



Predicting your company's sales

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Need to predict how many people will buy your product? Predictive "probability" scales used in market research can ease the nerves of the brand manager, writes Erica Riebe.

MARK is a brand manager, Sally is an astrologer. What do they have in common? The answer wouldn't be their occupation, right?

Think again, one of the primary roles of both brand managers and astrologers is to make predictions about the future.

So is it possible for a brand manager to predict the future? Astrologers have been claiming to do so for centuries, and while we think brand management is quite different from astrology, it too is a discipline of making predictions.

Part of a brand manager's role is to observe and predict consumer behaviour, to predict whether customers will purchase our brand over that of our competitors, and to predict the size of the purchase they will make.

But surely brand managers make more accurate predictions about the behaviour of customers than astrologers do about people's lives.

We use prior knowledge about past customer behaviour, we remember the effect the last promotional campaign had on our customers and we examine previous sales levels. We may even do some market research.

But how do we know that the prediction we make is going to be an accurate one? Maybe it is just an accurate description of what customers did before!

However, recent research has uncovered and tested another way of predicting

consumer behaviour, which can ease the nerves of the brand manager and makes the decision making process just a little more scientific.

Probability scales

The recent research, conducted predominantly by researchers in New Zealand and Australia, has investigated the predictive ability of "probability" scales.

The scales are used in market research to create numerical estimates of the population's future consumption behaviour from a sample.

They produce results that give actual estimates of future behaviour. For example,

a common result would be that 30% of the population will purchase X brand in the following 12 months.

The initial version of the scale was developed some 30 years ago to assist in the forecasting of sales for automobiles. Only recently has it been used in marketing.

The scales have been developed for both mail out and phone surveys. They have been shown to provide very accurate predictions of customers' future behaviour across many categories.

Recently, for example, researchers at the Marketing Science Centre have used the scale to provide predictions of social behaviours for a manager who was interested in predicting this behaviour for a product her organisation was marketing (taking up employment in the following six months).

We were able to predict that 19% of the sample would take up employment in the following six months.

These same individuals were re-interviewed at a later date and in fact 18% of them had behaved in this manner.

The scales have also been used by the Marketing Science Centre to compare the likely uptake of potential products, which has considerable financial implications for the companies concerned, which can determine which product option will be most successful without incurring the expense of launching several products.

It also enables these companies to forecast demand and set up distribution channels accordingly.

Despite this apparently superior ability to predict, and the usefulness of these scales, they are rarely used in commercial market research.

Most research companies instead use scales that measure the respondents' intention to make a purchase.

These scales are called "intentions scales" and typically ask "do you intend to buy X product in the next X period".

The trouble is, we all do things that we do not intend to do, and not do things we do intend to do.

This problem is reflected in the accuracy of the predictions that are gathered using such scales. Research shows that there is a very poor correlation between the respondents' intention to purchase and their future behaviour.

Probability scales produce far more accurate predictions because they ask the respondent to state the likelihood that they will make a purchase.

This way the respondent can take into consideration all of those things that may stop them from purchasing a product (even if they intend to make such a purchase) when they give their response on the scale.

Probability measures are characterised by the output that they produce.

The scales enable researchers to give a reasonably accurate indication of the percentage of the population that will make the purchase in the specified period.

This is not possible (at least with any accuracy) using intentions measures.

Despite being around for some 30 years, the scales have presumably not been used significantly by market research companies because they are seen to be more difficult to implement than intentions scales.

Alternatively market researchers may also be used to reporting more attitudinal measures, despite their poor correlation with future consumption behaviour.

Because managers rarely re-contact respondents to determine whether the predictions given by intentions scales are accurate, market researchers are also rarely forced to consider the accuracy of the prediction they have provided.

The good news is that the scales are available and do provide very accurate estimates of how customers behave.

It is just a matter of making sure brand managers get this information, so that they can make decisions in which they are confident.

If you want to be more scientific about your decision making, ask your market researchers whether they can give you a prediction of the number of people who will purchase your product and whether they will stake their job on it.

After all, as a brand manager, you have to both make these predictions and rely on them to be accurate. Maybe it would be easier to read the stars after all!