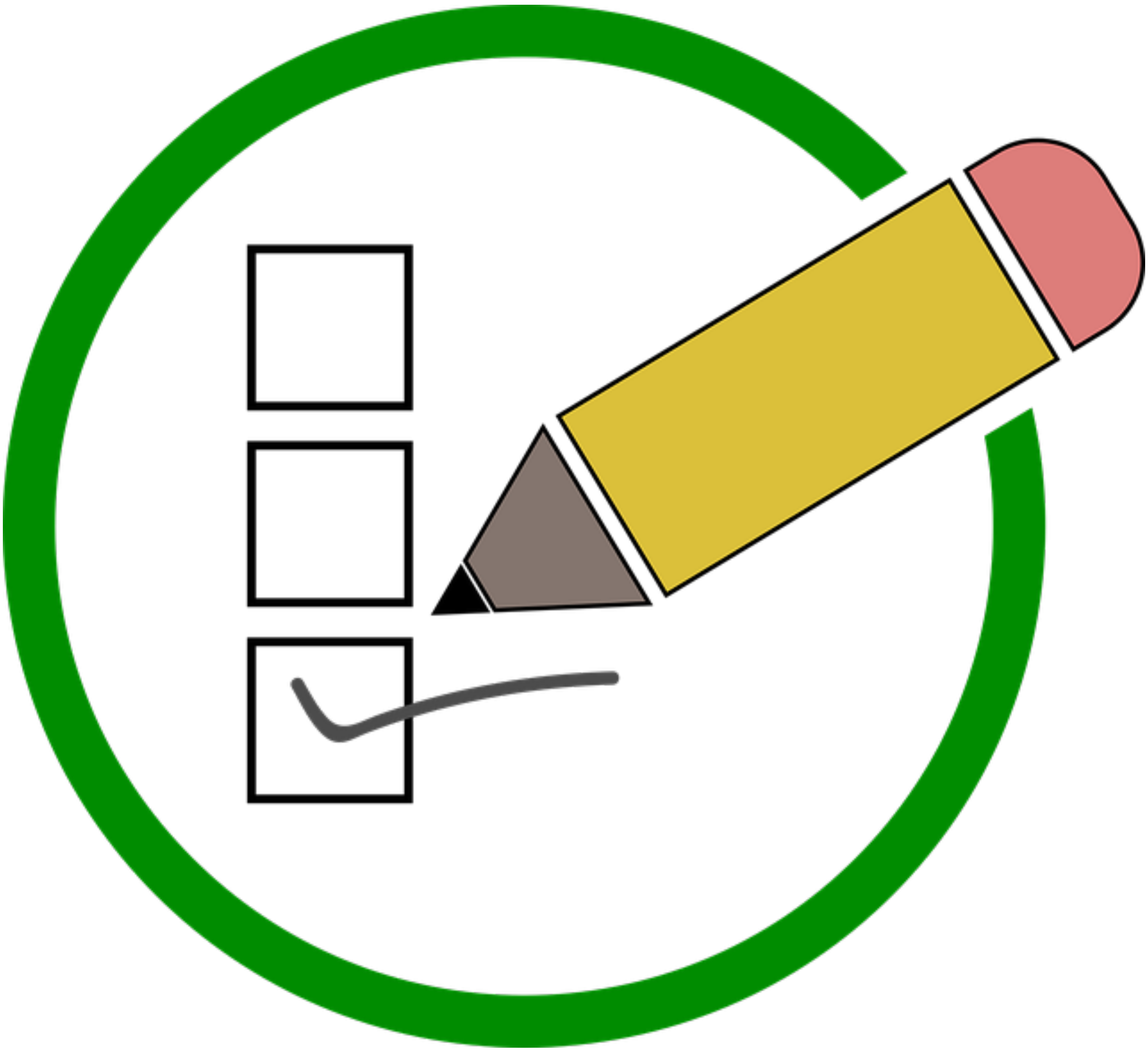
Forecasts, at their basic level, are simply someone's guess as to what will happen. Each estimate, though, is the product of a process. Several such processes are available to marketing executives, and the final forecast is likely to be a blend of results from more than one process. These processes will be looked at here.

Customer and Channel Surveys



In some markets, particularly in business-to-business markets, research companies ask customers how much they plan to spend in the coming year on certain products. Have you ever filled out a survey asking if you intend to buy a car or refrigerator in the coming year? Chances are your answers were part of someone's forecast. Similarly, surveys are done for products sold through distributors. Companies then buy the surveys from the research companies or do their own surveys to use as a starting point for their forecasting. Surveys are better at estimating market potential than sales potential, however, because potential buyers are far more likely to know they will buy something—they just don't know which brand or model. Surveys can also be relatively costly, particularly when they are commissioned for only one company.

Sales Force Composite

A sales force composite is a forecast based on estimates of sales in a given time period gathered from all of a firm's salespeople. Salespeople have a pretty good idea about how much can be sold in the coming period of time (especially if they have bonuses riding on those sales). They've been calling on their customers and know when buying decisions will be made.

Salespeople are more accurate in their near-term sales estimates, as their customers are not likely to share plans too far into the future. Consequently, most companies use sales force composites for shorter-range forecasts in order to more accurately predict their production and inventory requirements

Executive Opinion

- Executive opinion is exactly what the name implies: the best-guess estimates of a company's executives. Each executive submits an estimate of the company's sales, which are then averaged to form the overall sales forecast. The advantages of executive opinions are that they are low cost and fast and have the effect of making executives committed to achieving them. An executive-opinion-based forecast can be a good starting point. However, there are disadvantages to the method, so it should not be used alone. These disadvantages are similar to those of the sales force composites. If the executives' forecast becomes a quota upon which their bonuses are estimated, they will have an incentive to underestimate the forecast so they can meet their targets. Organizational factors also come into play. A junior executive, for example, is not likely to forecast low sales for a product that his or her CEO is pushing, even if low sales are likely to occur.

Expert Opinion

Expert opinion is similar to executive opinion except that the expert is usually someone outside the company. Like executive opinion, expert opinion is a tool best used in conjunction with more quantitative methods. As a sole method of forecasting, however, expert opinions are often very inaccurate. Just consider how preseason college football rankings compare with the final standings. The football experts' predictions are usually not very accurate.

Time Series Techniques

Time series techniques examine sales patterns in the past in order to predict sales in the future. For example, with a trend analysis, the marketing executive identifies the rate at which a company's sales have grown in the past and uses that rate to estimate future sales. For example, if sales have grown 3 percent per year over the past five years, trend analysis would assume a similar 3 percent growth rate next year.

A simple form of analysis such as this can be useful if a market is stable. The problem is that many markets are not stable. A rapid change in any one of a market's dynamics is likely to result in wide swings in growth rates. Just think about auto sales before, during, and after the government's Cash for Clunkers program. What sold the previous month could not account for the effects of the program. Consequently, if an executive were to have estimated auto sales based on the rate of change for the previous period, the estimate would have been way off.