

Business guide

# The challenge of forecasting



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# Looking to the future

Planning is intended to reduce risk and increase the chances of making the right decision. Unfortunately, we are all planning for the future – and the only thing certain about the future is that it is uncertain.

In this guide we will be considering the future, the challenge of the changing marketplace and some ideas for forecasting the future and assessing the feasibility of any opportunities open to your business.

## Looking to the future

The chances are pretty high that the sector you work in has seen some breathtaking changes over recent years.

Major developments like globalisation of trade and the technology breakthroughs of genetics, digital communications and e-commerce have changed the business landscape dramatically.

Customers have changed as well, becoming better educated with higher expectations, more environmentally aware and increasingly aware of their rights. No business can ignore their needs or take them for granted and expect to stay in business for long. But what about the next few years: how do you see the future?

Look at the following observations made about a possible shopping trip in 2010. Is this how you see the future? What other changes might you forecast and what are the implications for your business?

- The journey to the town centre was made easily by an electrically powered minibus. The service picked us up at the end of the road in response to a booking made by SMS, and was clean, quick and reliable. Of course, with cars banned from the town centres, congestion taxes on the main urban routes, and pollution controls limiting which days you can drive, this is by far the easiest alternative.

- The shopping environment is controlled and pleasant. Stores are well laid out with easy access for everyone. The expectations and demands of a growing and ageing population brought up on the power of the consumer has brought about many changes – signs and labelling can be easily read even by those with failing eyesight. Wide aisles and open spaces ensure electric shopping vehicles can reach everywhere and there are plenty of rest areas and customer helpdesks for everyone.
- Shopping is much less functional and more fun than in years gone by. Real comparisons and product research are done on the Internet. The shop fronts are more like exhibitions providing demonstrations, trial opportunities, and – most importantly – the chance for suppliers to meet customers and build their relationship with them. Design and image are essential in today's retail theatre. Entertainment and hospitality are expected. Of course, you can make purchases using electronic purse money held in euros.

There is nothing too radical in this scenario, is there?

Most of the trends can be seen already and require little imagination to see how they may change our shopping experience in the future. How different will your market be in five or 10 years?

## Delphic oracle and jury forecasting

- You are an expert in your own business and if you use that knowledge to forecast the future you are using a Delphic forecasting technique. Ask others who know the sector to do the same thing and compare their futures with yours – how much agreement is there? How would these futures change your business?
- Ask your management team to try the same exercise but let them work together. Their ideas will trigger each other's thinking. This is the basis of jury forecasting. It is not precise or statistically based but it encourages managers to be open minded and forward looking, alert for trends and market developments. This future focus could be a critical skill in the survival and future success of your business.

## How aware of the future are you?

Most managers are struggling to cope with the reality of today and so would claim to have little time to worry about tomorrow, but then they also expect to still be in business in five or 10 years time. When markets changed slowly this laissez-faire attitude was acceptable. The market changed, so the company reacted and after a little while everything settled down. Today things happen very quickly and the luxury of a reactive management style is no longer an option. Get it wrong today and you could be out of business tomorrow. You need to be proactive to survive and the smaller your business the more important is that awareness and alertness.

Use these questions to help you assess how future-focused you are.

1. What are the main challenges and/or changes your customers will face over the next three years?
2. How will e-commerce and interactive technology affect the following in your industry:
  - Customers seeking information?
  - Transactions?
  - The distribution of services?
3. What will happen to the following over the next five years?
  - Prices
  - Customer service
  - Product performance
4. How will you expect your customers to change over the next five years in terms of:
  - Purchasing power?
  - Age/background?
  - Expectations?
  - Shopping/buying behaviour?
  - Loyalty?
5. What are the most likely environmental changes to influence your business? For example, what are the possible legal, competitive or environmental developments?

## Forecasting to identify opportunities

Whilst you need to monitor your environment to alert you to threats, you are also seeking out the opportunities which will enable you to grow the business. Ideas can come from many sources: your staff, competitors and most importantly your customers – current, past and potential. If you are not providing your customers with what they want and need today you will already be losing their business. Customer research needs to focus on tomorrow.

### What else do they need or want?

- Do they see their needs/business changing?
- What can you do better or differently?

Research should provide you with information which will help you to reduce the risk in decision making.

Customer satisfaction surveys should not be confused with market research. These can be a useful source of information if they are developed with the intention of finding out what we can do better, but of course they only provide information related to today's customers. Lapsed and past clients can also provide some useful insights.

## Research follows strategy

Research needs to follow strategy. If you want to extend your customer base, then your research needs to be undertaken with potential customers from that market.

If you wish to launch an innovative product you need to focus on the innovators and clients who most readily buy new products amongst your current customer base.

Research is central to the more focused forecasting which is needed to help you evaluate the feasibility of a new business opportunity.

When you are forecasting activity in current markets you have a sales history and the opinion of your staff to work on. Experience may alert you to how sales respond to weather or economic climate. In a new market the challenge is greater.

### Assessing feasibility

You need to assess that any particular opportunity is going to be significant enough and long lasting enough to make the necessary investment worthwhile. At the same time you need to take care not to generate more demand than you have the resources to satisfy. If you do this, customers will be dissatisfied, the quality of service will be compromised and your long-term reputation and position in that market could be seriously damaged. The planning challenge therefore is to attract the level of new customers you can service with your available resources.

## Know your capacity

A useful first step in a feasibility study is to establish that available capacity. How much more business do you want or can you handle in the next six months, 12 months or two years?

Look for the limiting factor. In a production-based business that may be the capacity of your slowest machine, in a service business the availability of skilled staff.

This will probably not be a simple figure, but it will provide you with some basic benchmarks.

For example, the local bookkeeping firm might know that it typically bills for 180 hours of work per week and that if all staff were working at full capacity 220 hours of billing could be achieved. In the short run the business therefore has 40 hours spare capacity per week.

If further growth required additional employees and each could service 35 hours of client work then medium term expansion is limited only by the capacity of the office.

If only two spare desks were available without moving premises or opening a second base, then the medium-term capacity would be:

40 hours from current staff  
70 hours from new staff  
110 extra hours

The resources and investment needed to take on new staff or to take a longer term option of new premises can be laid down on the cost side of your feasibility study.

Now you need to return to the forecasting demand. Our bookkeeping firm has, to date, built their business amongst local pubs and hotel clients. They want to expand into the retail market.

## How big is the market?

Secondary or existing data sources will often give you an idea of the size of a market. Continuing the example above, how many independent retailers are based within a 10-mile radius of their base?

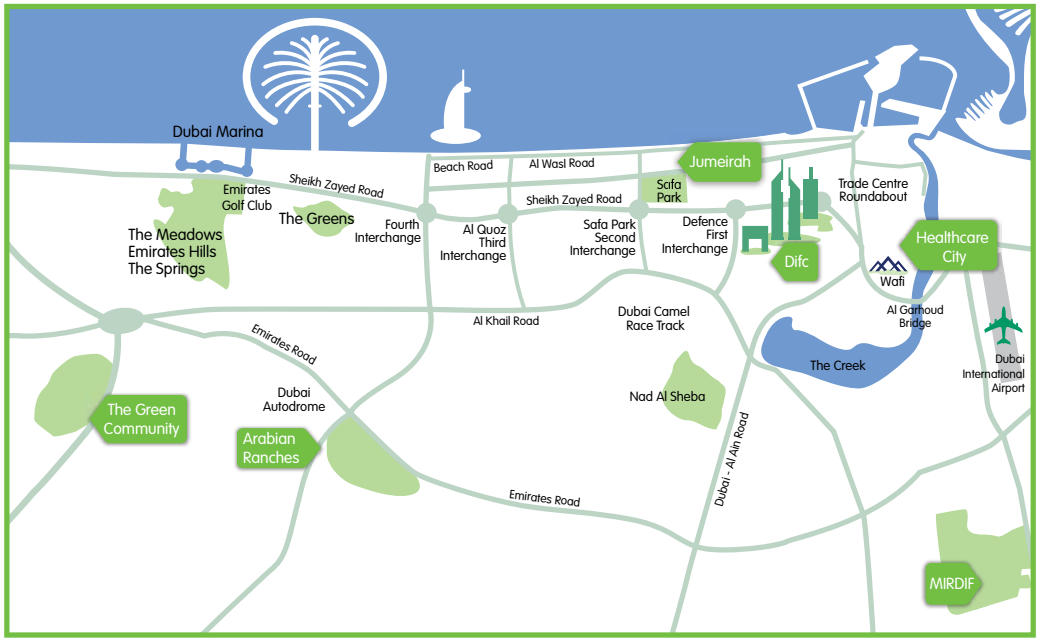
Observation, the Yellow Pages or a relevant association might provide information on numbers. You do not need a precise figure – a ballpark estimate will be adequate.

Research, formal or informal, could help you to number of facts:

- The average number of book-keeping hours needed in this sector.
- The key firms active or specialising in this market segment and their relative strengths and weaknesses.
- The current level of satisfaction and points of dissatisfaction which characterise this market.
- Views of the future demand and specific needs of this market.

### Tip

Avoid markets where customers are highly satisfied with their current suppliers. This feedback will help you form a view of the future, how attractive the opportunity is and how likely it is you would be able to generate the level of demand needed to achieve your objective. In other words how feasible the opportunity is.



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