

## 4.6 New product forecasting

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The definition of a new product can vary. It may be an entirely new product which has been launched, a variation of an existing product (“new and improved”), a change in the pricing scheme of an existing product, or even an existing product entering a new market.

Judgmental forecasting is usually the only available method for new product forecasting, as historical data are unavailable. The approaches we have already outlined (Delphi, forecasting by analogy and scenario forecasting) are all applicable when forecasting the demand for a new product.

Other methods which are more specific to the situation are also available. We briefly describe three such methods which are commonly applied in practice. These methods are less structured than those already discussed, and are likely to lead to more biased forecasts as a result.

### Sales force composite

In this approach, forecasts for each outlet/branch/store of a company are generated by salespeople, and are then aggregated. This usually involves sales managers forecasting the demand for the outlet they manage. Salespeople are usually closest to the interaction between customers and products, and often develop an intuition about customer purchasing intentions. They bring this valuable experience and expertise to the forecast.

However, having salespeople generate forecasts violates the key principle of segregating forecasters and users, which can create biases in many directions. It is common for the performance of a salesperson to be evaluated against the sales forecasts or expectations set beforehand. In this case, the salesperson acting as a forecaster may introduce some self-serving bias by generating low forecasts. On the other hand, one can imagine an enthusiastic salesperson, full of optimism, generating high forecasts.

Moreover a successful salesperson is not necessarily a successful nor well-informed forecaster. A large proportion of salespeople will have no or limited formal training in forecasting. Finally, salespeople will feel customer displeasure at first hand if, for example, the product runs out or is not introduced in their store. Such interactions will cloud their judgement.

## Executive opinion

In contrast to the sales force composite, this approach involves staff at the top of the managerial structure generating aggregate forecasts. Such forecasts are usually generated in a group meeting, where executives contribute information from their own area of the company. Having executives from different functional areas of the company promotes great skill and knowledge diversity in the group.

This process carries all of the advantages and disadvantages of a group meeting setting which we discussed earlier. In this setting, it is important to justify and document the forecasting process. That is, executives need to be held accountable in order to reduce the biases generated by the group meeting setting. There may also be scope to apply variations to a Delphi approach in this setting; for example, the estimate-talk-estimate process described earlier.

## Customer intentions

Customer intentions can be used to forecast the demand for a new product or for a variation on an existing product. Questionnaires are filled in by customers on their intentions to buy the product. A structured questionnaire is used, asking customers to rate the likelihood of them purchasing the product on a scale; for example, highly likely, likely, possible, unlikely, highly unlikely.

Survey design challenges, such as collecting a representative sample, applying a time- and cost-effective method, and dealing with non-responses, need to be addressed.<sup>9</sup>

Furthermore, in this survey setting we must keep in mind the relationship between purchase intention and purchase behaviour. Customers do not always do what they say they will. Many studies have found a positive correlation between purchase intentions and purchase behaviour; however, the strength of these correlations varies substantially. The factors driving this variation include the timings of data collection

and product launch, the definition of “new” for the product, and the type of industry. Behavioural theory tells us that intentions predict behaviour if the intentions are measured just before the behaviour.<sup>10</sup> The time between intention and behaviour will vary depending on whether it is a completely new product or a variation on an existing product. Also, the correlation between intention and behaviour is found to be stronger for variations on existing and familiar products than for completely new products.

Whichever method of new product forecasting is used, it is important to thoroughly document the forecasts made, and the reasoning behind them, in order to be able to evaluate them when data become available.

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9. [Groves et al. \(2009\)](#)↵

10. [Randall & Wolff \(1994\)](#)↵