

Demand forecasting

[Technology](#), [Future](#)



DEMAND FORECASTING The use of historic data to determine the direction of future trends is known as demand forecasting. Forecasting is used by companies to determine how to allocate their budgets for an upcoming period of time. This is typically based on demand for the goods and services it offers, compared to the cost of producing them. Investors utilize forecasting to determine if events affecting a company, such as sales expectations, will increase or decrease the price of shares in that company. Forecasting also provides an important benchmark for firms which have a long-term perspective of operations. **IMPORTANCE OF DEMAND**

FORECASTING Forecasting product demand is crucial to any supplier, manufacturer, or retailer. Forecasts of future demand will determine the quantities that should be purchased, produced, and shipped. Demand forecasts are necessary since the basic operations process, moving from the suppliers' raw materials to finished goods in the customers' hands, takes time. Most firms cannot simply wait for demand to emerge and then react to it. Instead, they must anticipate and plan for future demand so that they can react immediately to customer orders as they occur. In other words, most manufacturers "make to stock" rather than "make to order" — they plan ahead and then deploy inventories of finished goods into field locations. Thus, once a customer order materializes, it can be fulfilled immediately — since most customers are not willing to wait the time it would take to actually process their order throughout the supply chain and make the product based on their order. An order cycle could take weeks or months to go back through part suppliers and sub-assemblers, through manufacture of the product, and through to the eventual shipment of the order to the customer. **TYPES OF**

DEMAND FORECASTING: The demand forecasting can be done in any of the following ways: a) opinion polling method b) statistical method The statistical method/quantitative method of demand forecasting is followed.

QUANTITATIVE METHODS OF DEMAND FORECASTING a) time series projection methods this includes: moving average method exponential smoothing method trend projection methods b) casual methods this includes: chain-ratio method consumption level method end use method

MOVING AVERAGE METHOD The simple moving average method forecasts on the basis of demand values during the recent past. Such a method is applicable to time series that doesn't have any pronounced behavioural pattern of fluctuations. The formula for simple moving average is given as:

DEMAND FORECAST OF BRITANNIA INDUSTRIES LTD. The past sales data of three years of Britannia Industries Ltd. Has been selected for the purpose of forecasting the data for the next year using the simple moving average method. (turnover in crores) Mar 11 | Mar 10 | Mar 09 | 4250. 13 | 3427. 97 | 3142. 89 | Demand forecast using the moving average method for Mar' 12 = $\frac{\text{sale of 09} + \text{10} + \text{11}}{3} = \frac{3142.89 + 3427.97 + 4250.13}{3} = 3606.99$ Mar 12 (forecasted) | Mar 11 | Mar 10 | Mar 09 | 3606. 99 | 4250. 13 | 3427. 97 | 3142. 89 |

ANALYSIS OF THE GRAPH: From the above graph, it can be seen that the company has been performing good for the past three years continuously with the demand continuously increasing at a good rate. But the forecast shows that there has been decline in the demand.