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Effective sales planning

The ability to predict realistic sales levels is essential for a business. Not only does it enable you to identify and deal with any possible cashflow issues, it also makes it easier to plan for growth, to exploit openings in the market, and to manage operations and production.

A sales forecast provides a business with just such a capability. It sets out the level of sales that a business can reasonably – a key word, here – expect to achieve.

"The more detailed a forecast, the more accurate and practical it will be."

Preparing the ground

To create an accurate and working sales forecast, a business needs first to assemble some basic information covering past sales. This information should include:

- The numbers of customers gained and lost in the last year
- The (seasonal) periods (if any) when sales rise or dip
- The value of sales made to each customer
- Specific product or service sales that are growing, flat-lining or declining
- The impact of national economic circumstances
- Cyclical purchasing trends
- One-off events (bad weather, for example)
- The impact of particular measures that have been taken to push sales, such as a marketing campaign.

But don't limit your analysis to the income generated by those sales. Take a look at the volume too. This will give you vital information about possible production levels in the future, and about the costs that such operational matters as delivery, stock holding, and employment resources will involve.

Accounting for changes in circumstance

It is unlikely that the months of the year ahead will exactly replicate the year that has gone. A business, therefore, must make certain, well-informed estimates, and assess any possible changes to circumstances that will affect the volume and value of sales. Such estimates, based on both past sales and on any realistic ambitions for growth your business has, will create the framework for the sales forecast.

There are a number of areas where you must take a balanced view of probable developments. These include:

- Judging market trends (is the overall market likely to grow or contract; is your share of the market set to expand or decline?)
- Calculating the effect of any planned changes to the business (if you are going to be putting up prices, for example, you will need to examine the impact this will have on both sales values and sales volumes)
- Looking at the effect of staffing changes (will you be investing in more sales staff
- Assessing the impact of any changes to the products or services your business offers (some new products may take time to achieve their potential sales levels; some products may be approaching the full limit of their sales reach; while sales of other, older products may already be on the point of falling).

What about seasonal trends? Factor in surges and falls in demand. This will be critical when it comes to the delicate balance between income, paying supplier bills and stock holding (if a sales forecast isn't accurate you could find yourself with too much stock on your hands but without the customers to buy it).

It is important to assign a definite value to each of these assumptions if the sales forecast is to be meaningful.

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Effective sales planning

Creating a sales forecast

Step one in drawing up a sales forecast is to estimate market demand. Market demand for a product or a service is the total volume that would be bought by customers, in a defined market or geographic area, and in a defined time period.

Step two is to work out the share of market demand that a business actually commands, be it on a national, regional or local scale. For example, if a local bicycle firm believes that the overall bicycling market in the town in which it operates is £400,000 and its income is £80,000 per year, then it has £400,000 divided by £80,000 or 20 per cent of the market.

Step three is to establish an expected level of business sales based on a marketing plan. Will, for instance, that bicycling business be developing its website; will it be focusing on one product line (off-road bikes) at the expense of another (thin-wheeled track cycles); will it be targeting increasing consumer awareness of 'green' travel; will it be attempting to spread its sales across a broader area of the year; will it be dropping its prices in order to lessen the impact of dead stock; will it be changing its stock management so that the shop is either extending or contracting its range; will it be questioning its dependence on the sales of children's bikes?

The sales forecast

The more detailed a forecast, the more accurate and practical it will be.

It can help, for example, to separate products out by market, area or customer. It is also very useful to calculate the percentage chance of any given sale actually occurring, as this will have an impact on its predicted value. Bear in mind that the likelihood of making a sale to an existing customer is higher than converting a new customer, so the chance of the sale happening in the former case is correspondingly higher too.

Specifying the types of product each customer may purchase will give a business the opportunity to predict possible supply issues and anticipate both potential shortages and gluts, and to achieve a better balance between stock build-up and sales.

It is important to bear in mind that a sales forecast is not a sales target – a figure aimed at defining, or encouraging, the sales effort over a given period – or a sales budget – a figure used to cover current purchasing, production and cash-flow decisions.

The secret is to focus on the sales you actually believe you will make rather than on an ambition for sales. Otherwise the forecast becomes a marketing plan, establishing goals instead of concentrating on the specifics of sales based on particular circumstances. Remember that the purpose of the forecast is to help you gauge sales on a month-by-month basis and to help you control cashflow.

Realism

It is absolutely essential to make sure that every figure is based on realistic assessments and not on projected or hoped-for increases in sales. While optimism has its place, over-estimation of sales will end up burdening your business with expectations that could harm, not enhance, its performance.

For this reason, all the figures should take into account what the business is capable of achieving in terms of productivity and capacity. If you are not planning on taking on more staff, don't assume that productivity will rise by a significant amount. If you are not going to invest in a new plant, don't assume - whatever the level of demand in the market - that output is going to outstrip your firm's ability to manufacture.

Once the sales forecast is determined, try to avoid the temptation to tinker with the figures too much (although some adjustments may need to be made if predictions appear to be off the mark). Comparing actual sales figures with the forecast will give you an accurate indication of how well (or not) the business is performing. It will also allow you to make adjustments to operations and to formulate plans – a boost to marketing spend, a switch to alternative sources of custom, a change in pricing policy – for correcting any downturn or for exploiting any upturn.

It is vital also to consult with your sales staff as you draw up the forecast. Allocating them targets they know to be impractical will be counterproductive. And for an objective viewpoint, why not get the advice of your accountants once the forecast is complete – this can offer a very useful counter to any rosy-tinted (or self-effacingly modest) assumptions on your part.

Summary

Sales forecasting is crucial to a business. It is both an aid to growth and an early warning sign that problems need to be addressed. The watchwords are realism and a willingness to adapt to the information the forecast may be giving you about the performance of your business.

If you would like our help in constructing the sort of sales forecast that will give your business the best opportunities for success, please don't hesitate to contact us.