## Chapter 30 Sales forecasting

Key terms

1. Consumer income: the amount of income remaining after taxes and expenses have been deducted from wages.

2. Consumer trends: consumer behaviours that determine the goods and services they buy.

3. Economic growth: the rise in output of an economy as measured by the growth in Gross Domestic Product(GDP), usually as a percentage.

4. Economic variables: measures within the economy which have effects on business and consumers. Examples include unemployment, inflation and exchange rate.

5. Extrapolation: forecasting future trends based on past data.

6. Time series data: a method that allows a business to predict future levels from past figures.

7. Forecasting: a business process, assessing the probable outcome using assumptions about the future.
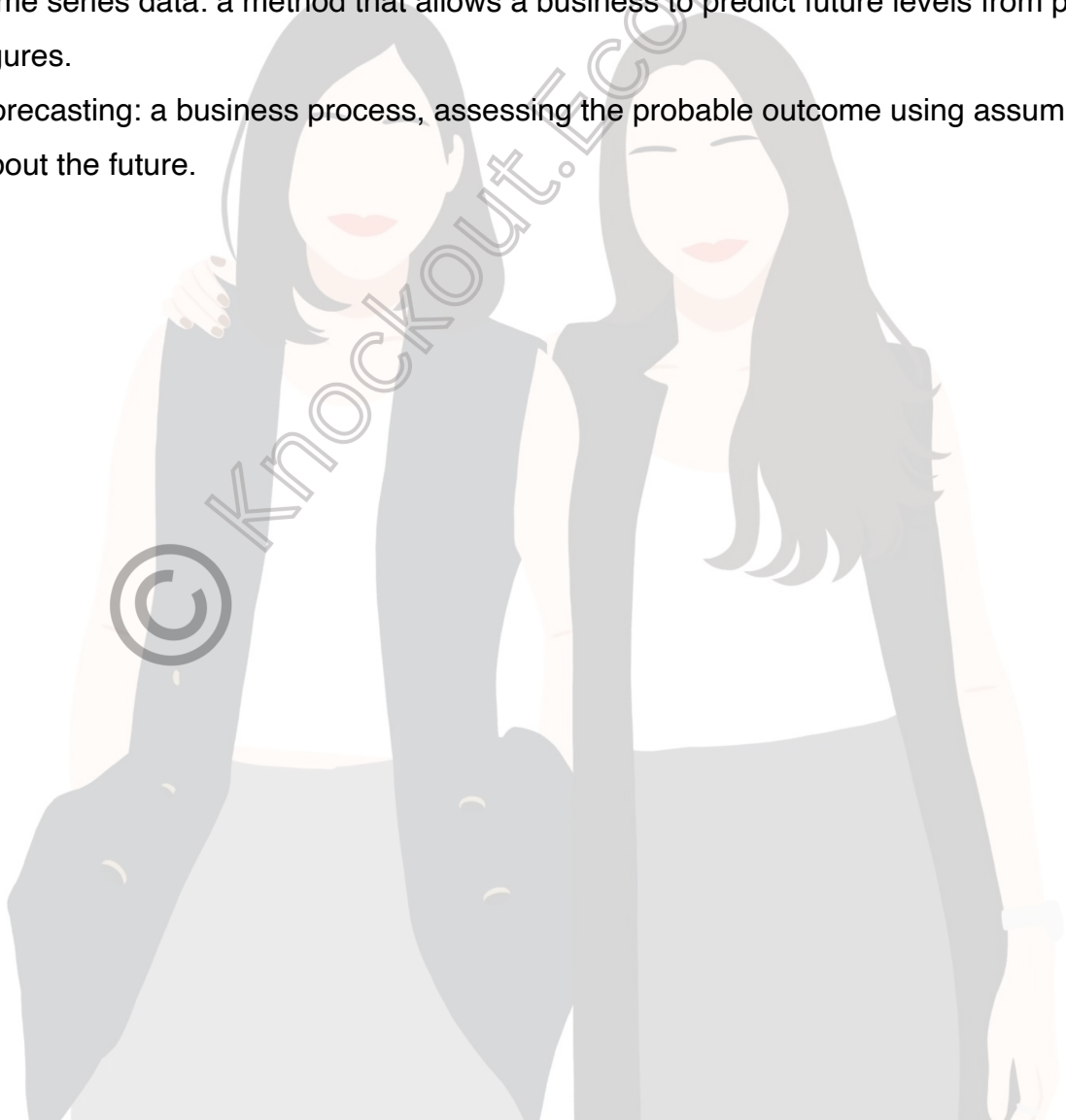
1. Purpose of sales forecasting

· **Purpose of sales forecasting** : forecasting is a business process, assessing the

probable outcome using assumptions about future.

⇒ e.g. future sakes products, the effect of promotion on sales, possible changes in

size of market in future, the way sales change at different times of the year.

⇒ **Time series analysis :** involves predicting future levels from past data. The data

used are known as time series data.

Year	2006	2007	2008	2009	2010
Sales	125	130	130	150	175

⇒ 4 components that a business wants to identify in time series data.

1.) trend

2.) seasonal fluctuation (variations: changes in sales in each period of the year)

3.) cyclical fluctuation (changes in sales from economic recession, boom)

4.) Random fluctuation (surprising figures e.g. one off event)

2. The benefits of sales forecasting

1.) Finance can be managed.

2.) It is to ensure that products are enough for the predicted sales.
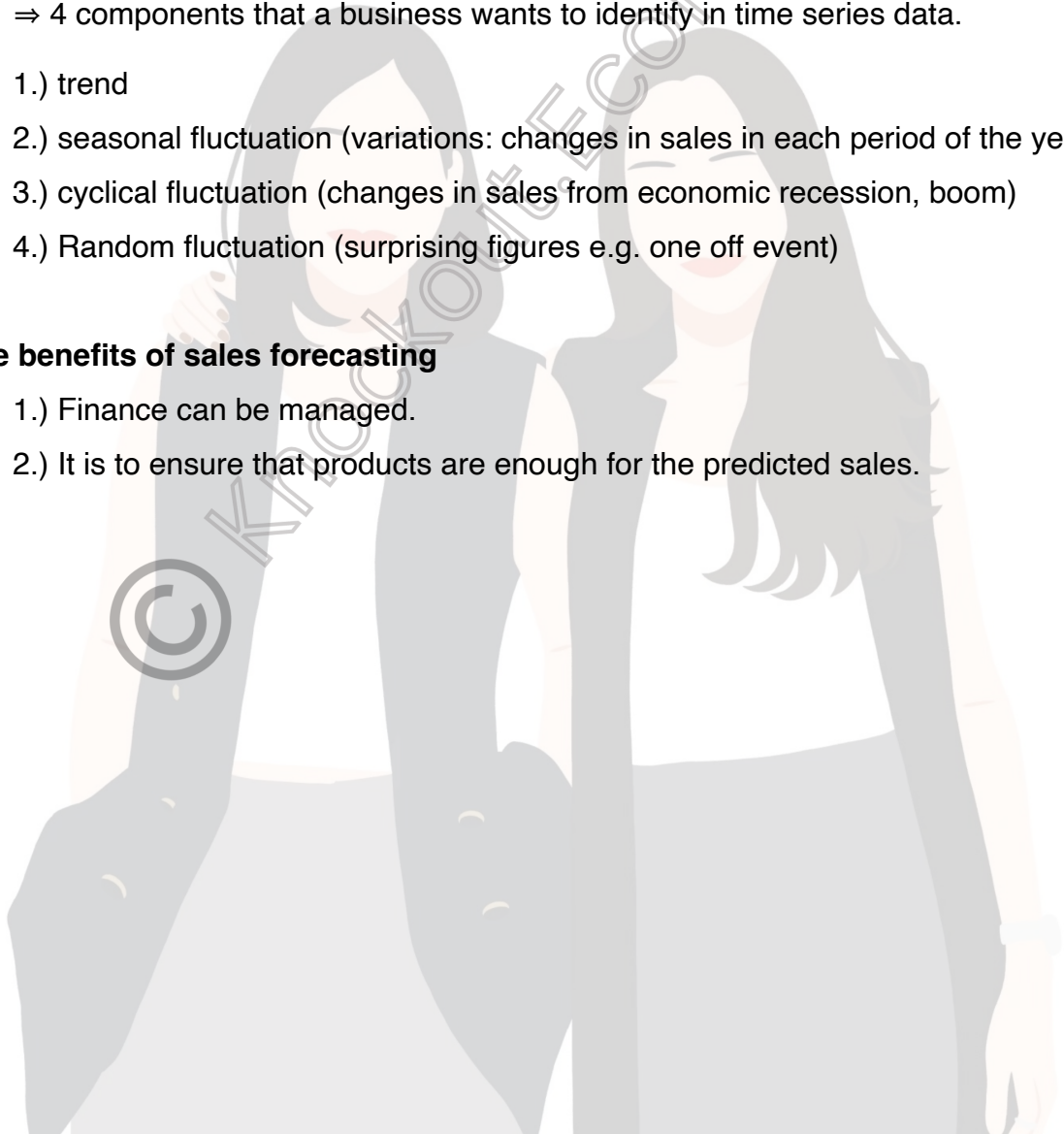
3. Factors affecting sales forecasting

1.) consumer trends

- many changes in consumer behaviours are more short term, and in response to factors such as seasonal variation and fashion.

2.) Economic variables

- measurements of different aspects of an economy that give and indication of how that economy is performing.
- Economic growth: during high economic growth people have higher income then they increase spending => rising in sales

3.) Actions of competitors

- the action of rival firms have real impact on business from pricing and promotion.

4. The difficulties of sales forecasting

1. It has volatile in consumer tastes and trend.
2. Opinions are subjective and can be wrong.