Forecasting (contd.)

□ Types of Commodity for which Forecast is to be Undertaken

Economists broadly classify goods into;

- Capital Goods
- Durable Goods
- Non-durable Goods

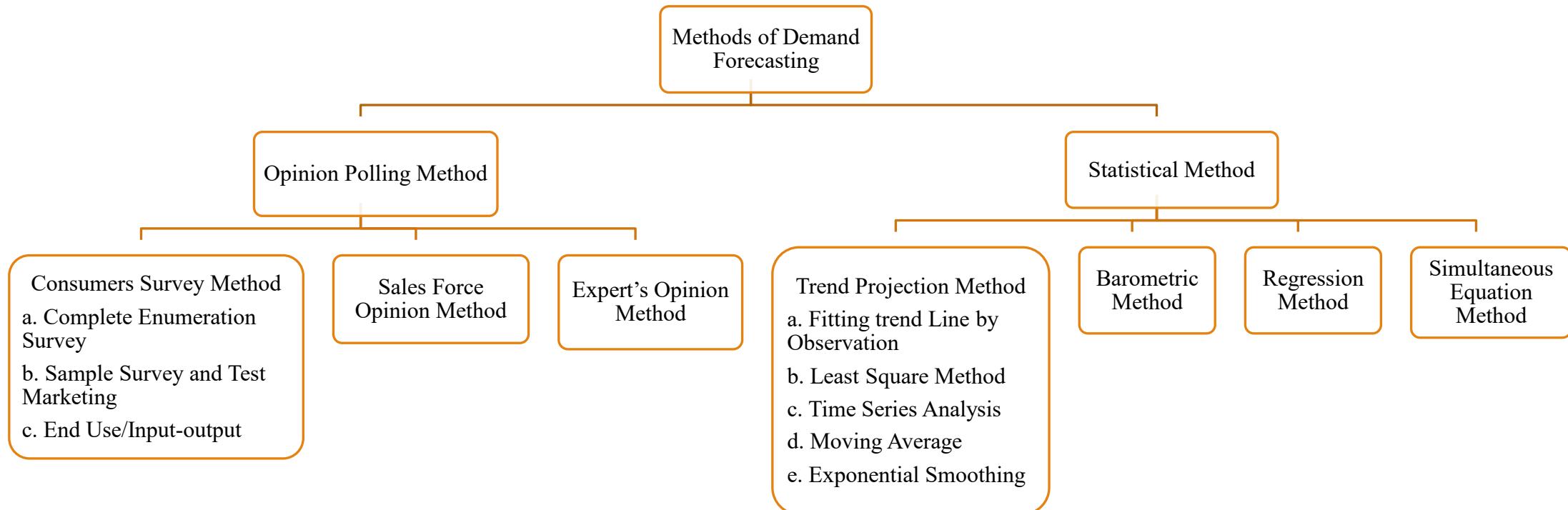
□ Miscellaneous Factors to be included or not

The forecaster has to decide how much the **sociological** and **psychological** factors are going to enter into the exercise of forecasting

Steps involved in Forecasting:

- Identification of Objective**
- Determining the nature of goods under consideration**
- Selecting a proper method of forecasting**
- Interpretation of the results**

Methods:



Opinion Polling Method

Consumers Survey Method

- Complete Enumeration Survey
- Sample Survey and Test Marketing
- End Use/Input-output method

Sales Force Opinion Method

Expert's Opinion Method

Thank you
