Addressing the Challenges of New Product Forecasting

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Today's Agenda

✓ Discuss the challenges of new product forecasting.

✓ Compare new product forecasting with forecasting existing products (regular sales forecasting).

✓ Offer prescriptions for managing the new product forecasting endeavor.

New Product Forecasting Issues/Realities

➢ Limited amount of data available for analysis

➢ Limited amount of time for analysis

➢ Inability to fully capture market complexity, cannibalization, market penetration rate, etc.

➢ Low credibility

➢ Low accuracy (high forecast error)

New Product Forecast Accuracy

Type of New Product	% Accuracy Achieved*
Cost Reduction	72%
Product Improvement	65%
Line Extension	63%
New Use/New Market	54%
New Category Entry	47%
New-to the-World	40%
* Self-reported accuracy one year after launch.	

Source: Kenneth B. Kahn, *Journal of Product Innovation Management*, **March 2002**

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Solving the problems of new product forecasting

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Abstract   An important consideration in solving the problems of new product forecasting entails distinguishing new product forecasting from the process of forecasting existing products. Particular differences between the two can be identified across the dimensions of data, analytics, forecast, plan, and measurement. For example, new product forecasting features little to no data with which to begin the process, whereas data are available and accessible in forecasting existing products. The minimal data situation requires a qualitative approach that lays out assumptions to provide transparency; in contrast, quantitative techniques are predominantly used when forecasting existing products. Different assumptions help construct a range of new product forecast

Forecasting Existing Products

versus

New Product Forecasting

Distinguishing New Product Forecasting

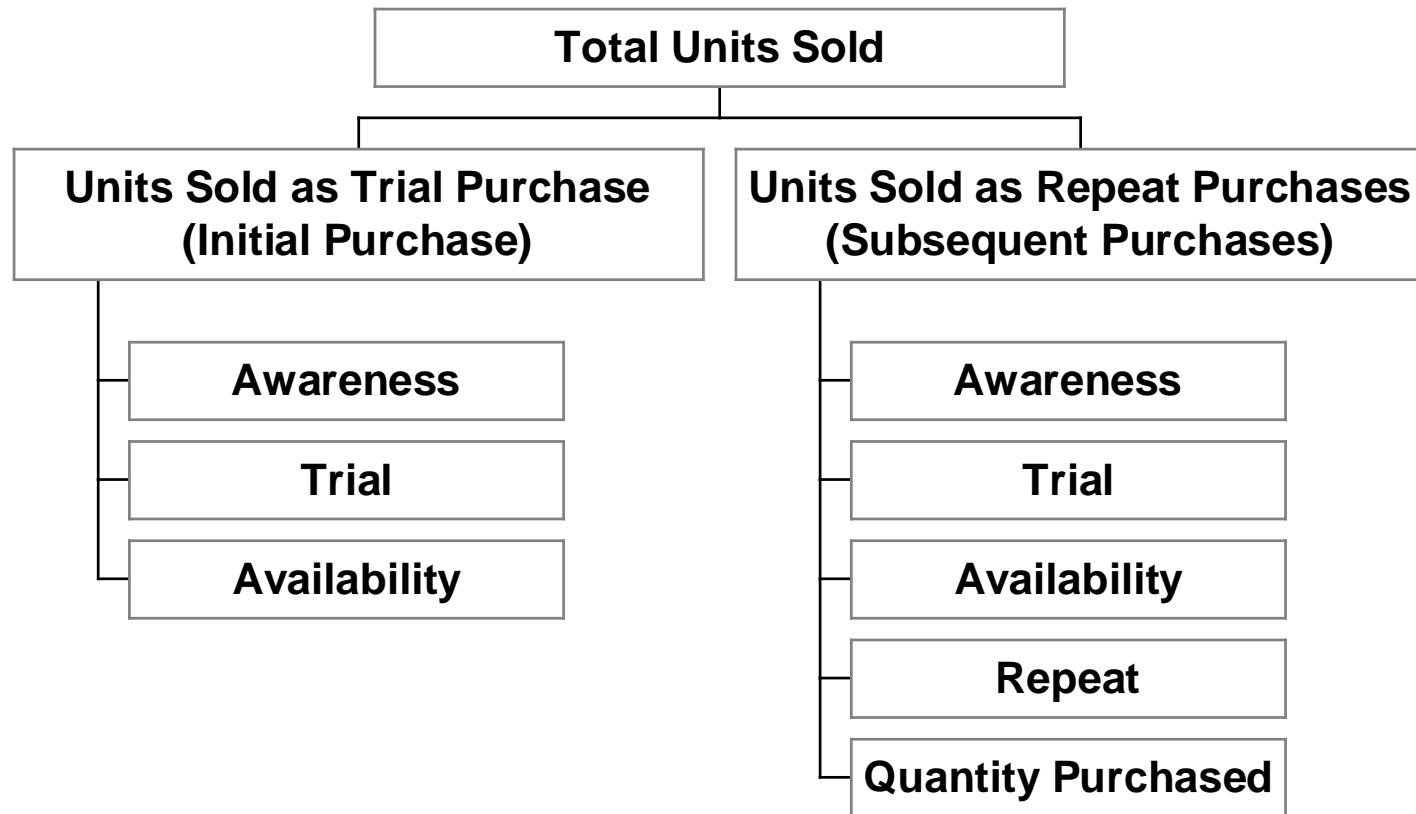|	Forecasting Existing Products	New Product Forecasting
Data	History	Assumptions
Analytics	Statistical	Judgmental
Forecast	Point	Range
Plan	Certainties	Contingencies
Measurement	Accuracy	Meaningfulness

Data

- Sales Data (Time Series)

- Other Quantitative Data

- Qualitative Data

- Assumptions

Analytics

Types of NPF Forecasting Techniques


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                          Forecasting Techniques

Company Judgmental        Customer/Market Research            Company Data Quantitative

Subjective Assessment Methods    Concept Testing        Time Series      Causal Modeling/Regression

Executive Opinion          Product Use Testing     Simple TS Analyses      Multiple Regression

Sales Force Composite      Market Testing          Looks-Like Analysis     Event Modeling

Delphi Method              AC Nielsen BASES        Diffusion Modeling

Scenario Analysis          Other Market Testing    Neural Networks

 — Normative                                       Other Advanced TS Analyses
 — Exploratory

Assumptions-Based Modeling

Decision Trees

Markov Process Model
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The ATAR Model

Forecast

New Product Forecasting Uncertainty

sales

High Range

Base Business

Strategic Planning

Concept Generation

Pre-Technical Evaluation

Technical Development

Commercialization

Low Range

Point of Ideation

Launch (Introduction)

time
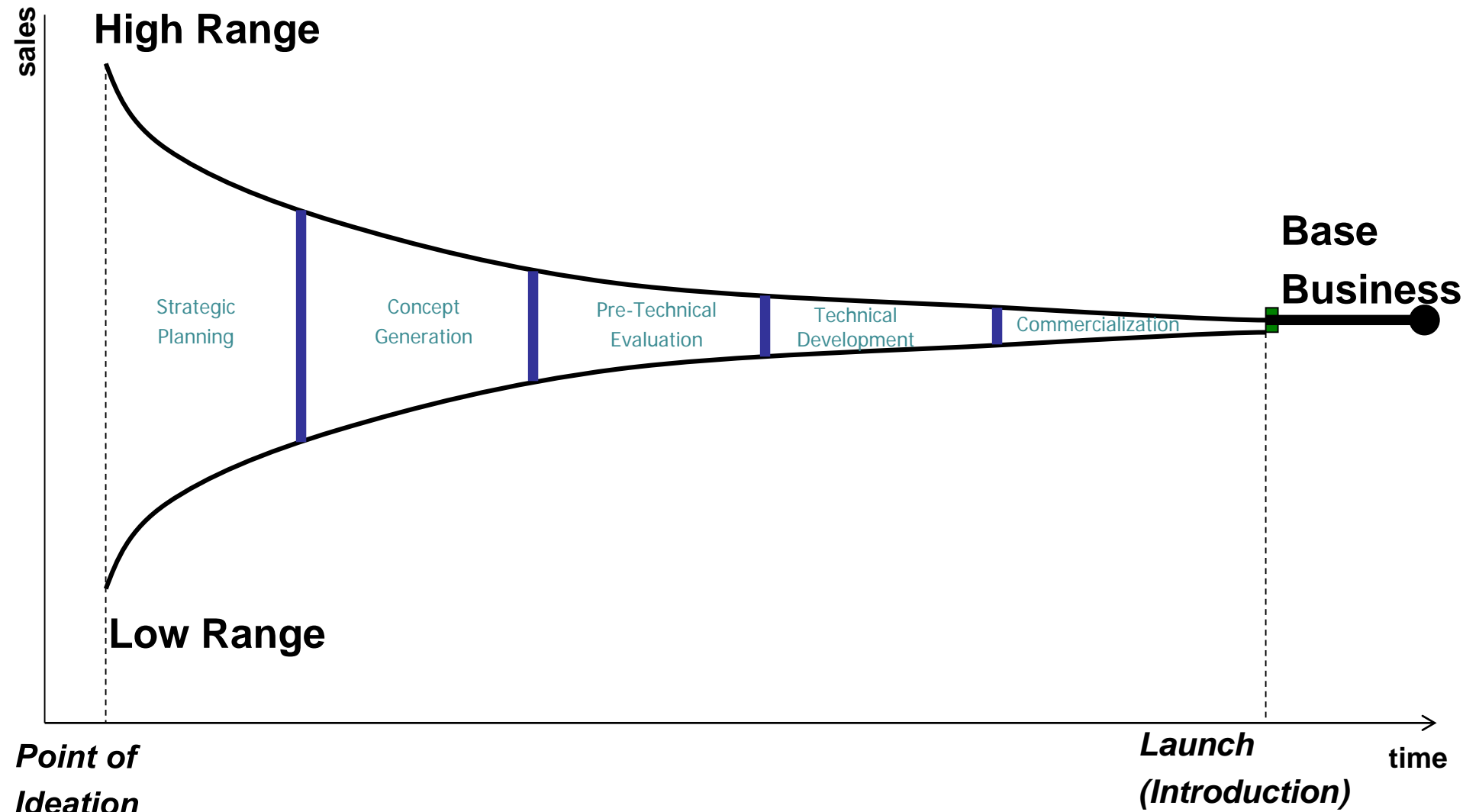
Types of NPF Forecasts

- Market Potential

- Sales Potential

- Market Forecast

- Sales Forecast

Plan

Which Plan?

Demand Plan
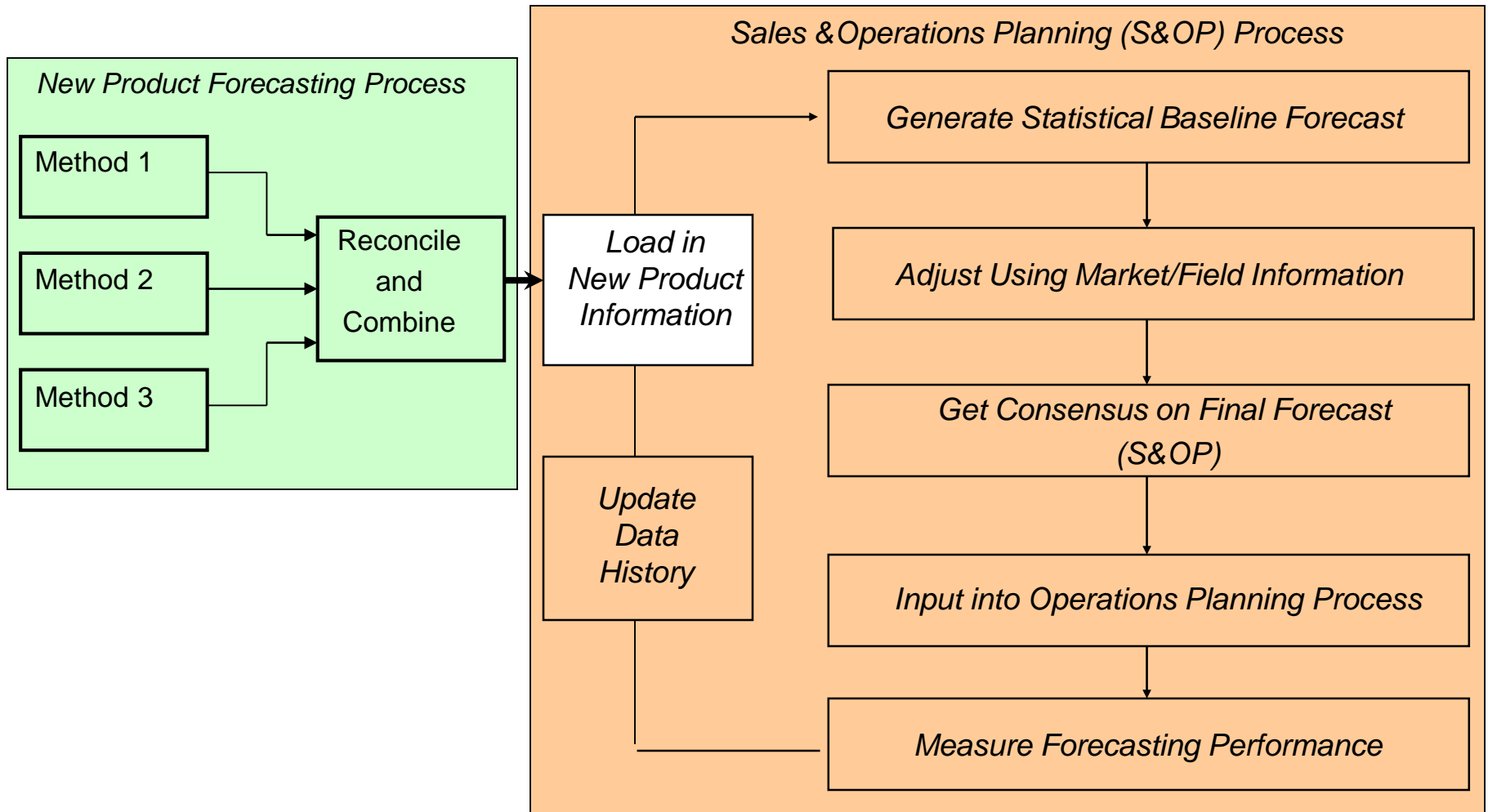
Financial Plan

Production Plan

Contingency Planning

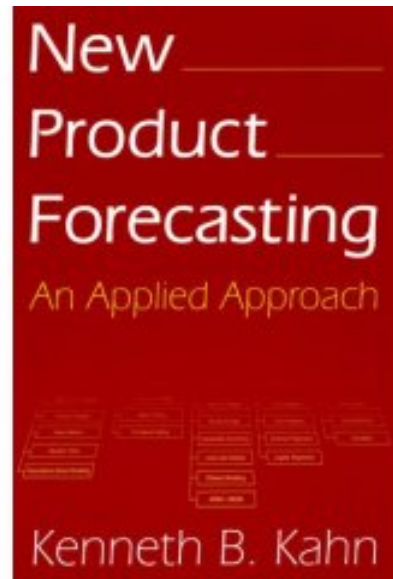| Potential Problem	Tracking	Contingency Plan
Customers are not making trial purchases of the new product as expected.	Look at POS reports. Minimum, 100 purchases monthly per retail outlet are expected.	Install point-of-purchase displays.
Competitor may have similar new product.	Difficult to track, but conduct surveys with retailers and final consumers.	Offer 2 for 1 program. Consider bundling new product with other products.

Measurement

Managing the New Product Forecasting Endeavor

New Product Forecasting and the S&OP Process

New Product Forecasting Process

- Method 1
- Method 2
- Method 3

Reconcile and Combine

Sales &Operations Planning (S&OP) Process

Load in New Product Information

Update Data History

Generate Statistical Baseline Forecast

Adjust Using Market/Field Information

Get Consensus on Final Forecast (S&OP)

Input into Operations Planning Process

Measure Forecasting Performance

Summary Thoughts

☑ New product forecasting differs from forecasting existing products.

☑ New product forecasting is not about data, techniques, and systems, but rather quality assumptions, judgment, and process.

☑ New product forecasting is less about data crunching and more about providing insights that enable senior management to better evaluate risk and decide how to act.

☑ New product forecasting is not so much about accuracy, but about increasing the propensity for new product success.

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