

Lecture – 28

Sales Forecasting, Marketing Control

PRODUCT MANAGEMENT / MARKET. MANAGEMENT ORGANISATION / COMBN

(Ex: DUPONT PROD. MGRS: RAYON, ACETATE, NYLON, ORLON DACRON
MARKET MGRS: MEN'S WEAR, WOMEN'S WEAR, HOME FURNISHINGS, INDL. MARKETS)

SALES FORECASTING

1) ENVNTL FORECAST - PROJECTING INFLATION, UNEMPLOYMENT, INTEREST RATES, CONSUMER SPENDING AND SAVING, BUS. INVESTMENT, GOVT. EXPENDITURES, NET EXPORTS, OTHER FACTORS OF IMPORTANCE TO THE CO. - FORECASTS GNP - GNP IS USED ALONG WITH OTHER ENVNTL INDICATORS TO FORECAST INDUSTRY SALES

2) INDUSTRY FORECAST

3) CO. SALES FORECASTS

- WHAT PEOPLE SAY	: OPINION SURVEY
- WHAT PEOPLE DO	: MARKET TEST FOR BUYER RESPONSE
- WHAT PEOPLE HAVE DONE	: PAST RECORDS OF BEHVR USING TIME-SERIES, STATISTICAL DEM. ANALYSIS

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When you look at this organization DUPONT, you can see that, you can see that there is there are product managers for RAYON, ACETATE, NYLON, ORLON, DACRON different product managers for different products, but when it comes to market managers you may have a market manager for menswear, you may have a market manager for women's wear, you may have a market manager for home furnishings, you may have a market manager for the industrial markets.

This is how the product manager and the market managers they get differentiated. A product managers with respect to the particular product range you are having some things coming out from RYAN, some things coming out from ACETATE, some things coming out from NYLON, then ORLON, then DACRON, but the market managers with

reference to the end products, it can be with respect to menswear women's wear or home furnishings or industrial markets.

Now, let us say you are interested in sales forecasting then what are the things which you should be doing you should be able to do an environmental forecast. What is this environmental forecast? You must be able to project inflation. If you look at the Indian economy, though the economy they say it is not doing very good. The plus point is that inflation is under check it is under control. In other words, there is no runaway increases in prices.

If you saw very recently the onion prices went up, it went up to more than 80 rupees then the government stepped in to stop the export of these onions and took other corrective measures like putting a tax on the import of onions that is extra tariff on the imports also. That this desire to have them imported is reduced. You had a scenario where your onion prices was just running amok.

Now, thanks to many of the steps taken and also the crops which have come about the price of onions has more or less stabilized between 35 to 40 rupees and it is expected that it will come down further. You must be able to also find out what is going to be the employment trends suppose you are looking at skilled employment to get a skilled analytics person or a data science person in the Indian market is tough even to this day.

It is not easily possible, it is tough even in the American market; the result is all these people are in high demand they get paid very high. If you look at the interest rates, this is going to influence your sales. Suppose he has to borrow loan to take purchase your product, the consumer looks at what rate he has to pay interest on this loan.

That is why if you really see the Indian economy the Indian economy the controller of these whole operations that is a Reserve Bank of India which is the central bank what did it do it brought down the interest rates cut by so many basis points every time every quarter. If you are seeing it is coming down by 25 basic points pps the result is with rest.

When you bring it down the RBI expects that these cutting interest rates to be passed on to consumers by the banks concerned that is a PSUS or the private banks like the HDFC or the ICICI. So, that you are lend the interest rate on lending comes down. Now, we are

seeing that the home loan interest rates have also come down, the vehicle interest loan interest rates have also come down.

Now, what is the reason for doing all this, you are expecting that by doing all this the consumer will be interested in going in for purchase of these types of products whether it is automobiles or whether it is the homes. If you really see in a city like Bangalore, the report suggests that more than 50 percent of the flats which are produced or which are constructed by different builders are not occupied that is they are not sold.

There may be so many reasons for that, but this is the way this forecast goes. Suppose you are a builder and you constructed some 20 flats and when you constructed 20 flats you find that there are no takers for these flats then you will be out of business. These are the things which you should be guarding about very strongly and this environmental forecast helps you to do that.

When will a consumer be interested in spending? He will be interested in spending on products which are not essential only when there is sufficient saving with him. Suppose he is not able to afford for his basic necessities like food, clothing and shelter then you ask him to take an automobile. It is unthinkable that he will go in for an automobile. First, he has to ensure that his home runs properly and then only all these other investments on different products can be thought of.

The government if you really see is taking so many steps so that the spending can increase that is how your GDP all those types of things, there can be increase in your GDP and if there are so many spending avenues which you can create and it comes about then there can be increase in your tax collection. When there is increasing in your tax collection the revenues of the government is likely to increase.

When the revenues of the government is likely to increase you can expect money to be invested on people welfare or people welfare projects, maybe it is your roads or construction of toilets or whatever all these things the government can think of spending. This is where when you are looking at the interest rates, the business investment that climate is going to get affected. Suppose your borrowing rates in the market are very high then investments are likely to come down.

Suppose, you say I will tax the foreign investment no foreign and the investment will come into the market at all. They will just calculate how much tax you have to put in by investing in India. Then suppose the other thing which comes in is, is the government say treasury strong enough suppose your government expenditure keeps on going up.

If you look at many of the states in the country the charge is that the states treasury has become empty with respect to many of the states that is what many of the opposition political parties keep on telling in different states, saying that states expend treasury has become empty, result is they cannot take care of any of the situations like drought or excess rain or all those types of things.

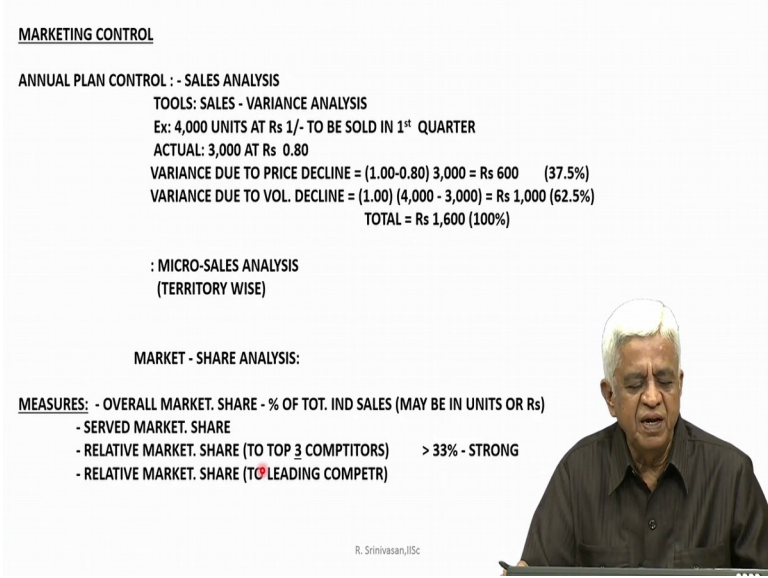
Then the net exports the economy is going to perform well when your exports are likely to increase, but if your exports are not increasing for so many reasons, if you look at the industrial output it is falling, it is not increasing. The contribution of the industrial output to exports is getting seriously impacted. Then other factors of importance to the company like your GNP forecast that is a gross national product forecast along with other environmental indicators if you use the GNP, you can forecast the industry sales.

Sales with respect to the entire industry that is to say the entire automotive industry, it is not something which is confined to you per say, but it is confined to the entire automotive industry. Then using this industry sales, you can have this industry forecast. What is going to be the sales for the next this thing? Using this industry forecast, you can make a company sales forecast.

In order to do the company sales forecast you can go in for opinion survey, you can go in for market test for buyer response or you can go through past records of buyer behavior using time series or statistical demand analysis, you can adopt any of these statistical models. What are these things coming under your opinion survey comes under what people say about the product.

When you put your product for market testing, what is it that you are doing? The product is there in the market, you want to find out the response of the potential consumer that is what people do. You also want to know what people have done in those types of circumstances with respect to other products. That is what people have done taking the past records. Using the past records, you would like to know what is the type of impact you are likely to have on the sales.

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MARKETING CONTROL

ANNUAL PLAN CONTROL : - SALES ANALYSIS

TOOLS: SALES - VARIANCE ANALYSIS

Ex: 4,000 UNITS AT Rs 1/- TO BE SOLD IN 1st QUARTER

ACTUAL: 3,000 AT Rs 0.80

VARIANCE DUE TO PRICE DECLINE = $(1.00 - 0.80) 3,000 = \text{Rs } 600$ (37.5%)

VARIANCE DUE TO VOL. DECLINE = $(1.00) (4,000 - 3,000) = \text{Rs } 1,000$ (62.5%)

TOTAL = Rs 1,600 (100%)

: MICRO-SALES ANALYSIS
(TERRITORY WISE)

MARKET - SHARE ANALYSIS:

MEASURES: - OVERALL MARKET. SHARE - % OF TOT. IND SALES (MAY BE IN UNITS OR Rs)

- SERVED MARKET. SHARE
- RELATIVE MARKET. SHARE (TO TOP 3 COMPTITORS) > 33% - STRONG
- RELATIVE MARKET. SHARE (TO LEADING COMPETR)

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Why do you want to do all this? The question is you should exhibit a control on marketing. This is going to help you in marketing control, this marketing control can be done in different methods you can have an annual plan control where you say your sales analysis, I am going to make use of the tool sales variance analysis.

You may say I would like to look at the annual plan through the prism of sales. This prism of sales I am going to control. How do I control? I will make use of this tool sales variance analysis. What is the sales variance analysis? An example can be given here let us say, you want you have 4000 units at rupees 1 to be sold in the first quarter. Kindly, note that all these are hypothetical examples which are being given here.

Let us say your you want to sell 4000 units at rupee 1 in the first quarter, this was your target, but what you actually achieved was only 3000 not at 1, but at rupees 0.80 that is at 80 paisa. Where is a fall? The fall is in two aspects, one is with respect to the number of units, you are not able to sell 4000, you are able to sell only 3000. Second, there is a fall also with respect to the revenue that you are going to get through these sales, you expected 4000 units to fetch you 4000; that is 1 unit to fetch you 1 rupee, but it is not fetching you 1 rupee it is getting fetching you only 0.81, 0.8 rupees, 0.8 rupees that is 80 paisa.

There is a variance due to price decline, there is a variance due to volume decline. So, what is the variance in price decline? It is 1 minus 0.80 multiplied by 3000 that is rupees

600, 37.5 percent is the contributing to this variance. Then there is a volume decline, you wanted 4000 units to be sold, but 4000 units is not getting sold you are not able to see you are able to sell only 3000. Your variance due to volume decline is given by $1 \text{ into } 4000 \text{ minus } 3000$ giving you 1000 rupees with respect to volume decline variance that is contributing to 62.5 percent.

The total of these two put together is 1600 contributing to 100 percent. You may do a more in-depth analysis after getting these figures this is called micro-sales analysis. You got the total picture where your sales, you expected it to be at 4000, but not happening at 4000, you expected 4000 units to be sold at rupee 1 per unit, but you are only able to sell 3000 at 0.8.

The result is there is a variance due to price decline, there is a variance due to volume decline. You may like to know where has been these variances very prominent. Which territories is the south doing well, is the west also doing well, is the problem with respect to the north and the east? Many times, most of the automotive sales, If you really see territory wise they have suffered in certain territories east has consistently not given them the sales that they expected.

The sales are coming from two regions very strongly that is the south and the west then followed by the north, then followed by the east. The job of the marketing manager is to do first the sales analysis for the entire country then do a micro sales analysis for each territory consider each territory.

Then after doing all this he resorts to what is called a market share analysis. What is this market share analysis? The types of measures he can take. Suppose it is an overall market share, how do you get this. It may be percentage of total industry sales that is your industry sales was let us say 100 and your sales was let us say 10 that is you are having 10 percent, percentage of total industry sales.

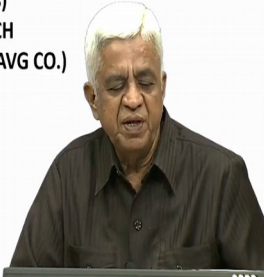
Then what is the server market share that is how much you have served. Maybe, you served the south very strongly, but not able to capture the full south market. It is not 100 percent also in the south. Maybe, you are at 80 percent in the south, your percentages may be falling when you are looking at other territories. Then you may like to do what is called the relative market share analysis measure.

You may like to compare yourself with respect to the competitors, where am I faring with respect to the competitors in a marketplace. Generally, they take the top three competitors. Suppose you are at more than 33 percent then you are strong in a market place, you are strong in a market place.

Suppose your market share is not that strong that is then you have cause to worry. This strong relative market share is always with respect to the leading competitor. Suppose your leading competitor was let us say at 100 and you are at say let us say 40, no problem still you are doing well in the marketplace. This is what you normally do when you take these different types of measures in a marketplace.

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OVERALL MARKET. SHARE =	CUSTR PENETR * (% OF ALL CUSTRS WHO BUY FROM THE CO.)	CUSTR LOYALTY * (PURCH FROM THIS CO. AS % OF TOT. PURCH FROM ALL SUPPLIERS OF THE SAME PRODUCT)	CUSTR *SELECTIVITY (SIZE OF AVG CUST PURCH AS A % OF THE CUST PURCH FROM AN AVG CO.)	PRICE *SELECTIVITY (AVG PRICE BY THIS CO. FROM THE CO. AS % OF AVG PRICE BY ALL COs)
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Then the overall market share can also be calculated by a formula. What is the type of formula? It is customer penetration multiplied by customer loyalty multiplied by customer selectivity multiplied by price selectivity. What is this percentage customer penetration that is percentage of all customers who this company who buy from the company.

Then what is customer loyalty? That customer loyalty is purchase from this company as percentage of total purchase. What is customer selectivity? Size of the average customer percentage from the company. What is this price selectivity? Average price by this company.

If you multiply all this you are likely to get your total market overall market share. When you get this, this is what the marketing manager always does, he does this type of analysis on a very regular basis. He may adopt different measures. And what is the end the result he wants to get, he wants to get the end result with respect to the market shares and the sales that has been registered, ok.

We stop here, we continue in the next class.

Thank you.