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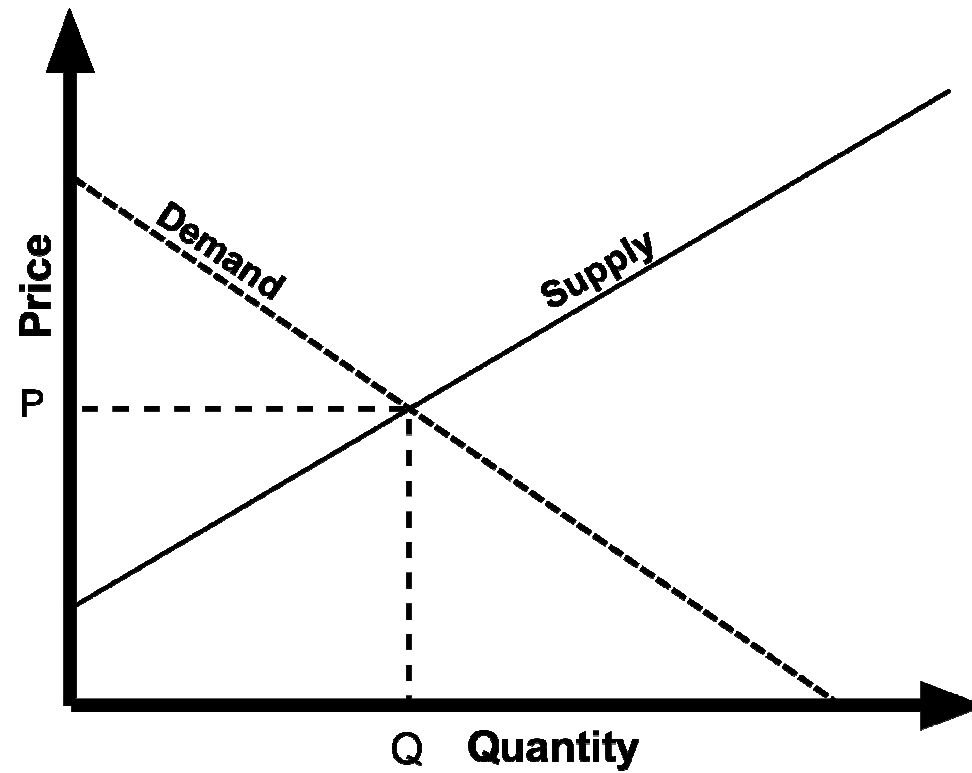# Demand

The basis for demand ▪ industry and firm demand ▪ demand analysis, demand forecasting… lecture and seminar

Demand - theoretical

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Change (movement) of demand curve

– Changes in the prices of related goods (substitutes and complements).
– Changes in disposable income.
– Changes in tastes and preferences. Tastes and preferences are assumed to be fixed in the short-run (habits).
– Changes in expectations.

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Demand and its characteristics (Kotler, Keller)

1. Negative demand — Consumers dislike the product and may even pay to avoid it.
2. Nonexistent demand — Consumers may be unaware of or uninterested in the product.
3. Latent demand — Consumers may share a strong need that cannot be satisfied by an existing product.
4. Declining demand — Consumers begin to buy the product less frequently or not at all.
5. Irregular demand — Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.
6. Full demand — Consumers are adequately buying all products put into the marketplace.
7. Overfull demand — More consumers would like to buy the product than can be satisfied.
8. Unwholesome demand — Consumers may be attracted to products that have undesirable social consequences.

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Demand analysis

- The knowledge of demand for our products is one of the key success factors for our company and presents the competitive advantage for the firm. The estimation of demand is easy in short-term range…
- …but very challenging in long-term range (external factors).

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90 types of demand Kotler, Keller in 2007

– Companies can prepare as many as 90 different types of demand estimates for six different product levels, five space levels, and three time periods. Each demand measure serves a specific purpose.

– The potential market is the set of consumers with a sufficient level of interest in a market offer.

– The available market is the set of consumers who have interest, income, and access to a particular offer.

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90 types of demand Kotler, Keller in 2007

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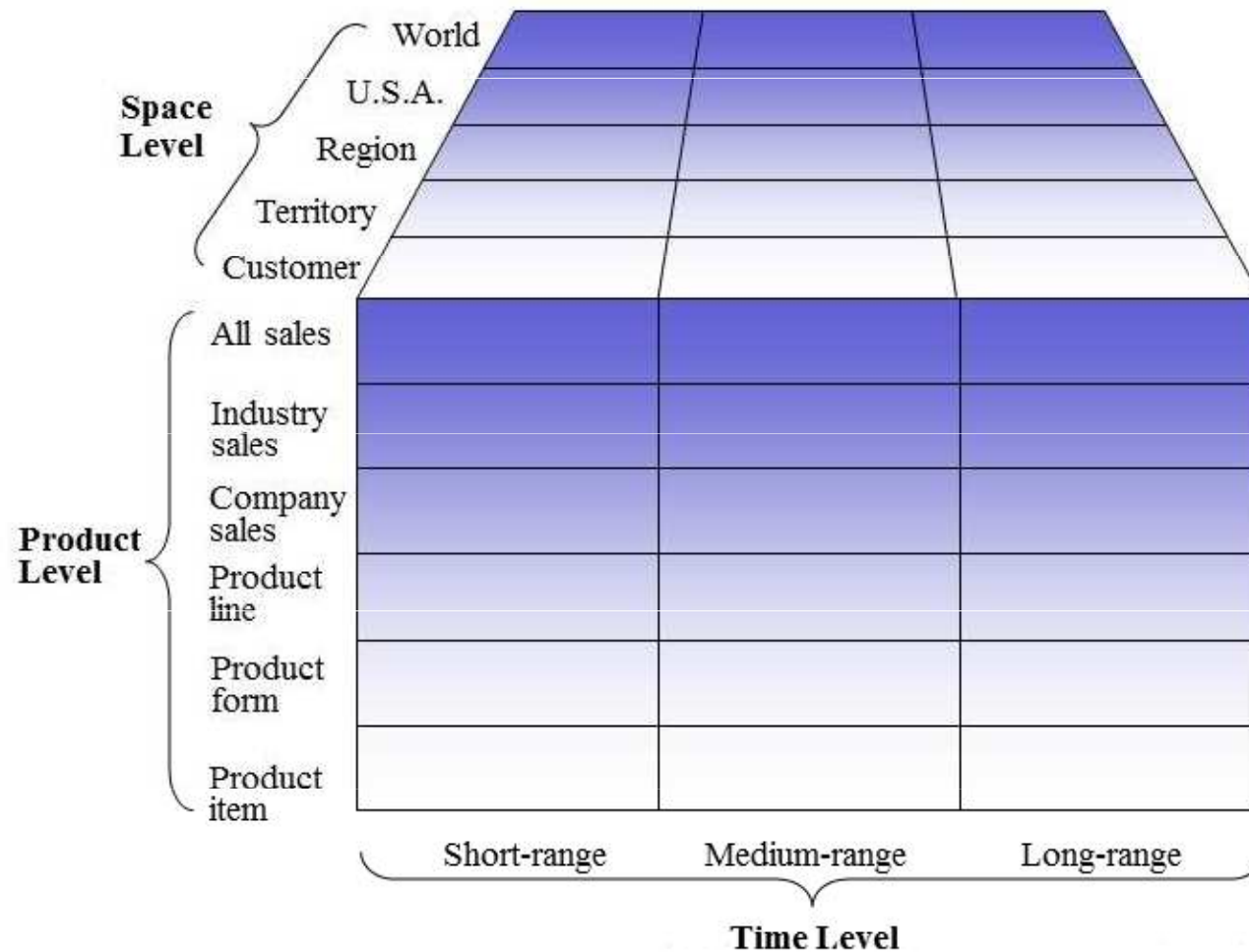
Target market

- The <mark>target</mark> market is part of the qualified available market the company decides to pursue.
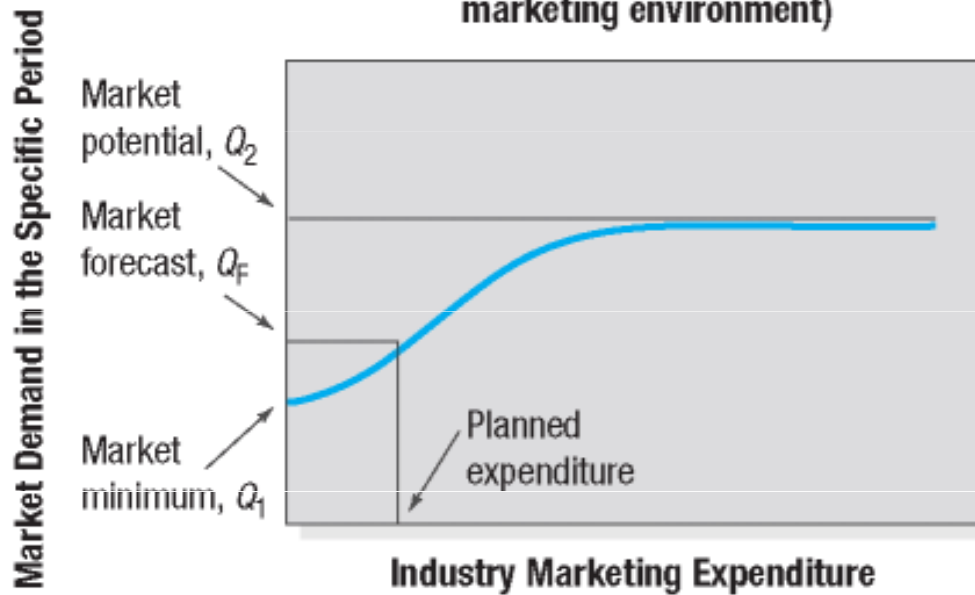- The penetrated market is the set of consumers who are buying the company's product.

- STP!
- Segmentation - divide
- <mark>Target</mark>ing - rule
- Positioning - programe

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Market demand
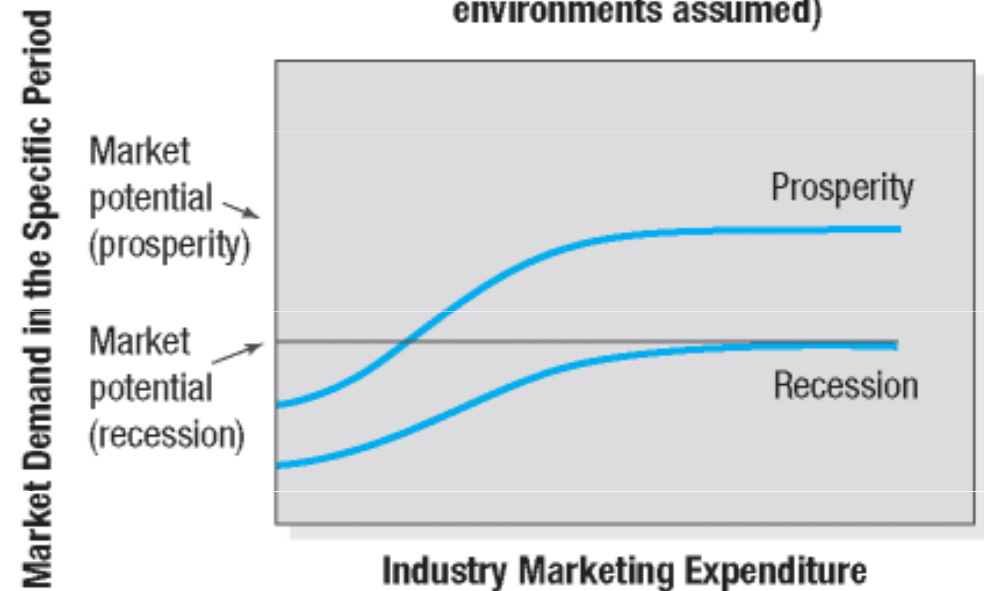
– Market demand for a product is the total volume that would be bought by <mark>a defined customer group</mark> in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing program. Market demand is not a fixed number, but rather a function of the stated conditions. For this reason, is called the market demand function. (Kotler, Keller 2007)

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Market demand level – level of sales

(a) Marketing Demand as a Function of Industry Marketing Expenditure (assumes a particular marketing environment)
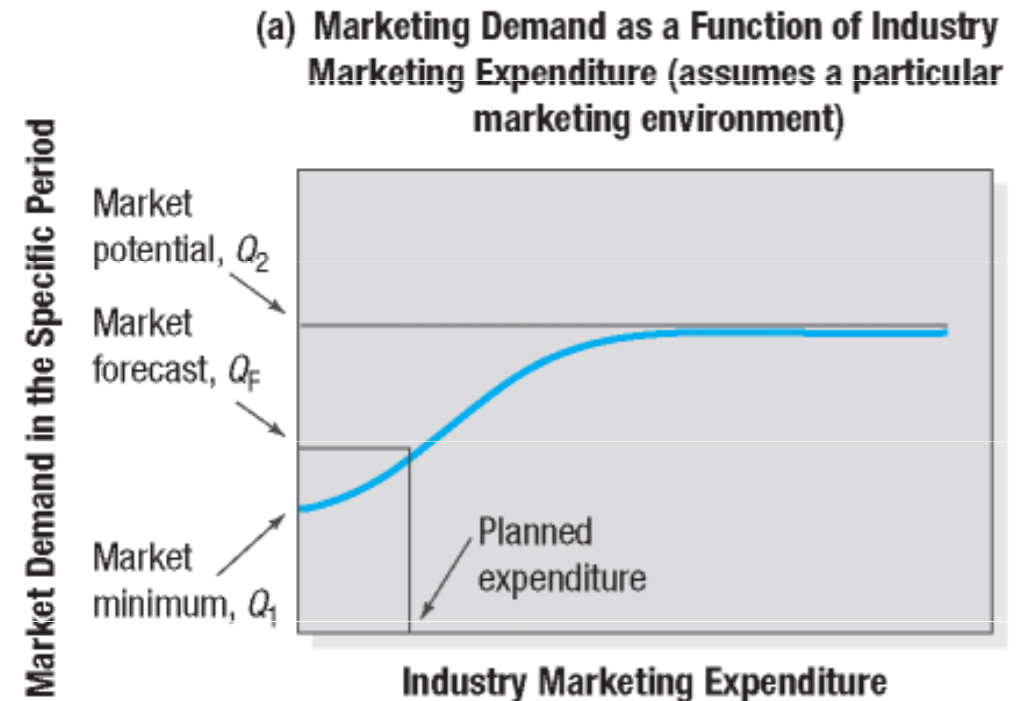
Market Demand in the Specific Period

Market potential, Q_2

Market forecast, Q_F

Market minimum, Q_1

Planned expenditure

Industry Marketing Expenditure

(b) Marketing Demand as a Function of Industry Marketing Expenditure (two different environments assumed)

Market Demand in the Specific Period

Market potential (prosperity)

Market potential (recession)

Prosperity

Recession

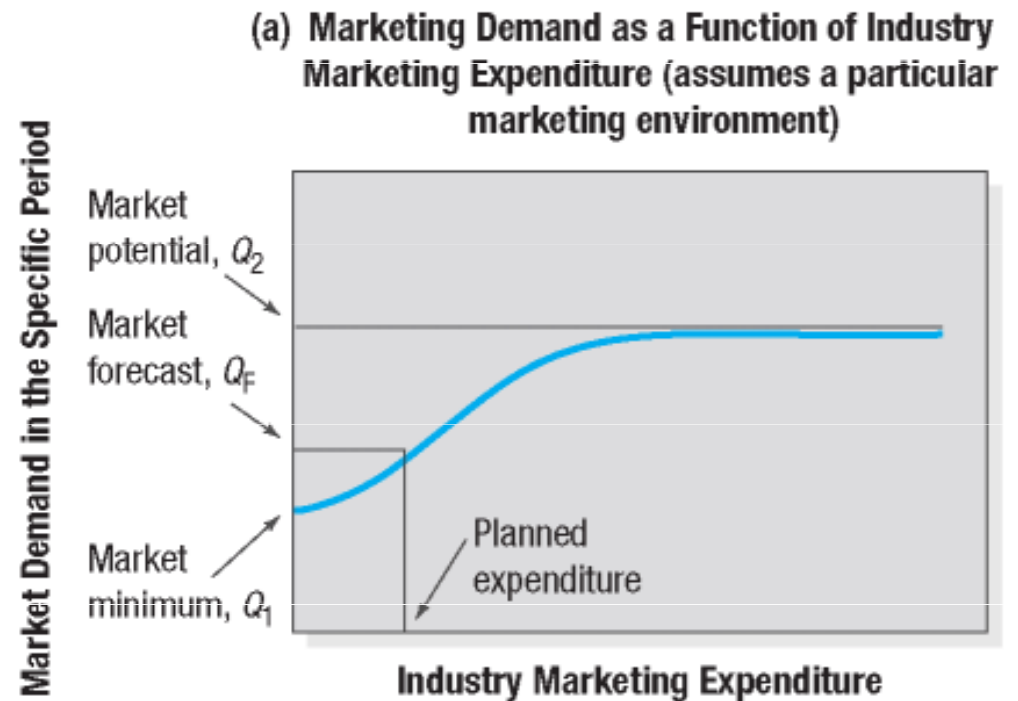Industry Marketing Expenditure

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Analysis and planning

- Q1 – market minimum would take place without any demand stimulating expenditures (for example on marketing)
- Q2 – market potential– marketing expenditures beyond a certain level would not stimulate much further demand.

- **The distance between Q1 and Q2 shows the overall marketing sensitivity of demand.**
- If the difference between Q1 and Q2 is large, that means expansible market – good for investing in marketing
- If the difference between Q1 and Q2 is small, that means non-expansible market – not affected by the level of marketing expenditure.

(a) **Marketing Demand as a Function of Industry Marketing Expenditure (assumes a particular marketing environment)**

Market Demand in the Specific Period

Market potential, Q_2

Market forecast, Q_F

Market minimum, Q_1

Planned expenditure

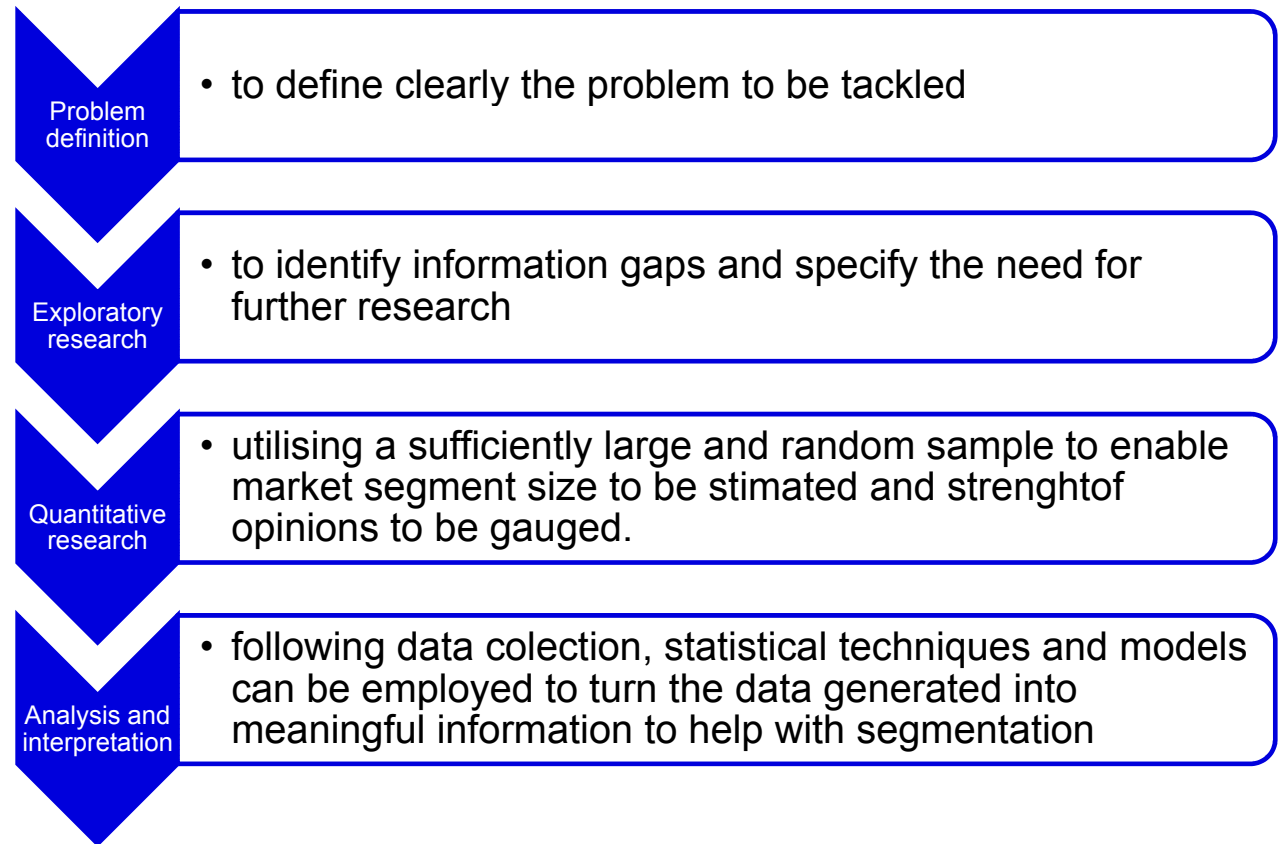Industry Marketing Expenditure

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- **Market forecast –** There can be only one actual level of industry marketing expenditure. The market demand corresponding to this level of expenditure is called the market forecast .
- **Market potential –** limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment**.**
- **Company demand** – is the company´s estimated share of market demand at alternative levels of company marketing effor in a given time period.

(a) **Marketing Demand as a Function of Industry Marketing Expenditure (assumes a particular marketing environment)**

Market Demand in the Specific Period

Market potential, Q_2

Market forecast, Q_F

Market minimum, Q_1

Planned expenditure

Industry Marketing Expenditure

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Methods of demand estimation

– Usually market
research.

– STEPS:

Problem definition
- to define clearly the problem to be tackled

Exploratory research
- to identify information gaps and specify the need for further research

Quantitative research
- utilising a sufficiently large and random sample to enable market segment size to be stimated and strenghtof opinions to be gauged.

Analysis and interpretation
- following data colection, statistical techniques and models can be employed to turn the data generated into meaningful information to help with segmentation

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- Basic methods of demand estimation can be divided as (Horáková, Kubát, 2002):
- 1) Subjective and open-minded
- 2) Quantitative and qualitative
- 3) Simple and analytical
-
- Subjective methods – connected with intuition, opinions and knowledge of interested persons (expert opinions)
- Open – minded methods – based on the raw data collection – statistic methods are used to evaluate the gained data.

- Quantitative methods – include surveys, observation or experimentation, regression statistics, statistic analysis
- Qualitative methods – unstructured or semi-structured interviewing methods designed to encourage respondents to reply freely and express their real feeling, opinion and motivation.

- Simple methods – estimation of only one variable.
- Analytical methods – demand estimation based on the correlation and relations between more variables

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How to mesure demand practically?

– **History**
– Statistics from the ERP systems, warehousing
– Advantages – precise internal and external data
– Dissadvantages – future might not derived from past

– **Actual and close future** – ERP, club cards, crowdfunding, crowdsourcing

– **Distant future** – big trends, demographics, weak signals

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Factors influencing demand – non-price

- Price is short term
- The key is long term
- Economics
- Social
- Disponible income.
- Preferences.
- Politics
- Legal factors
- Consumers expectations.
- Prices of supplements or complements.
- Number of consumers.
- Age.
- Environmental
- Technological

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Theoretical aspects

– Demand increases if:
  – Lower complement price
  – Fashion shows up
  – Income rise (normal goods)
  – Population increase
  – Expected price rise

– Demand lowers if:
  – Income rise (inferior goods)
  – Lowering substitute price
  – Expected lowering of income

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Apple iPhone sales

Apple Unit Sales

Legend: Mac, iPad, iPhone
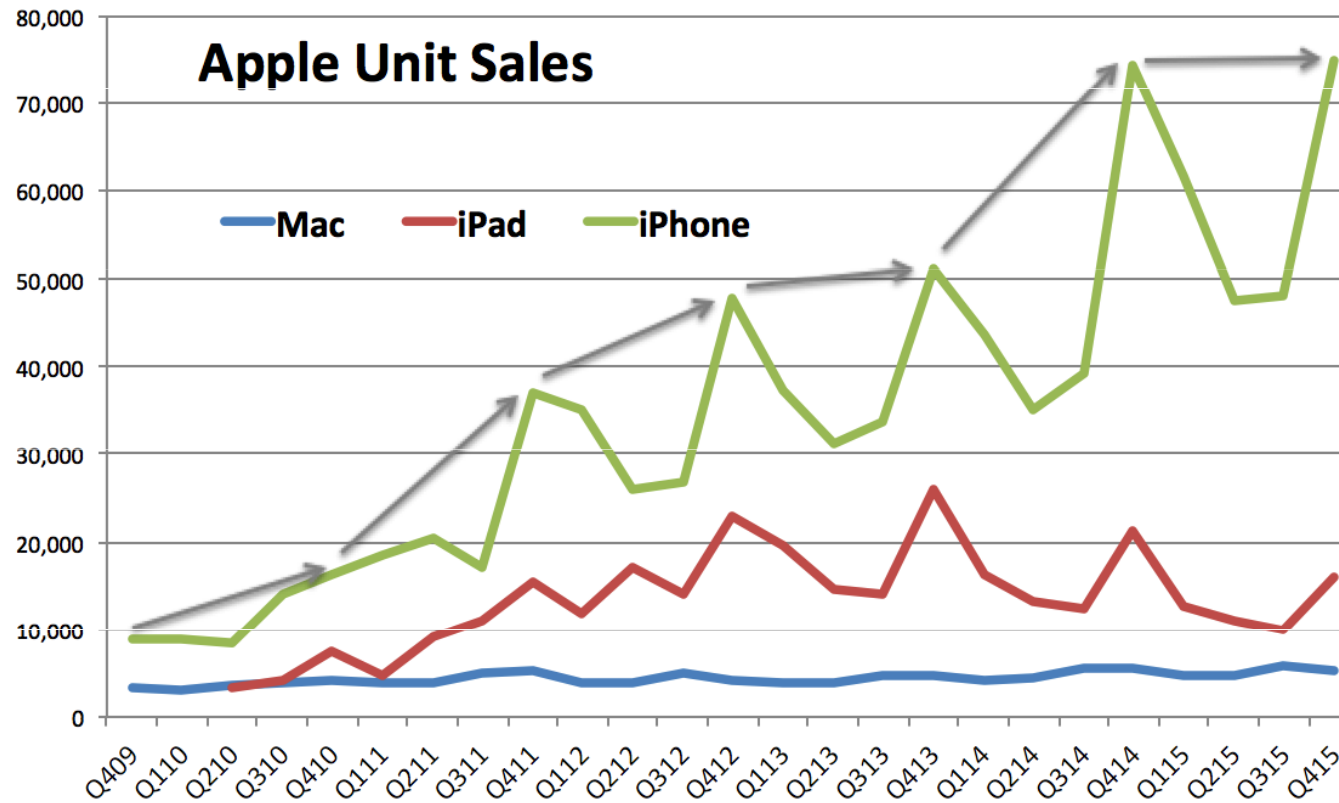
Source: Apple   (Calendar Quarters; Units in Thousands)   GeekWire

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Why all these?

– Bullwhip effect

– Estimation of sales and especially cash-flow

– Investment planning

– Production/storage/employment planning

– The answer to the questions - what, how much and for how much... and all this to whom...
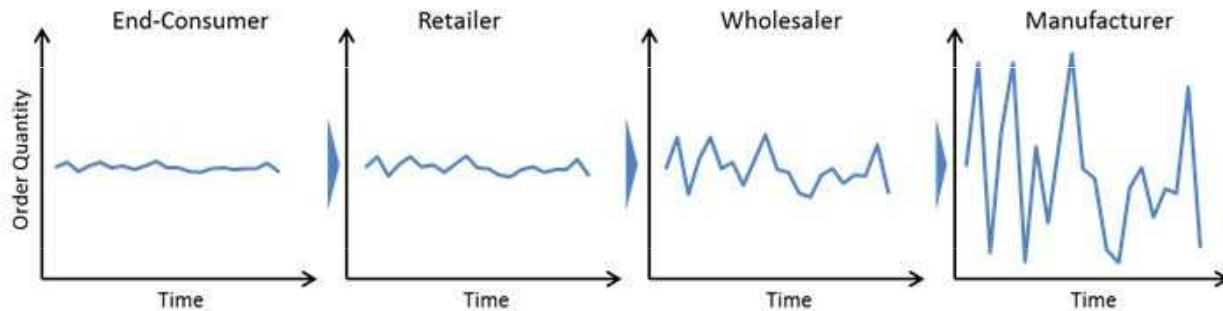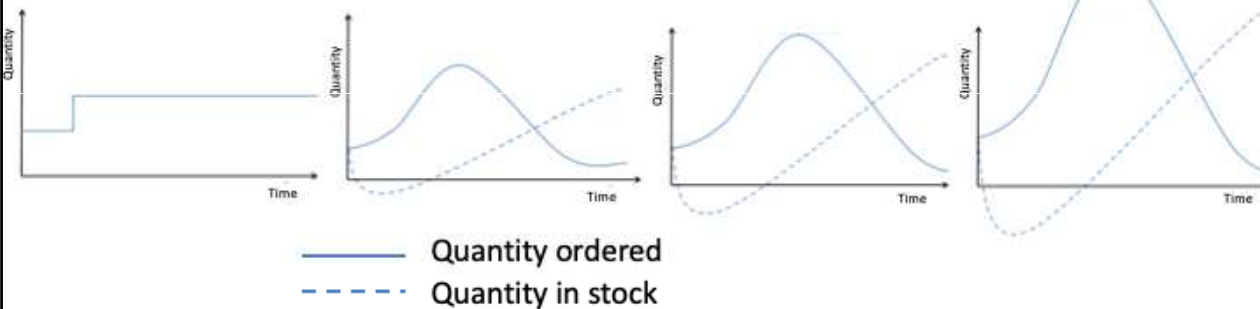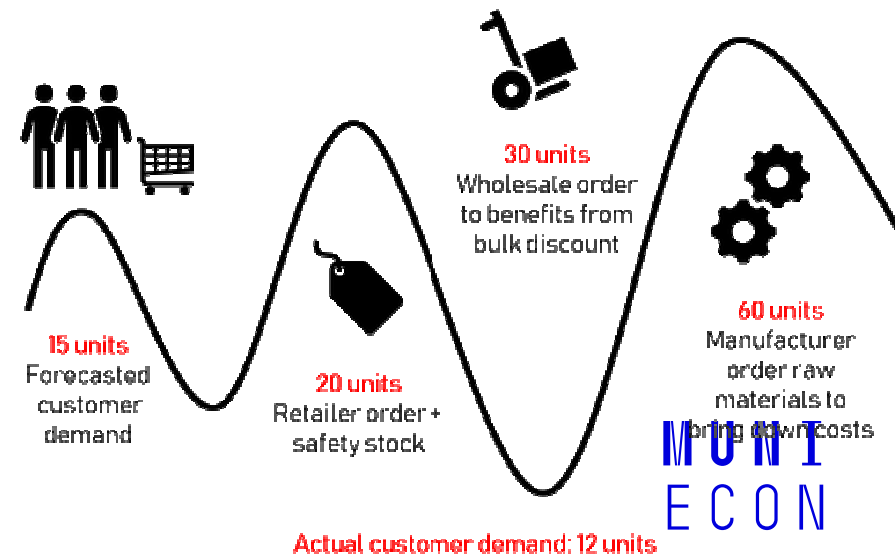
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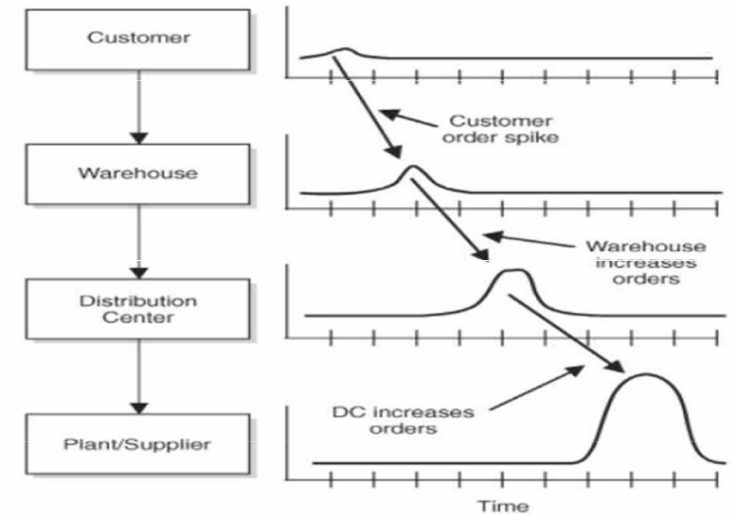
Bull whip?

Figure 1. The bullwhip effect refers to the phenomenon whereby orders become more variable upstream in the supply chain.
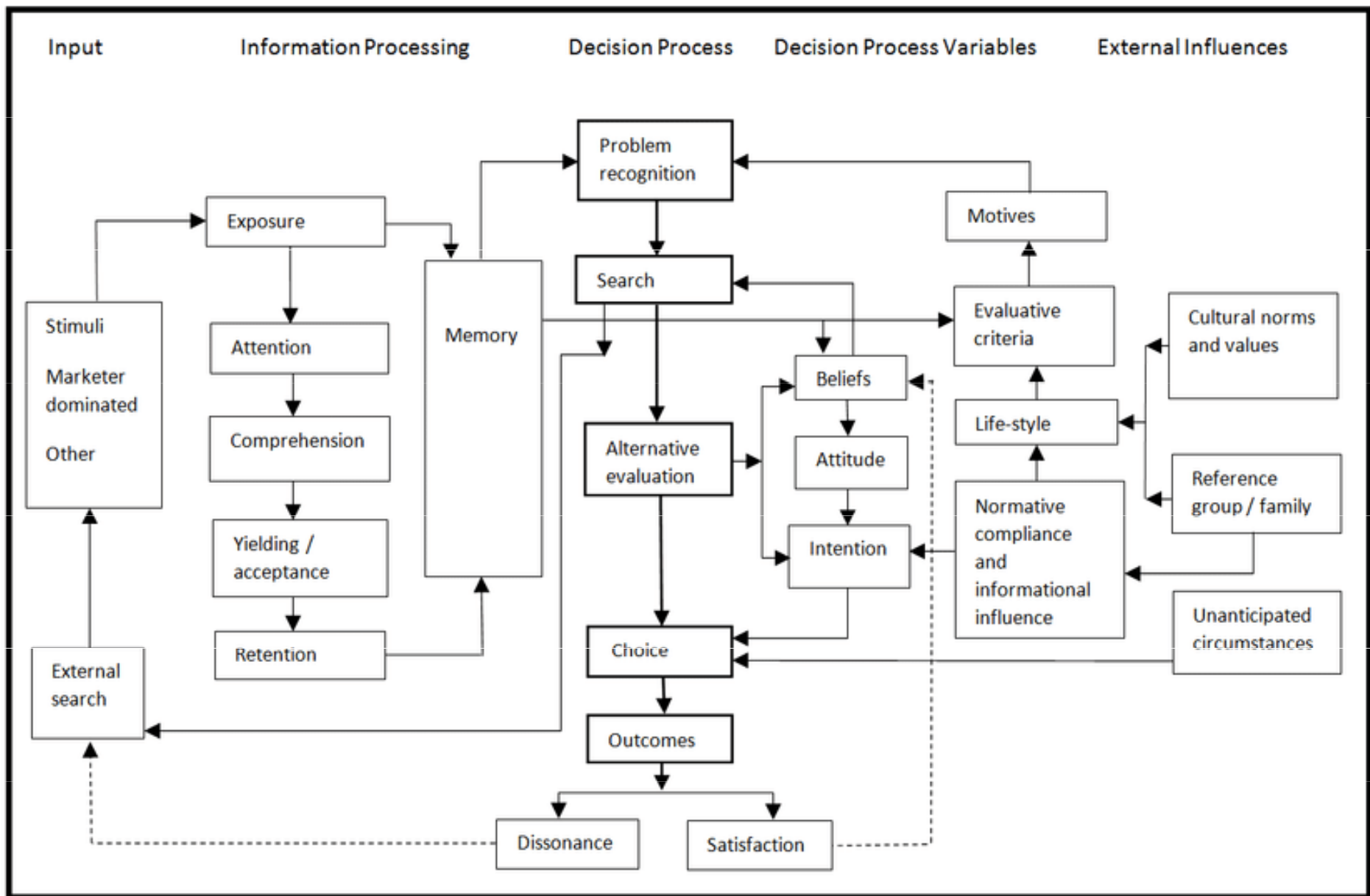
EKB Model (Engel, Kollat, Blackwell)

– Consumer behaviour entails "all activities associated with the purchase, use and disposal of goods and services, including the consumer's emotional, mental and behavioural responses that precede or follow these activities".

– (Kardes, F., Cronley, M. and Cline, T., Consumer Behavior, Mason, OH, South-Western Cengage, 2011 p.7)

| Input | Information Processing | Decision Process | Decision Process Variables | External Influences |
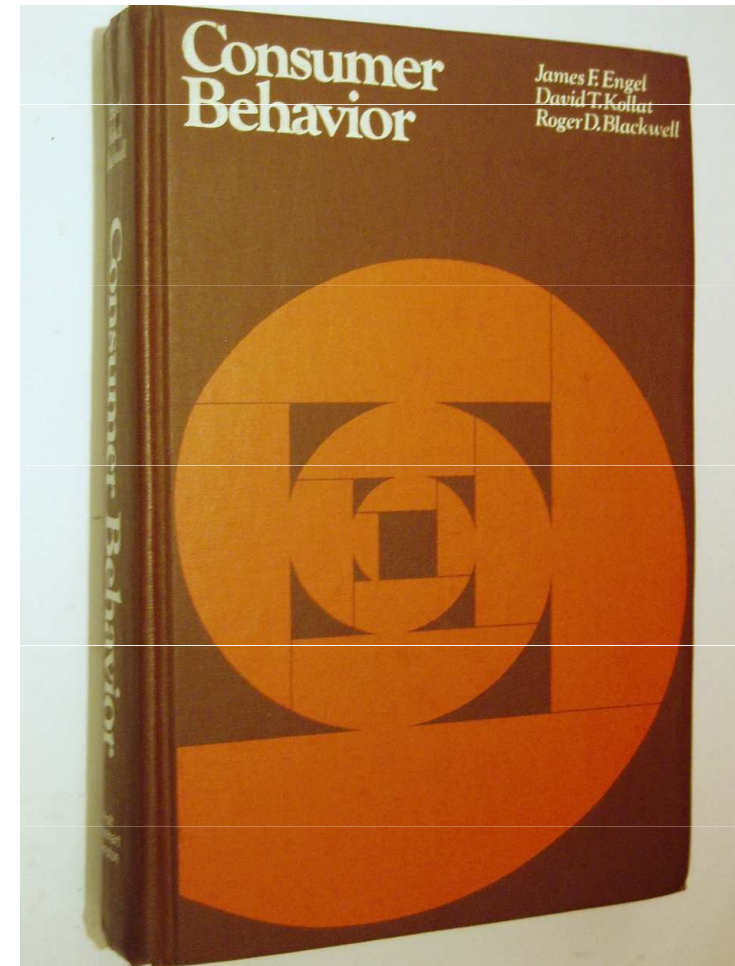
Consumer behaviour

- Purchasing behavior can also be affected by external influences, such as:
- Culture and subculture: based on age, geographic, religious, racial, and ethnic differences
- Social class – very difficult to measure, division in society according educational attainment, income and occupation
- Reference group – individual makes the decision according to values being used by someone else (family, friends, sport team, political party etc.).
- **Opinion leader – influence people due to his/her product knowledge, expertise or credibility**

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Consumer behaviour

- https://www.youtube.com/watch?v=zVpIgI3-pRM

- Types?

- Impulsive – MUST have RIGHT NOW!!!!!!!!!!
- Habitual – common goods same quality and functions
- Extensive – expensive goods
- Limited – medium range goods, selecting, browsing but not too much

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Seminar demand

Task 1

– How will the demand for the following products differ in the selected country and how would you determine it? State when the demand for products will be higher, lower, constant and why?

- Sugar
- Wood – fuel for heating
- Construction work
- Summer clothes
- Petrol
- Flour
- Solar Panels
- Cell phones

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Task 2

– There are numerous non-price factors affecting demand…

Try to think about what non-price factors are likely to affect world-wide demand on the car market? (list at least 5 factors)

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Task 3

– Name at least two products you have been shopping:

– Impulsively

– Habitualy

– Extensively

– Limitedly

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– Thank you…

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