

## 4.3 Sales forecasting (HL)

# The big picture

Lego is a Danish toy-making company based in Billund in Denmark. It is famous for its plastic building blocks and bricks. Recently, Lego announced plans to invest more than a billion US dollars in building its first carbon neutral factory in the main business hub of Ho Chi Minh City. Furthermore, Lego has decided to open 150 new stores worldwide, 80 of which will be in China (<https://news.cgtn.com/news/2020-03-22/LEGO-to-open-80-new-stores-in-China-despite-COVID-19-pandemic-P489kudwTS/index.html>). This decision has been taken due to an increase in demand, sales revenue and growth in 2019. A revenue of 30 billion USD has been estimated by the group for between 2019 and 2025. Construction of these new stores should start in 2024 and will help to create up to 4000 jobs over the next 15 years. However, there a few questions that arise from these plans:

- Why does Lego think it will grow so quickly?
- When forecasting its growth, did Lego consider the ongoing disturbances in the supply chain due to the COVID-19 pandemic or other global disruptions, such as climate change or increased regulation on plastic materials?
- Which business management tools did Lego use to come up with the number of 30 billion USD in increased sales revenue from 2019 to 2025?



**Figure 1.** Lego is planning to build a new factory in Ho Chi Minh City and expand its sales into China.

Credit: Ho Ngoc Binh, Getty Images

## Making connections

Business Management is not the only IB subject that uses trend analysis. IB Mathematics and IB Physics also use trend analysis to make predictions. The process is exactly the same. So the steps that you learn in this subtopic can be used to help you in your other IB classes.

## Concept

### Change

The external environment (STEEPLE factors, [Section 1.1.6 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/tool-business-plan-id-36505\)](https://study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/tool-business-plan-id-36505)) in which businesses operate changes all the time. With these changes in mind, the Lego group is preparing to meet increased consumer demand for its building blocks and bricks. Lego is planning to increase global investments in production and retail.

Businesses need tools to help predict and plan for change in the external environment. While studying this section, think about the concept of change that underlies all business activities and planning.

- How do possible future changes in the external environment determine the marketing, human resources, financial and operations planning of a business?

This subtopic will focus on the importance of sales forecasting (predicting sales in the future). Both the benefits and limitations of using sales forecasting will be examined. You will learn how past trends can be used to make sales predictions, by extrapolating data using a line of best fit. And in Section 4.3.3 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/tool-simple-linear-regressions-id-38740) you will learn about some different tools that specialists use to forecast sales.