Sales Forecasting

Sales forecasting is an essential business practice. Sales forecasts allow business leaders to make wiser decisions about setting up goals, budgeting, hiring, and other things involving cash flow.

On the other hand, a wrong sales forecast leaves sales managers guessing at whether they'll actually hit quota. Because of that, they may not be informed of any issues in the sales pipeline in time to fix them.

Now let's look at what sales forecasting is, and some basics you need to know.

Definition of Sales Forecasting

Sales Forecasting is basically estimating future revenue by predicting the amount of product or services a sales unit will sell in the next week, month, and year.

In other words: **Sales Forecasting is an estimated measurement of how a market will behave to a company's go-to-market efforts.**

Types Of Sales Forecasting

There are mainly two types of sales forecasting.

1. Short-term sales forecasting
2. Long-term sales forecasting.

Now let's discuss these types:

Short-term Sales Forecasting

This type of sales forecasting can be defined when it covers three months, six months, or one year. The last one is most preferred. The period depends on the business. If the demand varies from one month to another, forecasting may be done only for a limited period.

Purpose of Short-term Forecasting

- To adopt a suitable production policy.
- To gain proper control of the inventory.

- To cut down the cost of the raw materials and machinery.
- To determine the sales targets.
- In order to arrange the financial needs to meet the demand.

Long-Term Sales Forecasting

The forecasting that covers 5, 10, and even 20 years is called long-term sales forecasting. The period here also depends upon the business, but beyond 12 years, the future is uncertain. But in some industries like petroleum refinery, paper making industries, ship-building, long-term forecasting is needed as the total investment cost of equipment is relatively high.

Purpose of Long-Term Sales Forecasting

- To estimate long-term financial requirements.
- To plan for the new production units.
- To expanse the existing unit to meet the demand.
- To train the employees in order to meet the strong manpower requirement for future.

Methods of Sales Forecasting

Forecasting your sales only by gross volume deprives you of valuable information you can use to boost your profits and plan long-term strategies. Developing sales forecasts by factors such as product type, margins, and distribution channels helps you decide where to best give your efforts and resources to create more effective strategies.

Here are the various methods of sales forecasting.

1. Jury of Executive Opinion

This is the oldest method of sales forecasting. One or a more experienced executive with excellent knowledge of the market makes out the expected sales. In this method, the executives are mainly responsible for forecasting sales figures through experiences and estimates, taking all internal and external factors into account.

2. Salesforce Opinion

Under this method, sales agents or other intermediaries are required to make out an estimate of sales in their various territories for a period. Sales agents are in touch with the consumers and possess expert knowledge about the future demand or trend.

3. Customer's Buying Plan

Consumers, as a crucial source of information, are meant to know their likely purchases during the period under a set of conditions. This approach is good enough when there are few customers This type of forecasting is adopted for industrial goods. It is useful for industries that produce costly goods to a few buyers - wholesalers, retailers, potential consumers, etc. A survey is run on a face-to-face basis because changes are constant while buyer behavior and buying decisions change frequently.

4. Test Marketing Result

In the market test method, products are presented in a limited geographical area and the result is studied. Then a sales forecast is made based on this result. This test is conducted in order to understand the market feedback.

5. Expert Opinion

In this method, several types of consultancy agencies have entered the field of sales. The consultancy agencies have specialized experts in their respective fields. This includes trade unions, dealers, etc. They may run market research and acquire readymade statistical data to forecast sales. Firms or factories use the opinions of such experts. The opinions of such experts may be carefully analyzed by the management team of the company and then sound forecasting is made.

6. Assess Historical Trends

This method includes examining sales from the previous year. Split the numbers down by price, sales period, product, rep, and other important factors. Form those into a “sales run rate,” which is the number of projected sales as per sales period. This serves as the basis of your sales forecast.

Importance of Sales Forecasting

- It helps businesses in planning, budgeting, managing risks, and making better decisions.
- Good inventory control is effectively benefited by fending off the deficiency of overstocking and under-stocking.
- Sales forecasting facilitates the allocation and reallocation of sales territories.

- It allows companies to effectively allocate resources for future growth and manage their cash flow.
- It helps sales teams achieve their goals by identifying early warnings in their sales pipeline.
- Sales forecasting also encourages businesses to estimate their costs and revenue precisely based on the prediction of their short-term and long-term performance.
- Sales opportunities are searched out based on the forecast, and therefore the discovery of selling success is made.
- It is a measuring factor by which the efficiency of the sales personnel or the sales department can be measured.
- It helps in preparing production and purchasing schedules.
- It helps to decide policies.

Elements of Sales Forecasting

Here are some elements of a good sales forecasting method.

Accuracy: The previous method must be monitored for want of accuracy by observing that the forecasts made in past are accurate or not.

Simplicity: this method should be easy to understand and simple, which can satisfy the top management persons.

Availability: The forecasting technique must be able to produce meaningful results. It also should be easy to implement.

Economy: Cost is the most significant factor so, the method adopted should borrow a minimum cost.

Factors Affecting Sales Forecasting

sales forecasting

Sales forecasting is the core of marketing management. It attempts to determine the volume of sales which can reasonably be expected scientifically.

Following are the factors that affecting sales forecasting:

1. Economic Conditions:

The price level, profit rates, interest rates, national income, rental rates all help to determine the market potential and then the sales forecast.

2. Business Conditions

The economic conditions considering the same industry and hence the business. There are related factors, such as developmental strategies adopted in state and national plans, the taxation policy of a government, credit lending policies, and public opinion. These factors help to forecast sales and find out company share in the market.

3. Socio-Economic Conditions:

The political and socio-economic environment of a country also affecting sales forecasting. These environments contain some elements, which are- standard of living, per capita income, monetary circulation, globalization, geographical dimensions, fashions, urbanization, etc.

4. Internal Policies:

Every company has its own internal policies like- advertising policy, distribution policy, pricing policy, profits policy, organizational structure, etc. are the factors that are affecting the sales forecasting.

5. Competitive Conditions

Competition makes every participant improve upon his equals for survival and progress. The competitive conditions within the industry change frequently. The size of operations, technical expertise, quality enhancement, etc. all decide the success rate of an organization.