

Sales Forecasting

Sales forecasting is the process of organizing and analyzing information in a way that makes it possible to estimate what your sales will be. Sales forecasts are estimates based on research and logical assumptions. There are many sources of information to assist you with gathering information to help you develop those estimates.

- **Competitors**
- **Neighbouring Businesses**
- **Trade suppliers**
- **Downtown business assoc**
- **Trade associations**
- **Trade publications**
- **Trade directories**
- **Statistics Canada**
- **Wholesalers/retailers/brokers**

Factors that can affect Sales

External:

- Seasons
- Holidays
- Special events
- Competition, direct
- Competition, indirect
- External labour events
- Productivity changes
- Family formations
- Births and deaths
- Fashions or styles
- Population changes
- Consumer earnings
- Political events
- Weather

Internal:

- Product changes, style, quality
- Service changes, type, quality
- Shortages, production capability
- Promotional effort changes
- Sales motivation plans
- Price changes
- Shortages, inventory
- Shortages/working capital
- Distribution methods used
- Credit policy changes
- Labour Problems

Sales Forecasting for a New Business

These steps for developing a sales forecast can be applied to most kinds of businesses:

Step 1: Develop a customer profile and determine the trends in your industry. Make some basic assumptions about the customers in your target market. Experienced business people will tell you that a good rule of thumb is that 20% of

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your customers account for 80% of your sales. If you can identify this 20% you can begin to develop a profile of your principal markets.

Sample customer profiles:

- Male, ages 20-34, professional, middle income, fitness conscious, etc.
- Young families, parents 25 to 39, middle income, home owners, etc.
- Small to medium sized magazine and book publishers with sales from \$500,000 to \$2,000,000, etc.

Determine trends by talking to trade suppliers about what is selling well and what is not. Check out recent copies of your industry's trade magazines. Search the Business Periodicals Index (found in larger libraries) for articles related to your type of business.

Step 2: Establish the approximate size and location of your planned trading area. Use available statistics to determine the general characteristics of this area. Use local sources to determine unique characteristics about your trading area. How far will your average customer travel to buy from your shop? Where do you intend to distribute or promote your product? This is your trading area.

Estimating the number of individuals or households can be done with little difficulty using Statistics Canada census data. Statistics Canada's Family Expenditure Survey can identify what the average household spends on goods and services. BC Stats has population forecasts for areas in British Columbia. Information on planned construction is available from a variety of sources. Directories like Contacts Target Marketing, BC Manufacturers Directory, or the Yellow Pages can help identify names of companies located in your trading area.

Neighbourhood business owners, the local Chamber of Commerce, the Government Agent and the community newspaper are some sources that can give you insight into unique characteristics of your area.

Step 3: List and profile competitors selling in your trading area. Get out on the street and study your competitors. Visit their stores or the locations where their product is offered. Analyze the location, customer volumes, traffic patterns, hours of operation, busy periods, prices, quality of their goods and services, product lines carried, promotional techniques, positioning, product catalogues and other handouts. If feasible, talk to customers and sales staff.

Step 4: Use your research to estimate your sales on a monthly basis for your first year. The basis for your sales forecast can be the average monthly sales of a similar-sized competitor's operations who is operating in a similar market. It is recommended that you make adjustments for this year's predicted trend for the industry. Be sure to reduce your figures by a start-up year factor of about 50% a month for the start-up months.

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Consider how well your competition satisfies the needs of potential customers in your trading area. Determine how you fit into this picture and what niche you plan to fill. Will you offer a better location, convenience, a better price, later hours, better quality, better service?

Consider population and economic growth in your trading area. Using your research, make an educated guess at your market share. If possible, express this as the number of customers you can hope to attract. You may want to keep it conservative and reduce your figure by approximately 15%. Prepare sales estimates month by month. Be sure to assess how seasonal your business is and consider your start up months.

There are two methods of determining the level of your sales; the top down method (the market potential) and the bottom up method (your production capacity). We will use the Kid's Cuts (children's hair salon) as our example.

FORECASTING SALES "TOP DOWN"

Research Information

Population of trade area	= 80,000
Target market (8% of trade area 2-10 years old)	= 6,400
Research results: 25% of homes with children would potentially use salon	= 1,600
Average number of hair cuts a year = 4	= 6,400
Price per haircut = \$10.00	= \$64,000
Income per month \div 12	= <u>\$5,800</u>

Before you plug in your anticipated monthly sales you need to identify numerous contributing factors. Three examples are:

- 1) Is your industry seasonal - i.e. haircuts before the new school year, Christmas, Easter, Mother's Day?
- 2) How long will the business need in order to establish itself in the market place?
- 3) Are all your sales cash or will you extend credit to some of your customers (net 30 days)?

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FORECASTING SALES “BOTTOM UP”

Salon open 8 hours a day
 Owner will cut 4 hours
 Additional stylist will cut 8 hours
 Two hair cuts an hour
 The charge per hair cut will be \$10.00

Owner	4 hours @ 2 hair cuts	=	8
Stylist	8 hours @ 2 hair cuts	=	<u>16</u>

Total hair cuts per day	24
@ \$10.00 per haircut	\$240.00/day
x 21 days per month	\$5,040.00/month

Now that you have determined your anticipated level of sales, it is time to transfer this information to the other financial statements.

Sales Forecasting for an Existing Business

Sales revenues from the same month in the previous year make a good base for predicting sales for that month in the succeeding year. For example, if the trend forecasters in the economy and the industry predict a general growth of 4% for the next year, it will be entirely acceptable for you to show each month's projected sales at 4% higher than your actual sales the previous year.

Credible forecasts can come from those who have the actual customer contact. Get the salespersons most closely associated with a particular product line, service, market or territory to give their best estimates. Experience has proven the grass roots forecasts can be surprisingly accurate.

For More Information

Internet: www.bizpeponline.com/Article2.html