Insights

A series of articles covering trends in the technology sector.

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Enhancing forecasting with primary research

Businesses rely on forecasts to inform strategic and tactical decisions: "How many deals will be in play this year?," "What effect will the merger of two competitors have on our win rates?," "When will the mainstream market be ready for a new technology or innovation?" This Isurus Insights identifies opportunities to improve the overall accuracy and reliability of forecasts by incorporating primary market research data.

Data types used in forecasting

Forecasting systematically integrates multiple streams of information from three data categories.

> Internal data: Companies possess a wealth of historic information that can inform forecasting models. This includes sales data, churn rates, win-rates, buying cycles, sales force metrics, media spend, etc.

> Market data: Examples of market data used in forecasting includes the size of the aggregate market, number and size of competitors, and general economic conditions. Government regulations such as compliance requirements around "meaningful use" of electronic medical records or California's recent mandate regarding zero emissions vehicles must also be factored into forecasts.

> Inferential data: Inferential data assigns numbers and hypotheses to market unknowns. Executive judgment and experience plays a key role in anticipating how the market will react to changes. Another type of inferential data used in forecasting is primary research which explores the market's perceptions, pains, plans, and investment intentions. Primary market research involves gathering feedback directly from the market. When used in forecasting, custom primary market research is typically a quantitative study that provides statistically reliable results that are representative of the market.

Forecasting in mature, emerging, and nascent markets

Although primary market research can improve forecasting accuracy in many market conditions, the amount, precision and specificity of the predictions it can provide vary by market maturity.

Mature Markets and Products

Companies in mature markets have considerable amounts of internal and market data available for forecasting efforts. When the market is stable, internal data from previous years combined with broad economic metrics and managerial judgment can provide a reasonably accurate set of likely future market conditions. In these cases, primary market research provides limited new data or insights. It becomes more useful when market conditions are changing, e.g., a new competitor has entered the market, lowered prices, introduced a new solution, etc. Under these circumstances the market's future behavior may be different than it has been in the past which limits the value of existing internal and market data.

Primary market research goes directly to the market and collects data about future intentions and the factors that influence those intentions. The most useful and researchable metrics in mature markets are measures of customer satisfaction, share of wallet, future purchase intent, price sensitivity, willingness to switch, switching costs, barriers to change, etc. In mature markets, conducting primary market research is straightforward and provides relatively robust results due to the shared market understanding regarding products, pricing, value, and vendor strengths and weaknesses.

Emerging Markets and Products

Many dimensions of emerging markets are in a state of flux. The competitive set shifts as new entrants from start-ups to global brands enter the space. Most of the buyers to date consist of early adopters whose motivations and buying patterns may be different from the mainstream market. The timing of the mainstream entering the market and the angle of the adoption curve are both unknown. Unfortunately the internal and market data available are not as robust in emerging markets as they are in established markets. As a result, forecasting involves evaluating a greater range of uncertainties.

Given the dearth of historical data available, direct feedback from the market regarding their future intentions is a key component of forecasting. Business school case studies are littered with examples of failed companies or projects that relied on limited historical data and assumptions rather than exploring the market's future intentions.

It is important to note that primary research in emerging markets is not as simple as just asking what a consumer or business plans to do. In emerging markets, people often do not know enough about the new product category to provide fully informed answers to research inquiries. Furthermore, people are generally much better at describing what they do today than they are at accurately predicting what they will do in the future. Therefore, the best use of primary research in emerging markets is to explore existing pains and unmet needs as well as the relative value of the benefits the new product provides. As markets move up the growth curve, brand becomes a more important factor to consider – as the mainstream considers a new category, it often prefers well-known brands that buy their way into the market over the vendors that defined and created the category initially.

It is also useful to understand what the market has done in the past in terms of investment levels, triggers to change, price sensitivity, etc. Although the past is not an effective predictor of specific market actions in emerging markets, if a market or segment has always been conservative, favored low cost vendors, etc., it is likely that these same behavioral tendencies will exert themselves in new markets and product categories.

Nascent Markets and Disruptive Technologies

Innovators, marketers and researchers agree that primary research is of limited use in nascent markets or for disruptive technologies; businesses and consumers struggle to see how they would use a product they are unfamiliar with and that is different than current expectations of the category or business process.

Where primary market research can help is providing an understanding of the market's unmet needs and the problems that need solving - some of the key building blocks for meaningful innovation and indicators of market adoption. It can also identify barriers to adoption that exist but are not readily evident. For example, if a new product requires a change in business processes, adoption will likely be slower than initially expected.

Closing thoughts

When using primary research data to build forecasts, it is important to make adjustments to account for real world circumstances: Markets always change slower than would be expected, purchase decisions take longer, unexpected events change priorities, etc. Forecasts should not become static documents. In order to be effective they should be regularly reassessed as more information is gained and markets evolve.

It is important to note that no forecasting approach or data source is even close to perfect; they are full of unanswered questions which can raise doubts regarding their usefulness. This misses the point. As pointed out by noted forecaster Paul Saffo, forecasting is not about answering all of the questions that exist. It is about narrowing the list of likely possibilities to a manageable number that businesses can take strategic and tactical actions upon. The exercise of forecasting and conducting market research also can challenge existing assumptions and beliefs about the marketplace and identify which, if any, deserve a new round of thinking.

These forecasting trends and challenged are generalized across the range of markets and product areas that Isurus researches on behalf of our clients and vary by market and category.

For information on using primary market research as part of your forecasting efforts, contact Isurus Market Research and Consulting at 978-409-2850 or info@isurusmrc.com.