

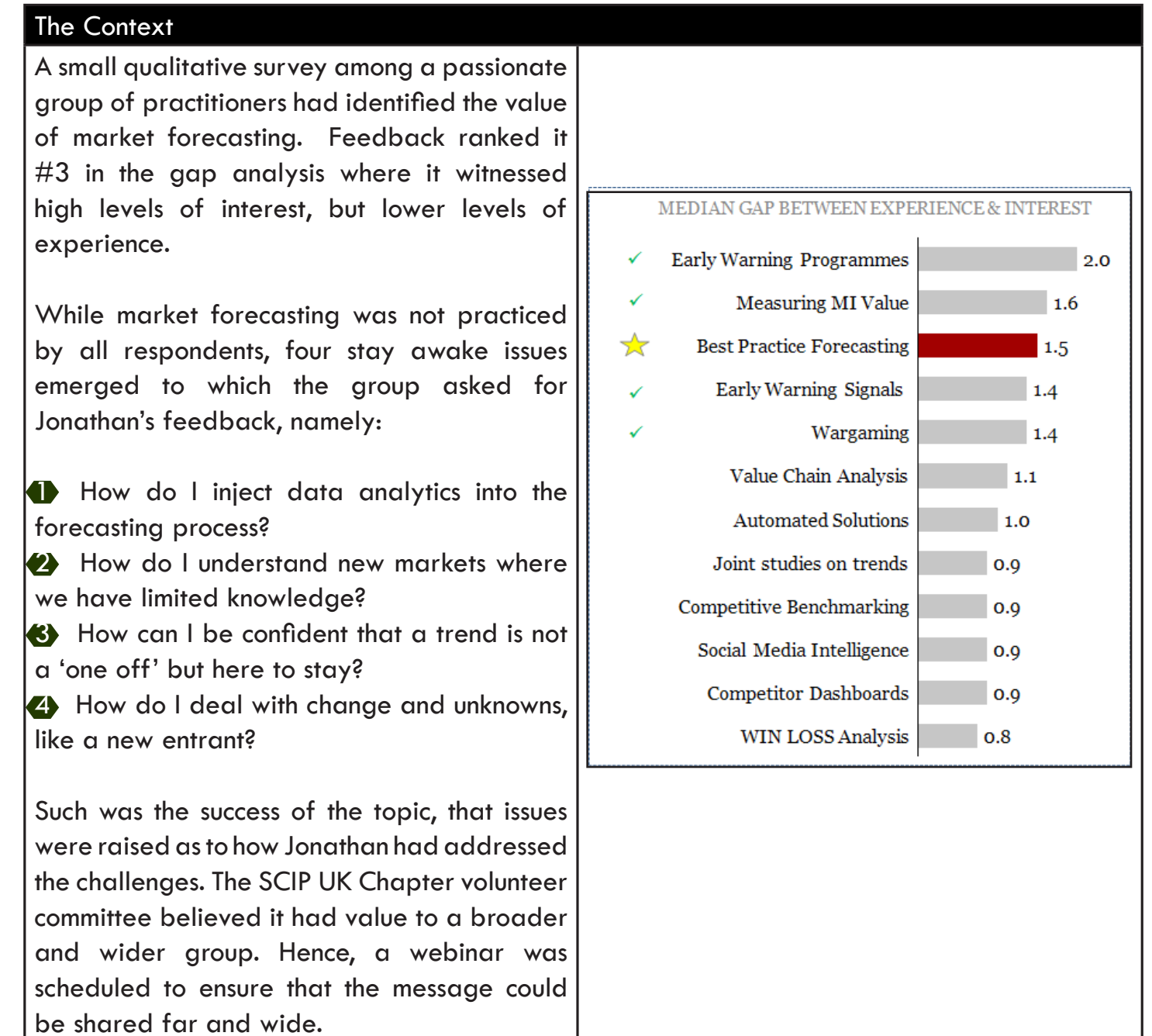
Best in Class CI Market Forecasting Addressing Four Stay Awake Issues

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Further to the articles published in SCIP's CIM magazine, 'Forecasting the Future for Profit'¹ and 'Forecasting the Future for Profit; from the Article to the Interactive Session'² the UK Chapter had the privilege to re-host Milner Strategic Marketing's Jonathan Davenport to address four stay awake issues associated with market forecasting [See Figure 1: Identifying the Stay Awake Issues]. Each of the stay awake issues were addressed in turn, namely (i) how to inject data analytics into the

forecasting process, (ii) how to understand new markets where there is limited knowledge, (iii) how to be confident a trend is not a 'one off', but here to stay and, (iv) how to deal with change and unknowns. This article focuses on the key discussion topics explored during Jonathan's presentation.

Figure 1: Identifying the Stay Awake Issues | Best in Class CI | Forecasting



Source: Survey

I don't have a market model, do I need one?

Understanding your market is essential to building a market winning strategy. However, markets are complex and multidimensional as the future is unknown. Market models are an established tool to build industry attractiveness understanding and competitive strength assessment. A model provides a detailed breakdown of forecast elements such as: sales volumes by customer, sector, competitor, product, price point, and region or country, which allows businesses to identify the right markets and the right products to invest in. As a result, companies can benefit from increased sales volumes, reduced costs, time efficiencies and better company-wide strategic alignment.

#1 Issue How do I inject data analytics into the forecasting process?

Jonathan clearly positioned the value of data analytics. They should be used to understand the historic and present shape of the market's constituent parts before forecasting forwards. This has three key benefits, namely greater accuracy, transparency and consistency. Markets are complex and data analytics can improve forecasting for every individual element at a geographic level, geographic level by segment, geographic level by segment by product type, and lastly at a geographic level by segment by product type by product. While a level of accuracy may be had about your company through data analytics, the real art is to understand what this is at a market level. Using the Anchoring Technique - as laid out in Table 1 - could bring the internally focused data analytics to life.

Table 1: The Anchor Metric

| Anchor Metrics (for Mature Markets) | |
|---|--|
| Anchor Metric: A unit which allows the size of the sector to be scaled and the market trends to be understood, for example car production. | |
| X | |
| Production Output Multiplier: The amount of product used in a single anchor metric point e.g. number of widgets per car. | |
| = | |
| Total Sector Demand: Total sector demand for one time period can be calculated and when the demand is anchored to changes in the sector size over time, changes in demand over time can be calculated. | |

Source: Milner Strategic Marketing Ltd

#2 Issue How do I understand new markets where there is limited knowledge?

To address this challenge Jonathan referenced the value of structuring primary research gathering, the grandfather of all collection techniques for CI/MI practitioners. There is value to be had at both a quantitative and qualitative level, be that through surveys or structured interviews, focusing on both the customer and the competitive dynamic. He also referenced the Anchor Metric technique (see Table 1: The Anchor Metric). Another technique that can be used is called, Market Crafting³. It is a good tool for practitioners who know their competitors and customers well enough, but lack a firm grasp on market scale. Market Crafting is made up of several steps. Step one involves selecting your main competitors. Step 2 involves thinking about how much more or less you believe Competitor A sells compared to you, the Company. Step 3 states that you take your current sales as an index of 100 and assign the appropriate index number to competitor A. Step 4 involves repeating the exercise for all the other named competitors. Steps 5 and 6 focus on adding up the index column and turning the values into percentages. Table 2 is an example of the findings that can be deduced from the process.

Table 2: Market Crafting

| Competitor | Estimated Index Number of Sales (Latest Year) | Implied Market Share |
|--------------|---|----------------------|
| The Company | =100 | 17% |
| Competitor A | 120 | 21% |
| Competitor B | 85 | 15% |
| Competitor C | 125 | 21% |
| Competitor D | 65 | 11% |
| Competitor E | 30 | 5% |
| Competitor F | 20 | 3% |
| Others | 40 | 7% |
| Total | 585 | 100% |

Source: Key Strategy Tools, Vaughan Evans

Treat the results with caution. If the market crafting exercise suggests a competitor's market share of 20% and you hear that its sales director has been boasting of 30-35% at a recent trade show, don't dismiss it off hand as sales patter. It offers the opportunity to look at your numbers again. Do they have access to information that

you don't? What would that imply for your share or that of your competitors? Structuring your collection around trade shows provides a repeatable and systematic environment to continually update your assumptions about the market's value. As Evans points out in his book, the numbers are rough, very rough. But they are better than nothing and seldom misleading.

#3 Issue How can I be confident that a 'trend' isn't a one off, but here to stay?

A trend is a general direction in which something is developing or changing. Jonathan outlined to the audience that trends can be both hard and soft. A hard trend has a low degree of uncertainty and can be used to forecast, based on measureable and predictable factors. A soft trend has a high degree of uncertainty. It can be projected based on statistics and hypotheses. Jonathan made it clear that there is a science to identifying trends. He outlined the steps which included types of hypothesis testing and the collection of data points: hypothesis reasons for trend formation, test and refine trend hypothesis, score trend likelihood, and update scenario and forecast. The Diffusion of Innovation technique can certainly assist in predicting the likelihood of a trend through macroeconomic affects.

Table 3: Diffusion of Innovation

| Diffusion of Innovation (for Emerging Markets) | |
|--|---|
| New Adopters – Diffusion of Innovation: According to Diffusion of Innovation, the adoption curve can be broken into 5 sections of adopters with different characteristics and behaviours, affecting the market dynamics. | |
| The curve predicts the proportion of the target population that will adopt the technology or product over time. | + |
| Market Churn: Some products, especially technology, have a predictable life cycle. The replacement rate is affected by product durability and technology upgrade to forecast the long-term sales demand for replacement products. | |
| | = |
| Total Demand: The total demand forecast takes into account both sales of new and replacement products over time. | |

Source: Milner Strategic Marketing Ltd

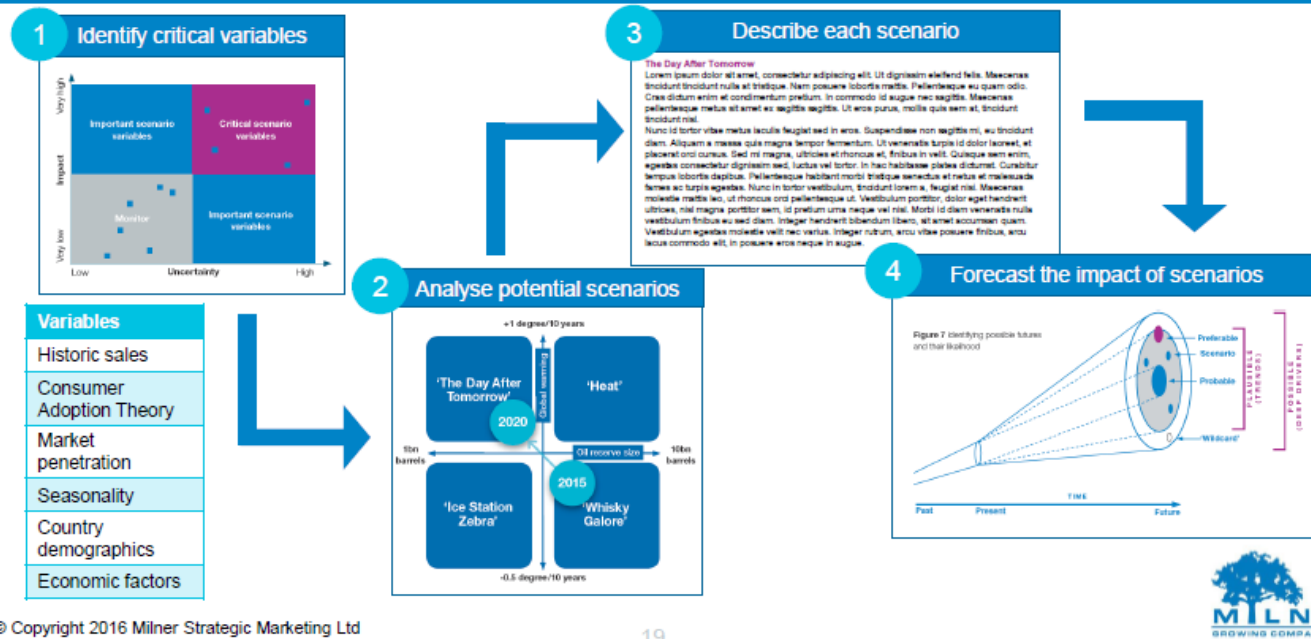
#4 Issue How do I deal with change and unknowns?

However, a forecast is just one version of the truth. Scenarios can be used to understand alternative futures, other than the single forecasted view contained within the market model. Therefore, Jonathan brought into discussion another technique - a 4 step process of scenario planning, outlined in Figure 2 [Scenario Planning Steps]. This technique created a lot of debate and interest about how to translate the qualitative narrative into a quantitative output, as well as to identify the most appropriate mix of market drivers that will affect the scenarios. According to SCIP's European 2015 Member Intelligence Practices Survey, scenario planning is only practiced by 1 in 2 practitioners, which means it might be an interesting topic for a future event.



Figure 2: Scenario Planning Steps

Scenario planning helps you anticipate the dynamics of different potential futures



Source: Milner Strategic Marketing Ltd

Participant Takeaways

Participants of the event who were fully engaged with Jonathan’s WebEx address outlined their takeaways and feedback below:

- Approaches to modelling a market where there is little data
- How to communicate complex concepts
- Product life cycle applied to forecasting

Networking Event Series

The SCIP UK Chapter hosts a series of networking events throughout the year. These events bring together practitioners from all corners of the discipline: service providers, consultants, academics and practitioners to address topics as identified from the previous events’ feedback.

The series aims to increase the understanding and awareness of desired themes among SCIP members and non-members as well as take the discipline to different business practices through co-hosting opportunities with other professional organisations and membership bodies. It is about creating an environment to discover,

enhance, exchange and problem solve. To understand the previous networking events’ discussion themes, go to the SCIP UK chapter page for a complete running order as well as the link for the many that have been published in SCIP’s Competitive Intelligence Magazine, helping to form SCIP’s Body of Knowledge.

The SCIP UK Chapter is grateful to all speakers typified by Jonathan’s continued passion and opportunity to share, without whom there would be neither a networking event nor the creation of a rich exchange of ideas and learnings. Jonathan is a sterling example of someone who was sitting in the audience 6 months ago to taking the podium, because he wants to and he can. The opportunity to speak at these networking events is open to anyone, United Kingdom-based or just passing through, subject to meeting the growing list of event topics. Engagement with attendees is around five themes, centred on case studies: Innovative Integration of CI within the Business, Professional Growth in CI, Analysis in Action, Mastering Information Overload and Communicating with Impact.

We encourage others to come forward to introduce the group to new perspectives, experiences and learning. What links all the prospective speakers and panellists, present and previous, regardless of their background or role within the competitive intelligence profession, is a passion for the discipline. Along with all the volunteer speakers to date and those that have yet to take advantage of the opportunity, they are all unique examples of characters continuing to fix the discipline more firmly on the map! What is the next step? Register your interest and details with Michelle Winter mwinter@scip.org to explore speaking opportunities and/or to be proactively kept abreast of forthcoming events in the UK.

Sources

1. ‘Forecasting the Future for Profit’, Jonathan Davenport, Nick Milner, Kay Sharpington SCIP CIM, July - Sep 2015, <http://bit.ly/25263Id>
2. ‘Forecasting the Future for Profit | From the Article to the Interactive Session’, Andrew Beurschgens and Jonathan Davenport, SCIP CIM, May - July 2016, <http://bit.ly/2aIjRBU>
3. ‘Key Strategy Tools | The 80+ Tools for Every Manager to Build a Winning Strategy’, Vaughan Evans, FT Publishing 2013

ABOUT THE AUTHORS



Andrew Beurschgens is the Head of Market Intelligence at EE, the consumer home and broadband line of business, which has been acquired by BT. In cooperation with other volunteers from both the practitioner and supply side of the competitive intelligence discipline, Andrew is acting Volunteer Chair of the UK Chapter. He is a Catalyst Award winner, individually recognised for his volunteer services to the profession and its members, a Distinguished SCIP Practitioner Member, a CI Fellow and has served on the SCIP Board.



Jonathan Davenport, Head of Market Analysis at Milner Strategic Marketing leads the Market Analysis there. His expertise lies in building bespoke market forecast models which are used to understand market dynamics, including customer buying behaviour and competitor strategies. He also specialises in strategy development, using his extensive knowledge of tools and theory to develop robust market-driven strategies. Jonathan has a strong business to business sales and marketing background, developed over 14 years working across the energy, telecoms and bio-tech industries. Jonathan can be reached at jonathan.davenport@milnerltd.com