Demand Forecasting

Demand forecasting is a combination of two words; the first one is Demand and another forecasting. Demand means outside requirements of a product or service. In general, forecasting means making an estimation in the present for a future occurring event.

Demand Forecasting

It is a technique for estimation of demand of a product or services in the future. It is based on the analysis of past demand for that product or service in the present market condition. Demand forecasting should be done on a scientific basis and facts and events related to forecasting should be considered.

Therefore, in simple words, we can say that after gathering information about various aspect of the market demand based on the past, an attempt may be made to estimate future demand. This concept is called forecasting of demand.

Usefulness of Demand Forecasting

Demand plays a vital role in the decision making of a business. In competitive market conditions, there is a need to take correct decision and make planning for future events related to business like a sale, production, etc. The effectiveness of a decision taken by business managers depends upon the accuracy of the decision taken by them.

Demand forecasting reduces risk related to business activities and helps it to take efficient decisions. For firms having production at the mass level, the importance of forecasting had increased more. A good forecasting helps a firm in better planning related to business goals.

There is a huge role of forecasting in functional areas of accounting. Good forecast helps in appropriate production planning, process selection, capacity planning, facility layout planning, and inventory management, etc.

Demand forecasting provides reasonable data for the organization’s capital investment and expansion decision. It also provides a way for the formulation of suitable pricing and advertisement strategies.

Factors Affecting Demand Forecasting

Demand is never constant and fluctuates with the change in certain factors related to the commodity and the market in which the business operates. With the changing demand, it's forecasting also varies.

Following are some of the factors which influence the demand forecasting of a commodity:

Price of Goods: Demand estimation is highly dependant on the price of goods or services. The pricing policy and fluctuation in the present price can give an idea of change in demand for that particular commodity.

Type of Goods: The kind of commodity, its features and usability determines the customer base it is going to cater. The demand for existing goods can be easily estimated by following the previous sales trend, competitors' analysis and substitutes available. Whereas, the demand for a new product on the market is difficult to predict.

Competition: The level of competition in the market supports the process of demand forecasting. It is easy to predict sales in a less competitive market, whereas the same becomes difficult in a market where the new firms can freely enter.

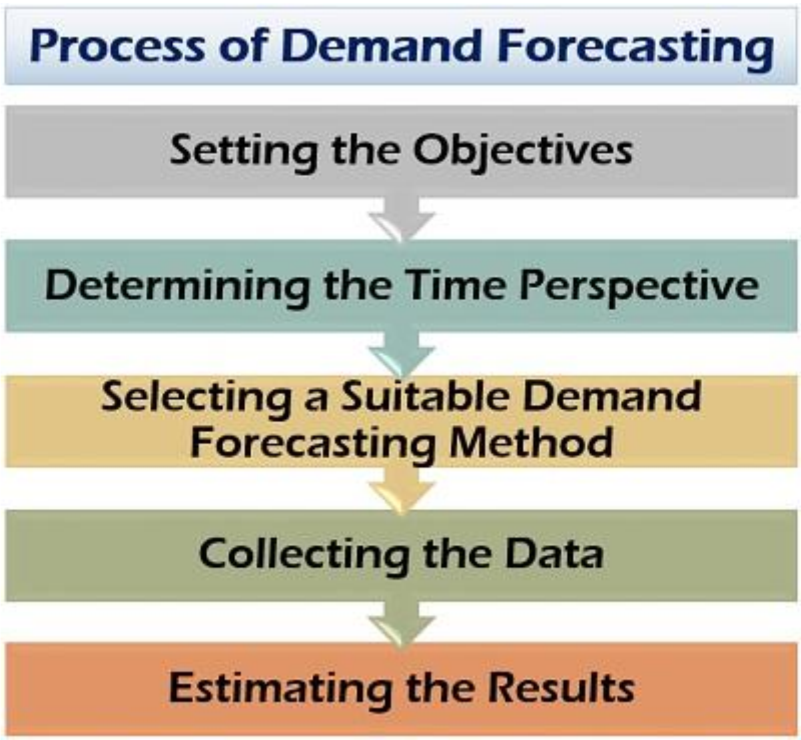
Technology: The demand for any product or service changes drastically with the advancement in technology. Therefore, it is essential for an organisation to be aware of technological development while forecasting the demand for any commodity.

Economic Perspective: Being updated with economic changes and growth is necessary for demand forecasting. It assists the organisation in preparing for future possibilities and analysing the impact of economic development on sales.

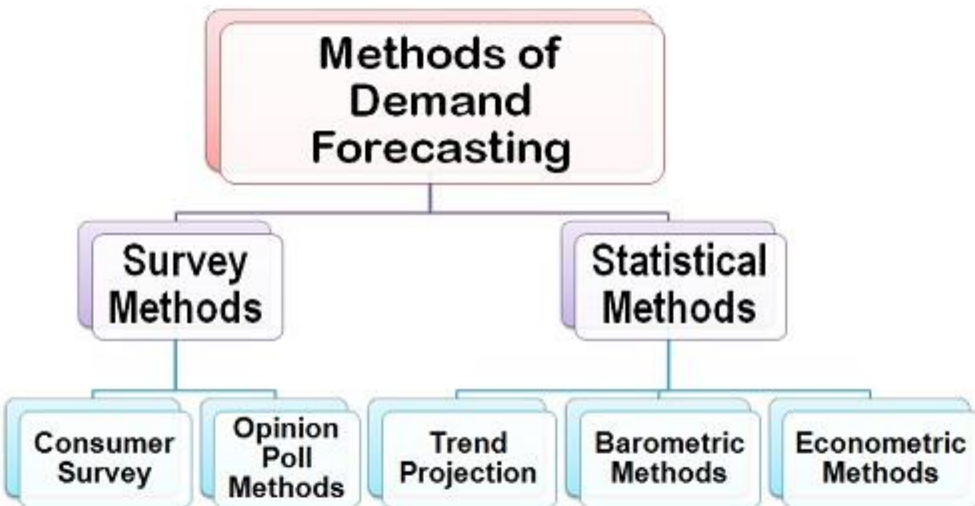
Process of Demand Forecasting

Demand forecasting is not based on assumptions but is a systematic and scientific process of estimating future sales and performance as well as directing the resources accordingly.

The steps involved in a standard demand forecasting process are as follows:



The methods of forecasting can be classified into two broad categories:



1.**Survey Methods**: Under the survey method, the consumers are contacted directly and are asked about their intentions for a product and their future purchase plans. This method is often used when the forecasting of a demand is to be done for a short period of time. The survey method includes:

- Consumer Survey Method
- Opinion Poll Methods

2.**Statistical Methods**: The statistical methods are often used when the forecasting of demand is to be done for a longer period. The statistical methods utilize the time-series (historical) and cross-sectional data to estimate the long-term demand for a product. The statistical methods are used more often and are considered superior than the other techniques of demand forecasting due to the following reasons:

- There is a minimum element of subjectivity in the statistical methods.
- The estimation method is scientific and depends on the relationship between the dependent and independent variables.
- The estimates are more reliable
- Also, the cost involved in the estimation of demand is the minimum.

The statistical methods include:

- **Trend Projection Methods**
- **Barometric Methods**
- **Econometric Methods**

These are the different kinds of methods available for demand forecasting. A forecaster must select the method which best satisfies the purpose of demand forecasting.