

Lecture Notes

Class - B. Com Hons Sem VI

Sub Code – BCH- 6.3.A

Sub – New Venture Planning

Topic – Sales Forecasting – Part 3

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Learning outcome from this lecture note

- Meaning of sales forecasting.
- Factors which can impact a Sales Forecast
- Application of sales forecasting
- Methods of sales forecasting

Meaning of sales forecasting

Sales forecasting can play a major role in a company's success. Accurate sales forecasts allow salespeople and business leaders to make smarter decisions when setting goals, hiring, budgeting, prospecting, and other revenue-impacting factors. But despite the advantages, many sales leaders struggle to create sales forecasts that are anywhere near reality.

Factors which can impact a Sales Forecast

The following factors need to be considered for sales forecast.

Internal Factors That Can Impact Sales Forecast

1. Hires and Fires

When salespeople leave company — either because they quit or were terminated — revenue will decrease unless one you have a potential hires. If a significant number of representatives came on board at one time, sales forecast should predict a big jump in business.

2. Policy Changes

One should not adjust sales plan without adjusting forecast. If he implement a four-month claw back on commissions, for example, revenue will decrease because your reps will only sell to best-fit prospects. However, in a quarter when far fewer customers churn, profits will increase.

3. Territory Shifts

It takes time for marketing people to familiarize themselves with a new territory and build their pipeline, so one can expect close rate to dip before picking up again.

External Factors That Can Impact Sales Forecast

4. Competitive Changes

Unsurprisingly, what competitors are doing will impact an entrepreneur win rates. If another company in the space slashes their prices, he may need to discount more aggressively or risk losing business. If a competitor goes out of business, on the other hand, he'll probably see increased demand.

5. Economic Conditions

When the economy is strong, buyers are more likely to invest in their businesses. When it's weak, the sales cycle usually takes longer and there's a greater level of scrutiny for every purchase.

6. Market Changes

One need to stay on top of what's happening with his buyer's customers. For example, if he sell consulting services to hotels, he'd be interested in an anticipated rise in tourism.

7. Industry Changes

If a complementary solution sees unexpectedly high demand, entrepreneur cn probably see his sales go up too. Imagine he sell jelly. The more peanut butter people buy, the more jelly they'll buy as well.

8. Legislative Changes

New laws and mandates can either help or hurt business — either by creating demand for product or making prospects reluctant to buy anything new.

9. Product Changes

If a businessman rolling out a highly-requested feature, introducing a new pricing model, or offering a complementary product or service, these changes can help salespeople increase their average deal size, shorten their sales cycle, and/or win more business.

10. Seasonality

A customers might be more likely to buy at certain times of the year. For instance, school districts typically assess new purchases in spring and decide what to buy in fall.

Applications of Sales Forecast:

Sales forecast can be used for following purposes:

1. It helps the management to decide marketing strategies.
2. It helps in preparing the budget and for setting financial policies.
3. With reliable sales forecast it is possible to produce at an average rate so that plant capacity and man power is fully utilized during the entire period. Thus the forecasting enables to overcome seasonal variations.
4. It helps in material planning and avoids the evils of both the over-stocking and under stocking.
5. From forecasts we can find out which product is more profitable and which should be manufactured and which should be dropped.
6. Long range forecasts can predict future demand trends, which will enable the planning for expansion of the concern.
7. It helps in finding out which territory needs more attention. Various sales programmes can be reassessed looking to their achievements.

Methods of Sales Forecasting

A business enterprise may be either for production of goods to be sold in the market or for distribution of goods supplied by industry. Whether it is a manufacturing company or it is a trading company, in both the cases, forecasting future demand is the first step in planning for production or in planning for sales in the market.

Thus, we need a demand estimate for the future in production as well as in sales or marketing planning. A manufacturer must anticipate the future demand for his product and, on this basis, provide the production capacity which will be

required. Similarly, a dealer must anticipate the future demand for his product and, on this basis, provide the necessary finance and equipment for procurement of goods and their disposal.

Here are some important methods of sales forecasting:

Method # 1. Opinion of Executives:

The oldest type of sales forecasting is a broad guess made by executives in charge of business. One or more top executives forecast future sales based on personal knowledge from talking to other managers inside and outside the company, through customer contacts or through reading published reports relating to national economy and industrial conditions.

Although the forecasts can be made quickly and at little costs, the greatest weakness of this method is its subjectivity and, hence, the sales estimate lacks scientific validity. It cannot give us objective or unbiased sales estimate.

Delphi Method:

In this method, independent opinions are sought from a group of experts. The experts have to respond to a checklist of questions that are relevant to the forecast. The opinions and responses are analysed and if there are major differences on any particular issue, further discussions take place and the final forecast is prepared.

Method # 2. Sales Force Estimates:

Many companies base their sales forecasts upon the estimates given by salesmen. Sales managers can evaluate and merge individual estimates into an overall production for the territory or region. This process continues until a total sales figure is secured for the entire company. Salesmen have first-hand information.

They have direct contact with customers. They can easily find out future purchases intentions. However, salesmen are primarily interested in sales and they may make hasty guesses which may not be reliable or accurate. Some salesmen may be over-optimistic, others over-pessimistic about future sales opportunities.

Method # 3. Customers' Expectations:

Customers may be requested to communicate their buying intentions in a coming period. By determining what share of the total market an enterprise can

expect, management can estimate future sales. If a business enterprise sells products to a few key customers (e.g., in industrial marketing) this method is very suitable.

If customer's purchase estimates are accurate, our sales forecasts will also be accurate. Surveying customer expectations can provide valuable information for the enterprise for preparing its own sales forecasts, particularly when it is selling specialised costly goods to a limited number of buyers.

Method # 4. Statistical Sampling:

Sampling can be used to get total sales estimates. Sampling procedure can be illustrated by the following example. A company is selling consumer goods and has 20 sales territories. It can design a sample to get sales estimates in one district in each territory or region. The districts selected should represent various economic levels on the basis of income and spending habits of people.

If our sales estimates of subgroups are based on rational and scientific survey, our data can be safely extended to all the territories to get the total forecast of sales. General business conditions and the state of trade will also be considered while estimating future sales. We have to adjust our sales forecasts on the basis of current customer buying or demand also.

Data secured from professional marketing research agencies regarding point-of-sale samplings are sensitive indicators of trends in consumer preferences, current sales and the share of the market enjoyed by a company's products. Such information will increase the reliability of our sales forecasts and enable us to have timely adjustments, if necessary.

Method # 5. Time-Series Analysis:

It is a common device of mathematical projections of future sales. It involves the projection of past sales trends into the future. To predict future sales we analyse four kinds of historical sales variations — (1) seasonal variations, (2) movements related to changes in the business cycles (Depression, Revival, Prosperity, Boom followed by Slump and so on), (3) the long-term trends of sales, and (4) irregular or unexplained variations.

By isolating and analysing these four types of variations in sales, an analyst can estimate with accuracy the probable level of sales for a coming period. Of course, it is assumed that the past trend will continue in the future under such extrapolation. This is an objective method of sales forecast.

Method # 6. Correlation Analysis:

When there is a close relationship between sales volume and a well-known economic indicator or index, we can conduct correlation study. A high correlation means that the extrapolated index values will indicate future sales volume. A common example is the use of national income figures to forecast sales of a particular product during the coming period. Sales of petrol are related to automobile registrations.

Products that compete for the rupees available for spending, only after basic necessities have been bought, show sales that are closely related to national income when it is high. Thus, information about one activity that leads to another activity can be used for forecasting the sales of the latter or second activity.

Circumstances may arise that will demand adjustment or changes in our sales estimates from time to time during the year. Our planning premises may alter. Political development within and without the country may affect our sales. A threat of war, natural calamity like cyclone, earthquake, may create radical changes in the demand either in upward or in downward directions.

For instance, unseasonable weather may affect demand for seasonal clothing. Recently, there was unexpected and sudden hot season or hot summer in India and there was tremendous increase of demand for electric fans, refrigerators, air-conditioners, etc. Similarly, developments by rivals may either increase or decrease customer demand. Such changes will naturally demand necessary revision in our sales forecasts with a new 12-month projection broken down in smaller time intervals.

Method # 7. Market Share Method:

The company works out Industry sales forecast, applies market share factor to arrive at company sales forecast. The market share is arrived after considering past sales, competition, brand image and the manager should have adequate knowledge and experience to carry out this exercise.
