




Sales forecasting

Chapter: 7



Objectives

- Sales Forecasting
 - Levels of Forecasting
 - Sales Forecasting Procedure
 - Importance of Sales Forecasting
 - Sales Forecasting Process
 - Forecasting Errors
 - Sales Forecasting Techniques
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Introduction

- ▶ Forecasting is more art than science, a combination of good research, logic, simple math, and educated guessing. It's hard to forecast but it's harder to run a business without forecasting.





What is sales forecasting?

A sales forecast is a projection of the expected customer demand for products or services at a specific company, for a specific time horizon, and with certain underlying assumptions

Essential tool used for business planning, marketing, and general management decision making

Sales forecasting can help you achieve sales goals

Sales forecasting can help drive sales revenue, improve efficiency, increase customer retention and reduce costs

What is sales forecasting?

Human resource plan: how many people we need linked with expected output

Production / capacity plans

Cash flow forecasts

Profit forecasts and budgets

Part of regular competitor analysis and helps to focus market research



Factors affecting the accuracy and reliability of sales forecasts

➤ **Consumer trends**


- Demand in many markets changes as consumer tastes & fashions change
- Affects both overall market demand & the market shares of existing competitors

➤ **Economic variables**

- Demand often sensitive to changes in variables such as exchange rates, interest rates, taxation etc.
- Overall strength of the economy (GDP growth) also important

➤ **Competitor actions**

- Hard to predict, but often significant reason why sales forecasts prove over-optimistic



Circumstances where sales forecasts are likely to be inaccurate

Business is new – a startup (notoriously difficult to forecast sales)

Market subject to significant disruption from technological change

Demand is highly sensitive to changes in price and income (elasticity)

Product is a fashion item

Significant changes in market share (e.g. new market entrants)

Management have demonstrated poor sales forecasting ability in the past!



How do you develop a realistic sales forecast for your business?



Examine industry sales surveys



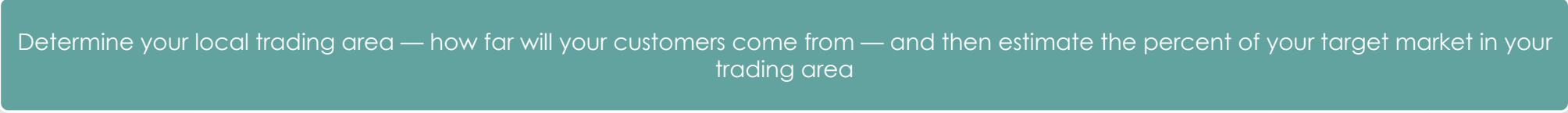
Gather sales intelligence on competing products/services



Talk with neighboring businesses



Contact local chamber of commerce or merchant association



Determine your local trading area — how far will your customers come from — and then estimate the percent of your target market in your trading area



How do you develop a realistic sales forecast for your business?

List and estimate sales of competing businesses in your trading area

Make an educated guess at the number of customers you hope to attract to your business, as well as how much each is likely to spend per visit.

Prepare sales estimates month by month.

Consider having an industry expert review your assumptions and projections, and make changes as necessary



Importance of sales forecasting

1. Overstocking and the under stocking of materials can be maintained by a good inventory control.
2. With the help of sales forecasting , sales opportunities can be found out on the basis of the forecast .
3. All the activities in an organization , are controlled on the basis of forecasting .
4. Advertising and sales promotion expenses are based on sales forecasting .
5. Sales forecasting is also important in the field of personnel department . The number of sales persons , executives etc. can be increased or decreased on the basis of sales forecasting.

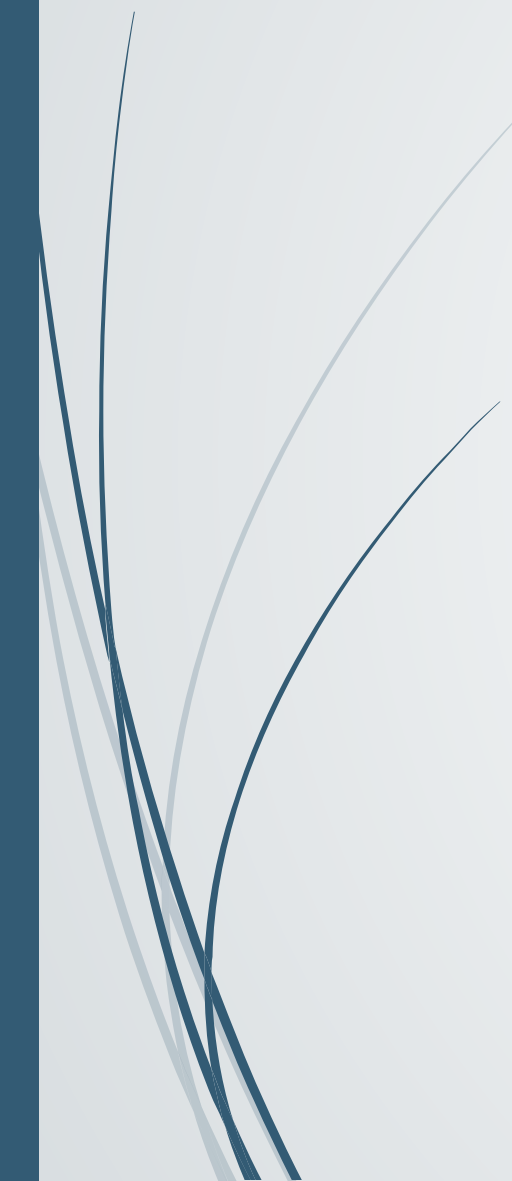


Importance of sales forecasting

6. Sales forecasting is the basis for financial Planning .
7. In the field of production , with the help of sales forecasting , producer is able to adjust his production schedules and avoid idle time which leads to efficiency.
8. Supply and demand of the products can be easily adjusted.
9. It helps in knowing when and how much to buy.
10. It helps in the product mix decisions.



Sales forecasting on the basis of past

- ▶ The trend - are the sales growing , flat lining or are in decline!
 - ▶ Seasonal or cyclical factors - Sales are affected by the swings in the general economic activity . Seasonal and cyclical factors occur in a regular pattern
 - ▶ Erratic events - these include strikes , fashion fads , war scares and other disturbances to the market , which need to be isolated from the past sales data in order to be able to identify the more normal pattern of the sales
 - ▶ Responses - the results of the particular measures that have been taken to increase the sales
- 



Sales forecasting on the basis of past

Using the time series analysis to prepare an effective sales forecast requires the management to :

- Smooth out the erratic factors
- Adjust for the seasonal variation
- Identify and estimate the effect of the specific marketing responses



Sales forecasting on the basis of present market

Taking place in the market

- Identifying competitors
- Estimating sales

Collecting and publishing the total industry sales

Listing the individual company sales separately



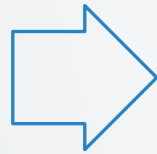
Sales forecasting for future market

Methods of preparing the sales forecast stages:

- Prepare the macroeconomic forecast
- Prepare an industry sales forecast
- Prepare a company sales forecast

Sales forecasting for future market

What the customers say about their intentions to continue buying products in the industry?



What the customers are actually doing in the market?



What the customers have done in the past in the market?

Steps to create your revenue forecast

1-step
• Develop your sales run rate

2-step
• Track historical trends

3-step
• Establish seasonality

4-step
• Include projectable market-moving events

8-step
• Adjust pricing and promotions in your sales forecast

7-step
• Add your firm's strategic business plans

6-step
• Monitor competitors' activities

5-step
• Modify sales forecast for anticipated market trends and changes



Creating a sales plan



What are you going to focus on?

What are you going to change?

In practical terms, what steps are involved?

What territories and targets are you going to give each salesperson or team?

Creating a sales plan

Use
SMART
objectives

- Specific
- Measurable
- Achievable

break into the municipal market by adapting your product for this market

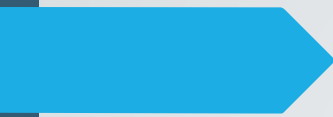
open a store in an area that you believe has the potential for generating lots of sales

boost the average sale per customer

Creating a sales plan

- ▶ Can you increase the activity levels of the sales team - more telephone calls per day, or more customer visits per week?
- ▶ Can you increase the conversion rate of calls into sales - through better sales training, better sales support materials or improved sales incentives?





Match your forecast to your accounting

- ▶ If you're planning for a startup business, coordinate the bookkeeping categories with the forecasting categories
- ▶ If you don't have more than 20 or so each rows of sales, costs, and expenses, then make the rows in the projected statement match the rows in the accounting.
- ▶ If your accounting summarizes categories for you – most systems do – consider using the summary categories in your business plan. Accounting needs detail, while planning needs a summary.
- ▶ If your categories in the projections don't match the accounting output, you're not going to be able to track plan vs. actual well. It will take retyping and recalculating.

The math is simple

Units	Jan	Feb	Mar	Dec	Year1	Year2	Year3
New Bicycles	30	34	36	50	544	600	650
Accessories and Parts	125	142	150	208	2,266	2,400	2,500
Clothing	75	85	90	125	1,360	1,450	1,550
Repair and Service	17	17	17	13	253	300	350
University Patrol Service	5	5	5	5	60	60	60
Total	252	283	298	401	4,483	4,810	5,110

Prices	Jan	Feb	Mar	Dec	Year1	Year2	Year3
New Bicycles	\$500	\$500	\$500	\$500	\$500	\$500	\$500
Accessories and Parts	\$30	\$30	\$30	\$30	\$30	\$30	\$30
Clothing	\$60	\$60	\$60	\$60	\$60	\$60	\$60
Repair and Service	\$150	\$150	\$150	\$150	\$150	\$150	\$150
University Patrol Service	\$100	\$100	\$100	\$100	\$100	\$100	\$100

Sales	Jan	Feb	Mar	Dec	Year1	Year2	Year3
New Bicycles	\$15,000	\$17,000	\$18,000	\$25,000	\$272,000	\$300,000	\$325,000
Accessories and Parts	\$3,750	\$4,260	\$4,500	\$6,240	\$67,980	\$72,000	\$75,000
Clothing	\$4,500	\$5,100	\$5,400	\$7,500	\$81,600	\$87,000	\$93,000
Repair and Service	\$2,550	\$2,550	\$2,550	\$1,950	\$37,950	\$45,000	\$52,500
University Patrol Service	\$500	\$500	\$500	\$500	\$6,000	\$6,000	\$6,000
Total	\$26,300	\$29,410	\$30,950	\$41,190	\$465,530	\$510,000	\$551,500



The math is simple

- ▶ Multiply units times prices to calculate sales
- ▶ Total Unit Sales is the sum of the projected units for each of the five categories of sales.
- ▶ Total Sales is the sum of the projected sales for each of the five categories of sales.
- ▶ Calculate Year 1 totals from the 12 month columns. Units and sales are sums of the 12 columns, and price is the average, calculated by dividing sales by units.
- ▶ The numbers for Year 2 and Year 3 are just single columns; unless you have a special case, projecting monthly results for two and three years hence is overkill



Estimate Direct Costs



A **direct cost** (COGS) is the cost of producing goods or services



Direct costs are only reported when the goods are sold

Direct material

Direct labor

Factory overhead

Estimate Direct Costs

Units	Jan	Feb	Mar	Apr
New Bicycles	30	34	36	40
Accessories and Parts	125	142	150	167
Clothing	75	85	90	100
Repair and Service	17	17	17	23
University Patrol Service Contract	5	5	5	5
Total	252	283	298	335

Prices	Jan	Feb	Mar	Apr
New Bicycles	\$500	\$500	\$500	\$500
Accessories and Parts	\$30	\$30	\$30	\$30
Clothing	\$60	\$60	\$60	\$60
Repair and Service	\$150	\$150	\$150	\$150
University Patrol Service Contract	\$100	\$100	\$100	\$100

Unit Costs		Jan	Feb	Mar	Apr
New Bicycles	68%	\$340	\$340	\$340	\$340
Accessories and Parts	50%	\$15	\$15	\$15	\$15
Clothing	50%	\$30	\$30	\$30	\$30
Repair and Service	20%	\$30	\$30	\$30	\$30
University Patrol Service	5%	\$5	\$5	\$5	\$5

Direct Costs		Jan	Feb	Mar	Apr
New Bicycles		\$10,200	\$11,560	\$12,240	\$13,600
Accessories and Parts		\$1,875	\$2,130	\$2,250	\$2,505
Clothing		\$2,250	\$2,550	\$2,700	\$3,000
Repair and Service		\$510	\$510	\$510	\$690
University Patrol Service Contract		\$25	\$25	\$25	\$25
Total		\$14,860	\$16,775	\$17,725	\$19,820

Some quick notes about standards:

Timing matters

- ▶ **ATTRACT** prospects to your business *without selling*
- ▶ **ENGAGE** and nurture prospects, building influence and authority and staying 'on the radar'
- ▶ **CONVERT** prospects into clients by 'being there' at the time they are ready to buy



Some quick notes about standards: Gross Margin

$$\begin{array}{r} \text{Sales} \\ - \text{Direct Costs} \\ \hline = \text{Gross Margin} \end{array}$$

	Jan	Feb	Mar
Sales	\$26,300	\$29,410	\$30,950
Direct Costs	\$14,860	\$16,775	\$17,725
Gross Margin	\$11,440	\$12,635	\$13,225
Gross Margin %	43%	43%	43%

How to forecast a new business or new product?

Researching:

- Your target market
- Your trading area
- Your competition

Analyzing:

- Your research to guesstimate your future sales



Sales forecast depends on product/
service and marketing

Sales
forecast
flows from
the strategic

action plans
with their:





Thanks for your attention