

Lecture Notes

Class - B. Com Hons Sem VI

Sub Code – BCH- 6.3.A

Sub – New Venture Planning

Topic – Sales Forecasting – Part 1

Prepared by - Dr. G. Vijayalakshmi.

Faculty of Commerce, Karim City College.

Learning outcome from this lecture note

- Meaning of Sales Forecasting
- Importance of Sales Forecasting
- Factors considered for Sales Forecasting
- Types of Sales Forecasting

Sales Forecasting: Meaning, Importance and Methods

Meaning of Sales Forecasting:

Any forecast can be termed as an indicator of what is likely to happen in a specified future time frame in a particular field. Therefore, the sales forecast indicates as to how much of a particular product is likely to be sold in a specified future period in a specified market at specified price.

Accurate sales forecasting is essential for a business house to enable it to produce the required quantity at the right time. Further, it makes the arrangement in advance for raw materials, equipment's, labour etc. Some firms manufacture on the order basis, but in general, firm procures the material in advance to meet the future demand.

Forecasting means estimation of quantity, type and quality of future work e.g. sales. For any manufacturing concern it is very necessary to assess the market trends sufficiently in advance. This is a commitment on the part of sales department and future planning of the entire concern depends on this forecast.

The management of a firm is required to prepare its forecast of share of the market that it can hope to capture over the period of forecasting. In other words, sales forecast is an estimate of the sales potential of the firm in future. All plans are based on the sales forecasts.

This forecast helps the management in determining as to how much revenue can be expected to be realised, how much to manufacture, and what shall be the requirement of men, machine and money.

Thus we can define sales forecasting as, estimation of type, quantity and quality of future sales. Goal for the sales department is decided on the basis of this forecast and these forecasts also help in planning future development of the concern. The sales forecast forms a basis for production targets.

From above, looking to its importance, it is essential that sales forecast must be accurate, simple, easy to understand and economical.

Thus we can say that a sales forecast is an estimate of the amount of sales for a specified future period under a proposed marketing plan or programme. Sales forecast can also be defined as, an estimate of sales in terms of money or physical units for a specified future period under a proposed marketing plan or programme and under an assumed set of economic and other forces outside the unit for which the forecast is made.

Importance of Sales Forecasting

Sales forecasting is a very important function for a manufacturing concern, since it is useful in following ways:

- 1) It helps to determine production volumes considering availability of facilities, like equipment, capital, manpower, space etc.
- 2) It forms a basis of sales budget, production budget natural budget etc.
- 3) It helps in taking decision about the plant expansion and changes in production mix or should it divert its resource for manufacturing other products.

- 4) It helps in deciding policies.
- 5) It facilitates in deciding the extent of advertising etc.
- 6) The sales forecast is a commitment on the part of the sales department and it must be achieved during the given period.
- 7) Sales forecast helps in preparing production and purchasing schedules.
- 8) Accurate sales forecasting is a very good aid for the purpose of decision making.
- 9) It helps in guiding marketing, production and other business activities for achieving these targets.

Factors Considered for Sales Forecasting:

Following factors should be considered while making the sales forecast:

1. Competition:

To assess demand, it is the main factor to know about the existing and new competitors and their future programme, quality of their product, sales of their product. Opinion of the customers about the products of other competitors with reference to the product manufactured by the firm must also be considered.

2. Changes in Technology:

With the advancement of technology, new products are coming in the market and the taste and the likings of the consumer's changes with the advancement and change of technology.

3. Government Action:

When the government produces or purchases then depending upon the government policy and rules, the sales of the products are also affected.

4. Factors Related to the Concern Itself:

These factors are related to the change in the capacity of the plant, change in price due to the change in expenditure, change in product mix etc.

Accurate sales forecasting is essential for a business house to enable it to produce the required quantity at the right time. Further, it makes the arrangement in advance for raw materials, equipment's, labour etc. Many firms manufacture on the order basis, but in general, every firm produces the material in advance to meet the future demand.

Types of Sales Forecasting:

There are two types of forecasting:

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

1. Short-Term Forecasting:

This type of forecasting can be defined when it covers a period of three months, six months or one year. Generally, the last one is most preferred. The period is dependent upon the nature of business. If the demand fluctuates from one month to another, forecasting may be done only for a short period.

Purpose of Short-Term Forecasting:

- a. To adopt suitable production policy so that the problem of overproduction and short supply of raw material, machines etc. can be avoided.
- b. To reduce the cost of raw materials, machinery etc.
- c. To have proper control of inventory.
- d. To set the sales targets.
- e. To have proper controls.
- f. To arrange the financial requirements in advance to meet the demand.

2. Long-Term Forecasting:

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

Purpose of Long-Term Forecasting:

- a. To plan for the new unit of production or expansion of existing unit to meet the demand.
- b. To plan the long-term financial requirements.
- c. To train the personnel so that man-power requirement can be met in future.
