CHAPTER 3 *COLLECTING INFORMATION AND FORCASTING DEMAND*

LEARNING OBJECTIVES

In this chapter, we will address the following questions:

1. What are the components of a modern marketing information system?
2. What are useful internal records for such a system?
3. What makes up a marketing intelligence system?
4. What are some influential macro-environment developments?
5. How can companies accurately measure and forecast demand?

CHAPTER SUMMARY

1. To carry out their analysis, planning, implementation, and control responsibilities, marketing managers need a marketing information system (MIS). The role of the MIS is to assess the managers' information needs, develop the needed information, and distribute that information in a timely manner.

2. An MIS has three components: (a) an internal records system, which includes information on the order-to-payment cycle and sales information systems; (b) a marketing intelligence system, a set of procedures and sources used by managers to obtain everyday information about pertinent developments in the marketing environment; and (c) a marketing research system that allows for the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation.

3. Marketers find many opportunities by identifying trends (directions or sequences of events that have some momentum and durability) and megatrends (major social, economic, political, and technological changes that have long-lasting influence).

4. Within the rapidly changing global picture, marketers must monitor six major environmental forces: demographic, economic, social-cultural, natural, technological, and political-legal.

5. In the demographic environment, marketers must be aware of worldwide population growth; changing mixes of age, ethnic composition, and educational levels; the rise of nontraditional families; and large geographic shifts in population.

6. In the economic arena, marketers need to focus on income distribution and levels of savings, debt, and credit availability.

7. In the social-cultural arena, marketers must understand people's views of themselves, others, organizations, society, nature, and the universe. They must market products that correspond to society's core and secondary values and address the needs of different subcultures within a society.

8. In the natural environment, marketers need to be aware of the public's increased concern about the health of the environment. Many marketers are now embracing sustainability and green marketing programs that provide better environmental solutions as a result.

9. In the technological arena, marketers should take account of the accelerating pace of technological change, opportunities for innovation, varying R&D budgets, and the increased governmental regulation brought about by technological change.

10. In the political-legal environment, marketers must work within the many laws regulating business practices and with various special-interest groups.

11. There are two types of demand: market demand and company demand. To estimate current demand, companies attempt to determine total market potential, area market potential, industry sales, and market share. To estimate future demand, companies survey buyers' intentions, solicit their sales force's input, gather expert opinions, analyze past sales, or engage in market testing. Mathematical models, advanced statistical techniques, and computerized data collection procedures are essential to all types of demand and sales forecasting.

OPENING THOUGHT

Students new to the discipline of marketing will probably be surprised at the level of marketing information, intelligence, and arenas that marketing managers must operate within. The instructor is encouraged to stress that the marketing of products/services and the processes of making marketing decisions do not operate without careful consideration of the environments identified in this chapter. Today, marketers must be cognizant of "how" their product or service is perceived as much as "how" it functions.

In many cases, the chief marketing executive of the firm can sometimes see himself/herself as a player in the game of chess. Each move must be carefully chosen for subsequent moves by competition and public scrutiny for acceptance or rejection. Products marketed must meet both the consumer's needs as well as the public's acceptance of the product.

The instructor's challenge for this chapter is to communicate to the students the complexity of and sometimes the conflicting forces impacting marketing managers in the 21st Century.

TEACHING STRATEGY AND CLASS ORGANIZATION

PROJECTS

Semester-long marketing plan: Competitive information and environmental scanning project(s) completed and presented for instructor's review

Commission a marketing research study on topic(s) of interest to the students at your institution. During the course of the semester (15–16 week), have the students develop the questionnaire, collection method, conduct the survey, and tabulate the results. The students can be divided into groups for this project. Suggested topics can include the school or university students' opinions of campus issues such as the athletic program, sale of alcohol, use of and availability of technology, or students' perceptions of their current education experiences.

Sonic PDA Marketing Plan: Marketing information systems, marketing intelligence systems, and marketing research systems are used to gather and analyze data for various parts of the marketing plan. These systems help marketers examine changes and trends in markets, competition, customer needs, product usage, and distribution channels. Some changes and trends may turn up evidence of opportunities or threats.

Sonic has developed information about the competition and competitive situation, but Jane Melody believes more information is needed in preparation for launching the first PDA. Based on the marketing plan contents discussed in Chapter 2, how can you use MIS and marketing research to support the marketing planning for the new PDA.

- For which sections of the plan will you need secondary data? Primary data? Why do you need information for each section?
- Where can you find secondary data that will be useful? Identify two Internet sources and two non-Internet sources. Describe what you plan to draw from each source, and indicate how you will use the data in your marketing plan.
- What primary research will Sonic need to support its marketing strategy, including product management, pricing, distribution, and marketing communication? What questions or issues should Sonic seek to resolve using primary data?
- What technological, demographic, and/or economic changes can potentially affect PDA development, buyer acceptance of PDAs, and development of substitute or enhanced products?

Enter your answers about Sonic's use of marketing research in a written marketing plan or in the Marketing Research, Market Analysis, Market Trends, and Macro-environment sections of Marketing Plan Pro.

ASSIGNMENTS

The World Health Organization recently called obesity "the greatest neglected public health problem of our time". In small groups, have the students collect, from the university or college administrators, information about the students' eating habits (on campus students would be one group; commuting students another group), exercise, and lifestyle. For example, how many students (as a percentage of the total student population) regularly take advantage of the available exercise facilities? How many students presently on campus are clinically obese? This is a very good project to demonstrate the skill of data mining and the use of secondary data.

To illustrate the concept of marketing intelligence, select a different group of students to conduct similar research to # 1 above but from universities and colleges of similar size. These findings should then be presented to class as a comparison to the findings prepared from the group(s) researching your own university or college. Challenge the students to suggest the factors that differentiate the two studies and ways to reverse or to continue the trend.

In the summary of Chapter 3, number 9, page 89, it states that marketers should take account of the accelerated pace of technological change. Have the students examine how two companies, discussed in the chapter have been dramatically affected by external forces, such as, the internet and digital technologies. Students could choose from Sobeys, Starbucks, Loblaws, Enterprise Rent-A-Car. Students findings can be presented to the class with the focus being on a comparative discussion of their relative success.

Select or suggest a current "fad" or "trend" exhibited by students on campus. Each student is to select either a fad or trend and then research this fad and trend in light of the marketing opportunities present. Would a firm be successful in capitalizing on this "fad"? If so, why? Should companies capitalize on this "trend"— What are the "upsides" for producing products that are currently "trendy"? What are the "downsides"? What generation do these fads and trends appeal to? How large is the potential market for the fad and/or trend? Students should prepare a report with as much detail into the specific characteristics of these markets as is available. This is a good secondary data and data mining assignment.

Each student is a member of an identifiable ethic and demographic segment of society. As an individual assignment, ask each student to describe their sub-segment in terms of population, age distribution, growth potential, income, education levels, and other demographic characteristics. The conclusion of their report should explain the marketing implications of their findings in terms of potential market, over-saturated market, declining market, or ignored market with potential.

On page 69 (chapter 3), the author discusses the collection of marketing intelligence on the internet. In groups of 2-3, have students brain storm about what web sites would be relevant to the collection of marketing information regarding themselves and faculty. Have students report back to the class at least 2 or 3 web relevant web sites, and the information they might find on these sites, that would help them to market products or services to the relevant group – students or faculty.

MARKETING TODAY—CLASS DISCUSSION TOPICS

"Green Marketing" has been a challenge to firms producing environmentally friendly products. The obstacles stated range from overexposure and lack of credibility, to the consumer not willing to pay a premium prices for "green" products, to poor implementation on the part of companies engaged in the practice.

Question: What macro-environmental factors are forcing organizations to begin offering these products to their customers? Does social media hurt or hinder the efficient marketing of these products to consumers?

END-OF-CHAPTER SUPPORT

MARKETING DEBATE—Is Consumer Behaviour More of a Function of a Person's Age or Generation?

One of the widely debated issues in developing marketing programs that target certain age groups is how much consumers change over time. Some marketers maintain that age differences are critical and that the needs and wants of a 25-year-old in 2002 are not that different from those of a 25-year-old in 1972. Others dispute that contention and argue that cohort and generational effects are critical and that marketing programs must therefore suit the times.

Take a position: Age differences are fundamentally more important than cohort effects versus cohort effects can dominate age differences.

Suggested Response
Pro: People are the "age" they think they are. We have experienced some fundamental changes in consumer lifestyles and the definition of "family." These changes suggest that people are and can adapt to different products regardless of their chronological age. Today a vast number of aging baby boomers, for example, do not think of themselves as approaching middle age; as a result represent a growing market for age defeating products. This is true with other age groups, as the advances in medicine, technology, and income have redefined what the "age" number really means to people. In marketing today, the marketing of a product or service can be designed to fit differing age groups by its positioning and advertising. Key examples include cruise line advertising and marketing to "active adults" encompassing a wide range of activities and locations previously thought of for the "youth" market.

Conversely, with the delay in child bearing and child rearing by some generations, activities that were once thought of as for middle age or empty nesters can be remarketed to appeal to these groups as well. Some generations have decided to explore the world before settling down with children and a mortgage. All of these changes open up vast amounts of marketing opportunities to enterprising firms and individuals. Marketing to one's perception of "age" rather than to the physical definition of age is an exciting new arena for marketers.

Con: Age and cohorts are more important than age differences. People still pass through life as part of a "group" and experience the newness of life through cohort experiences and relate to others within their identifiable group. Marketing to cohorts extends the ability of the marketer to capitalize on share emotions, experiences, trends, and fads that have or had made lasting impressions on the cohort. Technology has changed so much in the last few decades and has influenced subsequent generations about expectations and potential, that one must market to the cohorts in order to identify with their experiences. People within a particular cohort seek information for purchase decisions from influencers within their cohort. Marketers must identify these influencers and tailor messages that affect their review of products and gain favour with them.

MARKETING DISCUSSION

What brands and products do you feel successfully "speak to you" and effectively target your age groups? Why? Which ones do not? What could they do better?

Suggested Response
Individual student answers will depend upon the products chosen, however these answers should refer to and include some of the key concepts presented in the chapter, such as:

-demographics
-educational mix of consumers
-economic environment
-social cultural environment

MARKETING EXCELLENCE—CANADIAN TOURISM COMMISSION (CTC)

1. The CTC conducts extensive research before targeting a new market. It is always necessary to gather data before every marketing decision? Are there trade-offs?

In business trade-offs are necessary and are usually based on marginal cost weighed against marginal revenue. Substantial marketing decisions are also based on a SWOT (Strengths, Weaknesses, Opportunities, and Threats) and a thorough analysis of market demand for products and services.

2. Identify current challenges in the global economic and political environment that would limit the CTC's ability to promote tourism in Canada.

There are many potential challenges to consider. However, global macroeconomic challenges to growth include the price of oil and economic recession. Demographic trends with a growing aging population in Western countries compared to a relatively younger population in the developing world also need to be considered by the CTC. The high Canadian dollar compared to U.S and other currencies would also have to be considered by the commission.

3. Discuss the role of technological advances aiding the CTC's success.

Both communications and computer technology give the CTC an advantage in marketing Canada to the world. Computer technology allows the CTC to efficiently analyze new market opportunities by mining qualitative and quantitative data related to demographics, economic conditions and spending patterns and social changes. Communication technology (print and TV media, the internet and social media) allow the CTC to adopt an integrated communications strategy.

DETAILED CHAPTER OUTLINE

Making marketing decisions in a fast-changing world is both an art and a science. To provide context, insight, and inspiration for marketing decision making, companies must possess comprehensive, up-to-date information about macro trends, as well as about micro effects particular to their business. Holistic marketers recognize that the marketing environment is constantly presenting new opportunities and threats, and they understand the importance of continuously monitoring, forecasting, and adapting to that environment.

Firms are adjusting the way they do business for more reasons than just the economy. Virtually every industry has been touched by dramatic shifts in the technological, demographic, social-cultural, natural, and political-legal environments. In this chapter, we consider how firms can develop processes to identify and track important macro-environment trends.

COMPONENTS OF A MODERN MARKETING INFORMATION SYSTEM

TThe major responsibility for identifying significant marketplace changes falls to the company's marketers. Marketers have two advantages for the task: disciplined methods for collecting information, and time spent interacting with customers and observing competitors and other outside groups. Some firms have marketing information systems that provide rich detail about buyer wants, preferences, and behaviour.

Marketers also have extensive information about how consumption patterns vary across and within countries.

Companies with superior information can choose their markets better, develop better offerings, and execute better marketing planning.

Every firm must organize and distribute a continuous flow of information to its marketing managers. A **marketing information system,** or **MIS,** consists of people, equipment, and procedures to gather, sort, analyze, evaluate, and distribute needed, timely, and accurate information to marketing decision makers. It relies on internal company records, marketing intelligence activities, and marketing research.

Information Needs Probes

1.

2. What information do you need to make these decisions?

3.What information do you regularly get?

4. What special studies do you periodically request?

5. What information would you want that you are not getting now?

6. What information would you want daily? Weekly? Monthly? Yearly?

7. What online or offline newsletters, briefings, blogs, reports, or magazines would you

like to see on a regular basis?

8. What topics would you like to be kept informed of?

9. What data analysis and reporting programs would you want?

10. What are the four most helpful improvements that could be made in the present marketing

information system?

INTERNAL RECORDS

To spot important opportunities and potential problems, marketing managers rely on internal reports of orders, sales, prices, costs, inventory levels, receivables, and payables.

Order-to-Payment Cycle

The heart of the internal records systems is the order-to-payment cycle.

Sales Information Systems

Marketing managers need timely and accurate reports on current sales.

A) Companies that make good use of "cookies," records of Web site usage stored on personal browsers, are smart users of targeted marketing. Companies must carefully interpret the sales data so as not to draw the wrong conclusions.

Databases, Data Warehouses, and Data Mining

CCompanies organize their information into customer, product, and salesperson databases—and then combine their data.

A) Companies warehouse these data for easy accessibility to decision makers.

MARKETING INTELLIGENCE

A **marketing intelligence system** is a set of procedures and sources that managers use to obtain everyday information about developments in the marketing environment. The internal records system supplies *results* data, but the marketing intelligence system

supplies *happenings* data. Marketing managers collect marketing intelligence in a variety of different ways, such as by reading books, newspapers, and trade publications; talking to customers, suppliers, and distributors; monitoring social media on the Internet; and meeting with other company managers.

Marketing intelligence gathering must be legal and ethical.

A company can take eight possible actions to improve the quantity and quality of its marketing intelligence:

1) A company can train and motivate the sales force to spot and report new developments.

2) A company can motivate distributors, retailers, and other intermediaries to pass along important intelligence.

3) A company can hire experts to collect intelligence.

4) A company can network internally and externally.

5) A company can set up a customer advisory panel.

6) A company can take advantage of government-related data resources.

7) A company can purchase information from outside suppliers.

8) A company can use online customer feedback systems to collect competitive intelligence.

COLLECTING MARKETING INTELLIGENCE ON THE INTERNET

Thanks to the explosion of outlets available on the Internet, online customer review boards, discussion forums, chat rooms, and blogs can distribute one customer's experiences or evaluation to other potential buyers and, of course, to marketers seeking information about the consumers and the competition.

There are five main ways marketers can research competitors' product strengths and weaknesses online.

1. Independent customer goods and service review forums.

2. Distributor or sales agent feedback sites.

3. Customer complaint sites.

4. Public blogs.

Communicating and Acting on Marketing Intelligence

In some companies the staff scans the Internet and major publications, abstracts relevant news, and disseminates a news bulletin to marketing managers. The competitive intelligence function works best when it is closely coordinated with the decision-making process.

ANALYZING THE MACROENVIRONMENT

Successful companies recognize and respond profitably to unmet needs and trends.

Needs and Trends

Enterprising individuals and companies manage to create new solutions to unmet needs.

A) A fad is "unpredictable, short-lived, and without social, economic, and political significance."

B) A trend is a direction or sequence of events with momentum and durability.

C) Trends are more predictable and durable than a fad.

1) A trend reveals the shape of the future and provide strategic direction.

D) Megatrends are a "large social, economic, political, and technological changes [that] are slow to form, and once in place, they influence us for some time—between seven and ten years, or longer.

E) Trends and megatrends merit close attention.

F) To help marketers' spot cultural shifts that might bring new opportunities or threats, several firms offer social-cultural forecasts.

Identifying the Major Forces

The end of the first decade of the new century brought a series of new challenges: the steep decline of the stock market, which affected savings, investment, and retirement funds; increasing unemployment; corporate scandals; stronger indications of global warming and other signs of deterioration in the national environment; and of course, the rise of terrorism. These dramatic events were accompanied by the continuation of many existing trends that have already profoundly influenced the global landscape.[i] FirmsFirms must monitor six major forces in the broad environment: demographic, economic, social-cultural, natural, technological, and political-legal.

1) Demographic

2) Economic

3) Social-cultural

4) Natural

5) Technological

6) Political-legal

DEMOGRAPHIC ENVIRONMENT

The main demographic force that marketers monitor is population because people make up markets.

A) Marketers are keenly interested in the:

1) Size and growth rate of populations in cities, regions, and nations.

2) Age distribution and ethnic mix.

3) Educational levels.

4) Household patterns.

5) Regional characteristics and movements.

Worldwide Population Growth

WWorld population growth is explosive: Earth's population totalled 6.8 billion in 2010 and will exceed 9 billion by 2040.

A) PPopulation growth is highest in countries and communities that can least afford it

B) A growing population does not mean growing markets unless there is sufficient purchasing power.

Marketing Insight:

Finding Gold at the bottom of the pyramid

There are 5 billion unserved and underserved people at the so-called "bottom of the pyramid." One study showed that 4 billion people live on $2 or less a day. Firms operating in those markets have had to learn how to do more with less

Population Age Mix

A) There is a global trend toward an aging population. National populations vary in their age mix. A population can be subdivided into six age groups:

1) Preschool children

2) School-age children

3) Teens

4) Young adults age 20 to 40

5) Middle-aged adults age 40 to 65

6) Older adults ages 65 and up

Cohorts are groups of individuals born during the same time period who travel through life together.

Ethnic and Other Markets

Ethnic and racial diversity vary across countries.

The growth of the Hispanic population represents a major shift in the nation's center of gravity.

A) Ethnic groups have certain specific wants and buying habits.

B) Marketers must be careful not to over generalize about ethnic groups.

C) Within each ethnic group are consumers quite different from each other.

D) Diversity goes beyond ethnic and racial markets.

    1) More than 51 million U.S. customers have disabilities, and they constitute a market for home delivery companies.

Educational Groups

A) The population in any society falls into five educational groups:

    1) Illiterates

    2) High school dropouts

    3) High school degrees

    4) College degrees

    5) Professional degrees

Household Patterns

The "traditional household" consists of a husband, wife, and children (sometimes grandparents). Yet by 2010, only one in five North American households will consists of a married couple with children under 18. More people are divorcing or separating, choosing not to marry, marrying later, or marrying without intending to have children. NNon-traditional households are growing more rapidly than traditional households.

    1) Single live-alones

    2) Single-parent families

    3) Childless married couples

    4) Empty-nesters

B) Gay and Lesbian population ranges between 4 and 8%

The Economic Environment

The available purchasing power in an economy depends on current income, prices, savings, debt, and credit availability. As the recent economic downturn vividly demonstrated, trends affecting purchasing power can have a strong impact on business, especially for companies whose products are geared to high-income and price-sensitive consumers.

Consumer Psychology

Did new consumer spending patterns during the 2008-2009 recession reflect short-term, temporary adjustments or long-term, permanent changes?[ii] Some experts believed the

recession had fundamentally shaken consumers' faith in the economy and their personal financial situations.

"Mindless" spending would be out; willingness to comparison shop, haggle, and use discounts would become the norm. Others maintained tighter spending reflected a mere economic constraint and not a fundamental behavioral change. Thus, consumers' aspirations would stay the same, and spending would resume when the economy improves.

Income Distribution

1) There are four types of industrial structures:
    1) Subsistence economies
    2) Raw-material-exporting economies
    3) Industrializing economies
    4) Industrial economies
2) Marketers often distinguish countries with five different income-distribution patterns:
    1) Very low incomes
    2) Mostly low incomes
    3) Very low, very high incomes
    4) Low, medium, high incomes
    5) Mostly medium incomes

Income, Savings, Debt, and Credit Availability

A) Consumer expenditures are affected by:
    1) Income
    2) Savings
    3) Debt
    4) Credit availability

Social-Cultural Environment

From our socio-cultural environment we absorb, almost unconsciously, a world view that defines our relationships to ourselves, others, organizations, society, nature, and the universe.
    1) Views of ourselves
    2) Views of others
    3) Views of organizations

4) Views of society

5) Views of nature

6) Views of the universe

High Persistence of Core Cultural Values

Most people in the United States still believe in working, getting married, giving to charity, and being honest.

A) Core beliefs and values are passed on from parents to children and are reinforced by social institutions.

B) Secondary beliefs and values are more open to change.

C) Marketers have some chance of changing secondary values, but little chance of changing core values.

D) Although core values are fairly persistent, cultural swings do take place.

Existence of Subcultures

A) Each society contains subcultures, groups with shared values emerging from their special life experiences or circumstances.

Natural Environment

In Western Europe, "green" parties have pressed for public action to reduce industrial pollution. In the United States, experts have documented ecological deterioration, and watchdog groups such as the Sierra Club and Friends of the Earth carry these concerns into political and social action.

Corporate environmentalism recognizes the need to integrate environmental issues into the firm's strategic plans.

Marketing Insight: The Green Marketing Revolution

Gallup polls reveal that the percentage of North American consumers who report that they worry about the environment a great deal or fair amount increased from 62% to 77% between 2004 and 2006.

Technological Environment

It is the essence of market capitalism to be dynamic and tolerate the creative destructiveness of technology as the price of progress. The marketer should monitor the following trends in technology:

1) Accelerating pace of change

2) Unlimited opportunities for innovation

3) Varying R&D budgets

4) Increased regulation of technological change

Political-Legal Environment

The political and legal environment consists of laws, government agencies, and pressure groups that influence various organizations and individuals. Sometimes these laws create new business opportunities.

A) Increase in business legislation

B) Growth of Special-Interest Groups

    a. Consumerist movement

    b. Privacy issues and identify theft will continue to be public policy in the near future

FORECASTING AND DEMAND MEASUREMENT

Understanding the marketing environment and conducting marketing research (described in Chapter 4) can help to identify marketing opportunities. The company must then measure and forecast the size, growth, and profit potential of each new opportunity. Sales forecasts prepared by marketing are used by finance to raise cash for investment and operations; by manufacturing to establish capacity and output; by purchasing to acquire the right amount of supplies; and by human resources to hire the needed workers. If the forecast is off the mark, the company will face excess or inadequate inventory. Since it's based on estimates of demand, managers need to define what they mean by market demand.

The Measures of Market Demand

Companies can prepare as many as 90 different types of demand estimates for six different product levels, five space levels, and three time periods. Each demand measure serves a specific purpose.

1. The **potential market** is the set of consumers with a sufficient level of interest in a market offer.

2. The **available market** is the set of consumers who have interest, income, *and* access to a particular offer.

3. The **target market** is part of the qualified available market the company decides to pursue.

4. The **penetrated market** is the set of consumers who are buying the company's product.

A Vocabulary for Demand Measurement

MARKET DEMAND

The marketer's first step in evaluating marketing opportunities is to estimate total market demand.

Market demand for a product is the total volume that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing program.

Market demand is not a fixed number, but rather a function of the stated conditions. For this reason, we call it the *market demand function*.

Some base sales—called the *market minimum* and labelled Q_1 in the figure—would take place without any demand-stimulating expenditures.

The distance between the market minimum and the market potential shows the overall *marketing sensitivity of demand*.

We can think of two extreme types of market, the expansible and the non-expansible.

An *expansible market*, such as the market for racquetball playing, is very much affected in size by the level of industry marketing expenditures,

A *non-expansible market*—for example, the market for weekly trash or garbage removal—is *not* much affected by the level of marketing expenditures; the distance between Q_1 and Q_2 is relatively small.

Organizations selling in a non-expansible market must accept the market's size—the level of *primary demand* for the product class—and direct their efforts toward winning a larger **market share** for their product, that is, a higher level of selective demand for their product.

It pays to compare the current and potential levels of market demand. The result is the **market-penetration index**.

CComparing current and potential market shares yields a firm's **share-penetration index**. If this index is low, the company can greatly expand its share.

MARKET FORECAST

Only one level of industry marketing expenditure will actually occur. The market demand corresponding to this level is called the **market forecast**.

MARKET POTENTIAL

The market forecast shows *expected* market demand, not maximum market demand. **Market potential** is the limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment.

Companies interested in market potential have a special interest in the **product-penetration percentage**, the percentage of ownership or use of a product or service in a population.

COMPANY DEMAND

Company demand is the company's estimated share of market demand at alternative levels of company marketing effort in a given time period. It depends on how the company's products, services, prices, and communications are perceived relative to the competitors'.

COMPANY SALES FORECAST

Once marketers have estimated company demand, their next task is to choose a level of marketing effort.

The **company sales forecast** is the expected level of company sales based on a chosen marketing plan and an assumed marketing environment.

A **sales quota** is the sales goal set for a product line, company division, or sales representative. It is primarily a managerial device for defining and stimulating sales effort, often set slightly higher than estimated sales to stretch the sales force's effort.

A **sales budget** is a conservative estimate of the expected volume of sales, primarily for making current purchasing, production, and cash flow decisions. It's based on the need to avoid excessive risk and is generally set slightly lower than the sales forecast.

COMPANY SALES POTENTIAL

Company sales potential is the sales limit approached by company demand as company marketing effort increases relative to that of competitors. The absolute limit of company demand is, of course, the market potential.

Estimating Current Demand

We are now ready to examine practical methods for estimating current market demand. Marketing executives want to estimate total market potential, area market potential, and total industry sales and market shares.

TOTAL MARKET POTENTIAL

Total market potential is the maximum sales available to all firms in an industry during a given period, under a given level of industry marketing effort and environmental conditions. A common way to estimate total market potential is to multiply the potential number of buyers by the average quantity each purchases, times the price.

AREA MARKET POTENTIAL

Because companies must allocate their marketing budget optimally among their best territories, they need to estimate the market potential of different cities, states, and nations. Two major methods are the market-buildup method, used primarily by business marketers, and the multiple-factor index method, used primarily by consumer marketers.

The **market-buildup method** calls for identifying all the potential buyers in each market and estimating their potential purchases.

It produces accurate results if we have a list of all potential buyers and a good estimate of what each will buy. Unfortunately, this information is not always easy to gather.

An efficient method of estimating area market potentials makes use of the *North American Industry Classification System (NAICS)*, developed by the U.S. Bureau of the Census in conjunction with the Canadian and Mexican governments.

Multiple-Factor Index Method Like business marketers, consumer companies also need to estimate area market potentials, but since their customers are too numerous to list they commonly use a straightforward index.

Many companies compute area indexes to allocate marketing resources.

The **brand development index (BDI)** is the index of brand sales to category sales.

INDUSTRY SALES AND MARKET SHARES

Besides estimating total potential and area potential, a company needs to know the actual industry sales taking place in its market.

This means identifying competitors and estimating their sales. The industry trade association will often collect and publish total industry sales, although it usually does not list individual company sales separately.

With this information, however, each company can evaluate its own performance against the industry's.

Another way to estimate sales is to buy reports from a marketing research firm that audits total sales and brand sales.

Estimating Future Demand

The few products or services that lend themselves to easy forecasting generally enjoy an absolute level or a fairly constant trend, and competition that is either nonexistent (public utilities) or stable (pure oligopolies). In most markets, in contrast, good forecasting is a key factor in success.

Companies commonly prepare a macroeconomic forecast first, followed by an industry forecast, followed by a company sales forecast .

How do firms develop their forecasts? They may create their own or buy forecasts from outside sources such as marketing research firms, which interview customers, distributors, and other knowledgeable parties. All forecasts are built on one of three information bases: what people say, what people do, or what people have done.

SURVEY OF BUYERS' INTENTIONS

Forecasting is the art of anticipating what buyers are likely to do under a given set of

conditions.

For major consumer durables such as appliances, research organizations conduct periodic surveys of consumer buying intentions, ask questions like: *Do you intend to buy an automobile within the next six months?,* and put the answers on a **purchase probability scale.**

COMPOSITE OF SALES FORCE OPINIONS

When buyer interviewing is impractical, the company may ask its sales representatives to estimate their future sales.

EXPERT OPINION

Companies can also obtain forecasts from experts, including dealers, distributors, suppliers, marketing consultants, and trade associations.

PAST-SALES ANALYSIS

Firms can develop sales forecasts on the basis of past sales.

Time-series analysis breaks past time series into four components (trend, cycle, seasonal, and erratic) and projects them into the future.

Exponential smoothing projects the next period's sales by combining an average of past sales and the most recent sales, giving more weight to the latter.

Statistical demand analysis measures the impact of a set of causal factors (such as income, marketing expenditures, and price) on the sales level.

Finally, *econometric analysis* builds sets of equations that describe a system and statistically derives the different parameters that make up the equations statistically.

MARKET-TEST METHOD

When buyers don't plan their purchases carefully, or experts are unavailable or unreliable, a direct-market test can help forecast new-product sales or established product sales in a new distribution channel or territory.

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[i] <endnote id="ch03en24" label="24"><inst></inst><para>Indata, <emphasis>IN</emphasis> (June 2006), p. 27.</para></endnote>

[ii] Elisabeth Sullivan, "The Age of Prudence," *Marketing News*, April 15, 2009, pp. 8-11; Steve Hamm, "The New Age of Frugality," *BusinessWeek*, October 20, 2008, pp. 55-60; Jessica Deckler, "Never Pay Retail Again," *CNNMoney.com.* (May 30, 2008).