



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 outcomes on which company contingencies can be planned versus a singular point forecast for an existing product. And the measure of forecast accuracy, which is a common metric in forecasting existing products, must give way to meaningfulness so that the new product forecast is actionable. Recognizing new product forecasting as a cross-functional, company-wide process helps resolve the problems of new product forecasting. While incapable of remedying all problems, a properly understood and organized new product forecasting effort can help the company better prepare, execute, and support a new product launch, affording a greater propensity to achieve new product success.

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1. The daunting nature of new product forecasting

Amidst the current age of big data, advanced statistical analytics, and computer firepower, new

product forecasting remains a problematic, inherently error-prone endeavor. A research study conducted over a decade ago revealed the average achieved accuracy for new product forecasts at 52% 1 year after launch (Kahn, 2002). Recent industry reports indicate this figure has changed little (Jain, 2007), which highlights that the problems of new product forecasting persist. Even market-leading companies like Kraft, Microsoft, PepsiCo, and Disney contend

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with the challenges of new product forecasting as the following examples illustrate:

- Kraft Bagel-fuls, a bagel-like product stuffed with Kraft Philadelphia Cream Cheese, were launched in 2008 to much marketing firepower. One report indicated initial sales of \$7.7 million in the first 12 weeks and revealed that these sales helped offset volume declines in Kraft's cheese categories. However, Kraft executives had announced expectations for annual sales in excess of \$100 million. Whether due to production problems, negative consumer reaction about fat content, and/or the 2008/2009 economic environment, the product did not meet company benchmarks. Kraft divested itself of the Bagel-ful business in 2010, reporting a loss on the divestiture (York, 2013).
- In debuting its Surface RT tablet, Microsoft stated expectations of at least 2 million units sold by end of fourth quarter 2012. Reports generated in early 2013 indicated that only 1 million units had moved, and consumer appeal and market adoption were not materializing into product purchases. Year-end company financial results included a \$900 million charge related to Surface RT inventory adjustments, which analysts saw as a telltale sign that the Windows RT tablet was not living up to Microsoft's sales expectations. Indeed, it was suggested that Microsoft had up to 6 million Surface RT tablets in unsold stock, not including parts and accessories (Hernandez, 2013).
- PepsiCo launched its Gatorade G-Series Fit line in April 2011 to high expectations. The Fit line—comprised of a pre-workout protein bar, a fruit-based protein drink, and a low-calorie version of Gatorade sports drink—was designed to woo fitness fanatics who preferred drinking water. The product line failed to catch on with its intended audience and did not resound with the traditional Gatorade customer, which tended to be teenagers and athletes who play team sports. Price was also an issue, as the G-Series Fit line was more expensive than traditional Gatorade and launched amid an emerging price war with competitors in a saturated energy-drink market. PepsiCo spokesperson Molly Carter stated: "While we made strides connecting with this athlete, the line did not perform to our high expectations" (Ziobro, 2012). Gatorade G-Series Fit was removed from the marketplace in 2012, after just 1 year on the market (Morton, 2012).
- Disney hoped that *The Lone Ranger* would turn into another *Pirates of the Caribbean* franchise, which grossed over \$3 billion worldwide. Prior to the movie's launch in July 2013, BoxOffice.com predicted sales revenues of \$37 million over opening (3-day) weekend, \$60–\$70 million in North America over the same period, and \$135 million in its total domestic theater run. Another forecast by Box Office and Film News suggested that the movie would make \$127 million in North America and \$185 million outside North America for a worldwide total of \$312 million. Actual figures during opening weekend were \$29.3 million, with \$48.9 million over the first 5-day time frame. A month after its release the film had earned \$86.7 million in the United States/Canada and \$88.7 million elsewhere for a worldwide total of \$175.4 million. *The New York Times* estimated the film had cost \$375 million to produce and market, and would need to earn an estimated \$800 million worldwide to break even after accounting for revenue splits with theater owners. Walt Disney Studios Motion Pictures' vice president Dave Hollis called the results "very disappointing" (Fritz, 2013, p. B1).

Viewed through the lens of contemporary thought regarding big data and advanced analytics, the aforementioned situations would have generated better forecasts had more data and sophisticated analytics been readily available. Such thinking implies that forecasting requires one to simply access company databases and/or syndicated datasets, extract and analyze product demand history, and generate a forecast. This portrays forecasting as a strictly data-crunching endeavor. Unfortunately, such a sketch overshadows and misrepresents the task of new product forecasting.

Accessible data are a rare luxury when forecasting new products, and whatever data do exist typically are not in immediately usable form. For instance, new product data often include customer interview data, which are more likely to come in the form of audio and video files and/or be summarized in PowerPoint presentations than coded and housed in a computer database. Qualitative analyses serve as the norm for new product forecasting, with judgment and intuition as inputs. Complicating and compounding the situation are the biases that these inputs introduce and the inherent uncertainty surrounding factors like market size, penetration rate, cannibalization, and competitors. Such factors contribute to new product forecasting being a characteristically problematic and error-prone endeavor.

As will be discussed, there is a need to distinguish the task of new product forecasting from forecasting

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