

Topic : Demand Forecasting Techniques (Unit-IIIna)

Q. What do you mean by demand forecasting discuss the methods of demand forecasting.

Ans. **Meaning of Demand Forecasting :**

Demand forecasting is, thus an estimation of future demand or sales of a commodity on the basis of an analysis of the past data about the demand or sales of the same. It depicts both the price of the product as well as its expected amount of Demand or sales. Demand Forecasting is not purely imaginary, rather it is an estimation of future demand for a specific period based upon the statistical analysis of the past data. Such estimate are both for quantity as well as price. Some of the important definitions of demand/ sale forecasting are as under:

1. “The company sales forecast is the expected level of company sale based on a chosen marketing plan and assumed environmental conditions.”

Philip Kotler

2 “Sales forecasting is the focus of integrative planning.” William Lazer
It is quite clear from the above definitions that a demand forecast is an estimate based upon some past information’s the prevailing market conditions and the future prospects Such estimates can either be of the total quantity of demand or its monetary value. Furthermore such a forecast can be for a single product or a chain products; for an industry or a single firm; for the whole market of a product or a segment of it; for the short- period or the long-period.

Characteristics of Demand Forecasting :

The main characteristics of demand forecasting are:

1. Demand Forecasting is the foundation of planning
2. It is an estimate of future sales
3. It is made on the basis of past data and the present conditions prevailing the market
4. Demand Forecast can be in monetary terms or physical terms or in both.
5. Demand Forecast are for a define time or a period time
6. Demand Forecast is based upon two things
 - (i) Marketing plan
 - (ii) The economic and other factors (these factors are competition, tastes of the consumers, the substitutes and their prices etc.)

Factors Involved in Demand Forecasting

1. Duration
2. Level
3. Method of Forecasting
4. General or specific Forecasting
5. Classification of Goods
6. Variables
7. Position of commodity in the market
8. Nature of market
9. Specific Factors Relating to commodity and market
- 10 Information

Objective of Demand Forecasting

The objective of Demand forecasting can be divided into two categories:

(A) Short run objectives:

The forecasts that are made for a period ranging between a week and an year are called as short-run forecasts. Such forecasts are done by a business man of highly dynamic nature. The objectives of such forecasts are as under:

1. Formulation of suitable Production Policy
2. Regular Supply of Raw material
3. Best utilization of Machine Capacity
4. Determination of Appropriate Price Policy
5. Regular Supply of Labour
6. Setting sales targets and establishing control and Incentives
7. Forecasting Short run and financial needs

Long-term objectives:

The prediction made for a period of more than one year for the purpose of long term planning of business activities of a firm are termed as long term factor. Their objectives are as under:

1. Plant Capacity Planning
2. Man Power Planning
3. Long run Production Planning
4. Financial Planning

5. Organizational Planning

Role of Demand Forecasting :

Demand forecasting is the art of estimating or predicting the future demand for the product. Such forecasts can be for the total demand for the whole industry or a particular firm of the industry. The uses of these forecasts for a business firm are as follows.:

1. Basis for Future Plans
2. Production in conformity with demand
3. Identifications of forces influencing demand
4. Helpful in the projecting standards
5. Helpful in formulating suitable price policy
6. Helpful in determining suitable price policy
7. Useful in Estimating Financial Requirements

Essentials of Good Forecasting System:

1. Accuracy
2. Simplicity
3. Plausibility
4. Practicability
5. Availability
6. Economy
7. Stability
8. Flexibility

Factors Affecting Sales Forecast:

Sales forecasting is an important but a difficult process. There are so many factors which influence the sales of an enterprise. These are categorised in five sections:

1. Internal Conditions of the firm
2. Conditions within the industry
3. Competitive Conditions
4. General Business Conditions
5. Socio-economic conditions

Methods of demand forecasting of an established products

1. Survey of Buyer's Intention
 2. Group Executive Judgement
 3. To know collective Opinion
 4. Experts Opinion
 5. Market Research
 6. Statistical and quantitative methods
- (A) Direct /short cut method
- (B) Least Squares Method