E. Demand forecasting techniques.

After gathering information about various aspects of the market and demand from primary and secondary sources, an attempt may be made to estimate future demand. A wide range of forecasting methods are available to the market analyst. These may be divided into three categories: qualitative methods, time series projection methods, and casual methods.

1.Qualitative methods

The important qualitative methods are as follows.

a. Jury of executive opinion method: Very popular in practice, this method calls for the pooling of views of a group of executives on expected future sales and combining them into a sales estimate.

b. Delphi method: This method involves converting the views of a group of experts, who do not interact face – to – face, into a forecast through an iterative process.

2.Time series projection methods

These methods generate forecasts on the basis of an analysis of the historical time series. The important time series projection methods are as follows:

a. Trend projection method: Very popular in practice, the trend projection method involves extrapolating the past trend onto the future.

b. Exponential smoothing method: In exponential smoothing, forecasts are modified in the light of observed errors.

c. Moving average method: According to this method, the forecast for the next period represents a simple arithmetic average or a weighted arithmetic average of the last few observations.

Casual methods

More analytical than the preceding methods, causal methods seek to develop forecasts on the basis of cause – effect relationships specified in an explicit, quantitative manner. The important methods under this category are as follows:

a. Chain ratio method: A simple analytical approach, this method calls for applying a series of factors for developing a demand forecast.

b. Consumption level method: Useful for a product that is directly consumed; this method estimates consumption level on the basis of elasticity coefficients, the important ones being the income elasticity of demand and the price elasticity of demand.

c. End use method: Suitable for intermediate products, the end use method develops demand forecasts on the basis of the consumption's coefficient of the product for various uses.

d. Leading indicator method: According to this method, observed changes in leading indicators are used to predict the changes in lagging variables.

e. Econometric method: Perhaps the most sophisticated forecasting tool, the econometric method involves estimating quantitative relationship derived from economic theory.

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