

Correlational Analysis



Correlational Analysis is a form of trend analysis that estimates sales based on the trends of other variables. For example, furniture-company executives know that new housing starts (the number of new houses that are begun to be built in a period) predict furniture sales in the near future because new houses tend to get filled up with new furniture. Such a correlate is considered a leading indicator, because it leads, or precedes, sales. The Conference Board publishes an Index of Leading Indicators, which is a single number that represents a composite of commonly used leading indicators. Some of these leading indicators are housing starts, wholesale orders, orders for durable goods (items like refrigerators, air conditioning systems, and other long-lasting consumer products), and even consumer sentiment, or how consumers think the economy is doing.

Response Models

Some companies create sophisticated statistical models called response models, which are based on how customers have responded in the past to marketing strategies. JCPenney, for example, takes previous sales data and combines it with customer data gathered from the retailer's Web site. The models help JCPenney see how many customers are price sensitive and only buy products when they are on sale and how many customers are likely to respond to certain offers. The retailer can then estimate the sales for products by market segment based on the offers and promotions directed at those segments.

Market Tests

A market test is an experiment in which the company launches a new offering in a limited market in order to gain real-world knowledge of how the market will react to the product. Since there isn't any historical data on how the product has done, response models and time-series techniques are not effective. A market test provides some measure of sales in response to the marketing plan, so in that regard, it is like a response model, just based on limited data. The demand for the product can then be extrapolated to the full market. However, remember that market tests are visible to your competitors, and they can undertake actions, such as drastic price cuts, to skew your results.