

Lecture Notes

Class - B. Com Hons Sem VI

Sub Code – BCH- 6.3.A

Sub – New Venture Planning

Topic – Sales Forecasting – Part 2

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Learning outcome from this lecture note

- Elements of a good sales forecasting
- Procedure of making a sales forecast
- Points to be considered for sales forecast
- Selection of a sales forecast
- Uses of sales forecast
- Statistical data helpful in sales forecasting.

Elements of a Good Sales Forecasting:

Following four elements are suggested for adopting a sales forecasting method:

1. Accuracy:

The previous method must be checked for want of accuracy by observing that the predictions made in past are accurate or not.

2. Simplicity:

The method must be simple and easily understandable. It should satisfy top management people.

3. Economy:

For an undertaking, cost is a main factor so the method adopted should consider the minimum cost.

4. Availability:

The technique must be able to produce meaningful results quickly. The technique which takes much time to produce useful information is of no use.

Procedure of Making a Sales Forecast:

1. State whether the forecasting is short-term or long term, its objectives, only for a single undertaking or for whole industry.
2. Select a good method of forecasting.
3. Select different variables which are affecting the forecasting.
4. Gather data for different variables.
5. Determine best possible relationship by some statistical method between different variables.
6. Make forecast and interpret the result.

Following points must be made clear before making a forecast:

1. Forecast must be made in terms of rupees of sale volume or in units.
2. Forecast must be made on annual basis and then further divided as requirement, i.e. by month-wise, week-wise, or so on the basis of previous year's records.
3. Forecast for new product by month-wise, may be done either using other manufacturing concern's data or by survey.
4. Forecast must be made in terms of product groups and broken for individual products, the division may be according to the sizes, brands, cables, colours etc. A typical example show how the product group is divided.

Following points must be considered before making forecast of a new product:

1. Treat the demand for the new product as of an existing old product.
2. Treat the new product as a replacement for some existing product.
3. Estimate demands by making inquiries from purchaser.
4. Offer the new products for sale in a sample market.
5. Survey the customers reactions via dealers.

Selection of a Forecast:

There are several guidelines for selecting a forecast from available forecasts, one of them is as follows:

1. Prefer those forecasts which have reasoning's underlying forecast.
2. Prefer those forecasts which are prepared by qualified personnel, as the future is uncertain, he must tell his assumptions on which forecast is based.
3. Look into the previous year's forecasts, surveys should be examined as to why the forecasts are right or wrong.
4. Use only those forecasts which are reliable. Prefer only those of the forecasts which are prepared using different techniques.
5. Reject that particular forecast in which forecaster injected himself too strongly as an individual into his forecast.

Uses of Sales Forecast:

The sales forecast are helpful for various divisions of a concern.

Some of such uses are given hereunder:

1. Product Planning:

From forecasts we find out which product is more profitable and which should be manufactured and which should be dropped.

2. Planning Expansions:

Long range forecasts can predict future demand trends, which will enable the planning for expansion of the concern.

3. Financial Planning:

Sales forecast permits an evaluation of expenses and income etc.

4. Inventory Control:

It facilitates better planning and control over the inventories.

5. Production Control:

It will help in better production control, i.e. better use of equipment's, controls over-time of labour, better deliveries, better control over work-in-progress inventories.

6. Sales Planning:

It helps in finding out which territory needs more attention. Various sales programme can be reassessed looking to their achievements.

Statistical Data Helpful in Sales Forecasting:

(A) For assessing general economic conditions of the country:

1. Industrial Production Index:

This index is based on the physical output of the factories and mines.

2. Bank Debits:

This will give overall financial condition of the business.

3. Employment:

Increased employment anticipates growth in demand, while decline in employment anticipates decline in production.

(B) For Assessing Future Price Trends:

1. Money in Circulation:

Increase of money in circulation without corresponding increase in goods supply indicates prices will rise.

2. Crop Production:

It indicate the trend of prices for agricultural products.

3. Price Index:

It is a reliable indicators prepared by the government.

(C) For Assessing Purchasing Power of the Consumer:

1. Rate of Wages:

Wage rates, bonus etc., indicates worker's purchasing power.

2. Disposal Income:

This shows the actual amount of money the consumer is left to spend.
