

Segment: Basics of Managerial Economics

Topic: Demand Forecasting for New Products

Demand Forecasting for New Products

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Demand Forecasting for New Products



Introduction

In this topic, we will discuss the demand forecasting for new products. Demand forecasting for new products means the demand forecasting for a different kind of product, which is different established products. There is no past data or experience available for any of the firms. An intensive study of the economic and competitive characteristics of the product should be made to make efficient forecasts.



Learning Objectives

At the end of this topic, you will be able to:

- list the approaches for demand forecasting of new products
- explain the approaches for demand forecasting of new products.

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1. Demand Forecasting for New Products

Professor Joel Dean, however, has suggested a few guidelines for forecasting the demand of new products, as follows:

- a) Evolutionary approach – The demand for the new product may be considered as an outgrowth of an existing product. For E.g., demand for new Tata Indica, which is a modified version of old Indica can most effectively be projected based on the sales of the old Indica, the demand for new Pulsar can be forecasted based on the sales of the old Pulsar. Thus, when a new product is evolved from the old product, the demand conditions of the old product can be taken as a basis for forecasting the demand for the new product.
- b) Substitute approach – If the new product developed serves as a substitute for the existing product, the demand for the new product may be worked out based on ‘market share’. The growths of demand for all the products have to be worked out based on intelligent forecasts for independent variables that influence the demand for the substitutes. After that, a portion of the market can be sliced out for the new product, e.g., a moped as a substitute for a scooter, a cell phone as a substitute for a landline. In some cases, price plays an important role in shaping future demand for the product.
- c) Opinion poll approach – Under this approach, the potential buyers are directly contacted, or through the use of samples of the new product, their responses are found out. Finally, these are extrapolated to forecast the demand for the new product.
- d) Sales experience approach – Offer the new product for sale in a sample market; say supermarkets or big bazaars in big cities, which are also big marketing centres. The product may be offered for sale through one super market and the estimate of sales obtained may be extrapolated to arrive at estimated demand for the product.
- e) Growth curve approach – According to this, the rate of growth and the ultimate level of demand for the new product are estimated based on the pattern of growth of established products. For E.g., an Automobile Co., while introducing a new version of a car will study the level of demand for the existing car.
- f) Vicarious approach – A firm will survey consumers’ reactions to a new product indirectly by getting in touch with some specialised and informed dealers who have good knowledge about the market, about the different varieties of the product already available in the

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market, the consumers' preferences, etc. This helps in making a more efficient estimation of future demand.

These methods are not mutually exclusive. The management can use a combination of several of them, supplement and cross check each other.

Activity:

The construction industry registers the changes in the demand for various products required in the industry more visibly. Identify changes in demand for housing and trace the changes in demand for steel, cement, etc. during the same period.

2. Summary

Here is a quick recap of what we have learnt so far:

- Under the evolutionary approach, the demand for the new product may be considered as an outgrowth of an existing product.
- If the new product developed serves as a substitute for the existing product, the demand for the new product may be worked out on the basis of 'market share'.
- Under the Opinion poll approach, the potential buyers are directly contacted, or through the use of samples of the new product, their responses are found out.
- According to Growth curve approach, the rate of growth and the ultimate level of demand for the new product are estimated on the basis of the pattern of growth of established products.