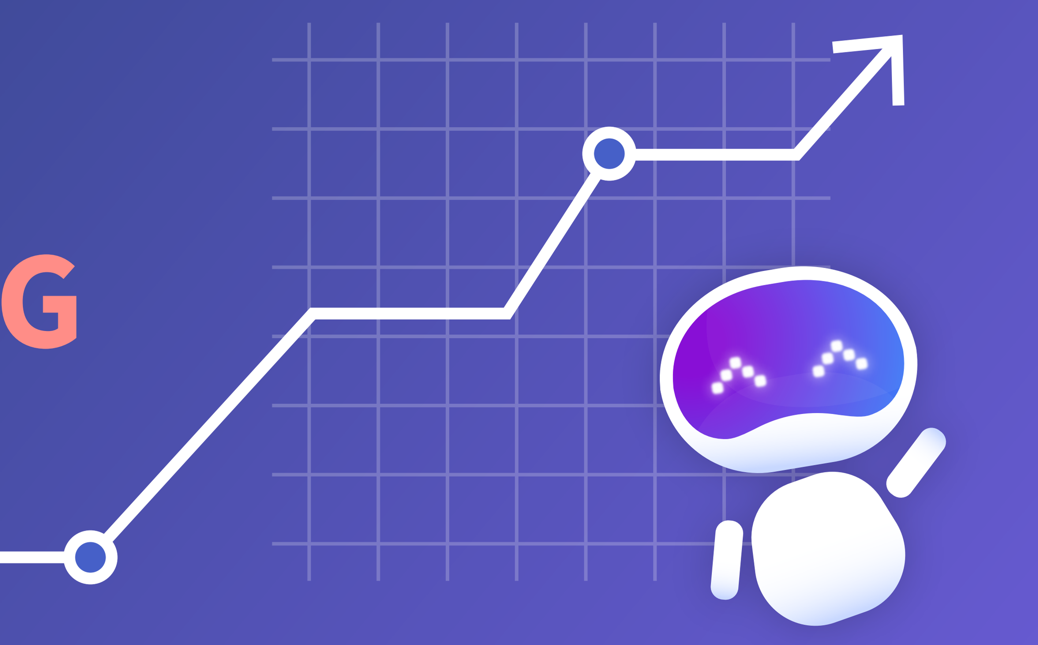
A Concise Guide to
SALES FORECASTING



Sales Forecasting...

- is an estimate of a company's future sales for a specified time period (weekly, monthly, quarterly, or annually) based on internal and external factors
- forms basis for expenses, profits, and growth

What do you need sales forecasting for?

You will know how to proceed with strategies given the forecast: scale up if numbers are good; scale down if they're bad.

Sales forecasts are also factored in decision-making for different departments, like:
- Business Development: strategic planning
- Finance: budgets and cost/expenses
- Sales & Marketing: goal-setting, sales quotas, campaign budgets
- Production and operation: budgets
- Human Resources: hiring and/or firing

Can help motivate or empower sales teams and representatives

Take note!

Sales forecasting is rarely perfect or accurate. Best effort is to keep forecasts reasonable and educated.

Short-term forecasting will be more accurate than long-term.

What factors affect your sales forecasting?

EXTERNAL

- State of the economy
- Direct and indirect competition
- Market conditions
- Industry conditions
- Consumer earnings
- Political / Legislative changes
- Seasonality

INTERNAL

- Manpower movements
- HR issues
- Policy changes or updates
- Inventory
- Working capital
- Pricing
- Production capability
- New products or services

What You Need for Effective Sales Forecasting

These 8 easy steps[1] will help you build your sales forecast.

1. Develop your sales run rate
2. Track historical trends
3. Establish seasonality
4. Include projectable market-moving events
5. Modify sales forecast for anticipated market trends and changes
6. Monitor competitors' activities
7. Add your firm's strategic business plans
8. Adjust pricing and promotions in your sales forecast

Choose Your Approach

Top-down:

Starts with a macro view, the forecast is prepared for the business as a whole and is then broken down into forecasts for product lines and types, departments, sales teams or reps, etc.

Bottom-up:

Starts with a micro view and then builds up to the macro. Individual forecasts are created for specific product lines and types, sales teams or reps, territories, etc. These forecasts are then combined to do sales forecasting for the whole company.

Sales Forecasting Methods

First, there are two categories: quantitative and qualitative.

QUANTITATIVE

Subjective in nature, it's mathematical and based on results of analysis of numerical market data.

Use when: Environment and conditions are predictable and if relevant data are accessible

EXAMPLES OF QUANTITATIVE METHODS:

1 Straight-line / Historical Growth Rate

Analyst uses historical figures and trends to predict future sales growth. For example, June sales is $100,000, you will then predict that July will be at least $100,000 too. You can also factor in growth rate. If sales grew by 10% from May to June, you can add that growth rate to July and predict sales of $110,000.

Take note: This assumes variables are consistent and/or constant, which won't always be the case.

2 Simple Moving Average

By its name, Simple Moving Average is the average of a subset of past data numbers. You can calculate for any period of time. For example, to calculate a basic 6-month moving average, you would add up the closing prices from the past 6 months and then divide the result by 6. You can then predict your sale for the next month (or the next 6 months) based on the average.

Take note: The moving average is extremely useful for forecasting long-term trends.[2]

3 Simple Linear Regression

Simple linear regression shows the relationship between two variables or factors: one is a dependent variable and the other an independent variable. What you're solving for is the dependent variable (in this case, your sale) and the independent variable is whatever it is that's affecting your sale (e.g. Forex, GDP, etc.) The formula to calculate the relationship between two variables is called covariance.[3]

Take note: If several independent variables are in play, the multiple linear regression model[4] is used.

4 Opportunity Stage Forecasting

Your CRM will track the progress of each opportunity in each stage of the funnel and assign a win probability for each stage. The further down the funnel you go, the better the chances of closing the deal (or reaching 100%). Multiply the win probability with the value of the opportunity to get the forecast amount.

	Stage	Win Probability	Opportunity Value	Forecast Amount
Opportunity 1	Inital Call	10%	$3,000	$300
Opportunity 2	Proposal	50%	$5,000	$2,500
Opportunity 2	Negotiation	75%	$4,000	$3,000
			Total	**$5,800**

Take note: You'll need to know your team's past performance (in a specific time period, say, monthly) for each stage to assign a win probability. It's also not a highly accurate method as some variables (e.g. length of time to close an opportunity) are not factored in.

QUALITATIVE

Subjective in nature, it's based on expert opinion, human judgement, or personal experiences and is nonmathematical.

Use when: No data available but sales managers or key sales people are proficient at making educated guessing, which is what sales forecasting is about

EXAMPLES OF QUALITATIVE METHODS:

1 Intuitive Forecasting / Sales Force Composite

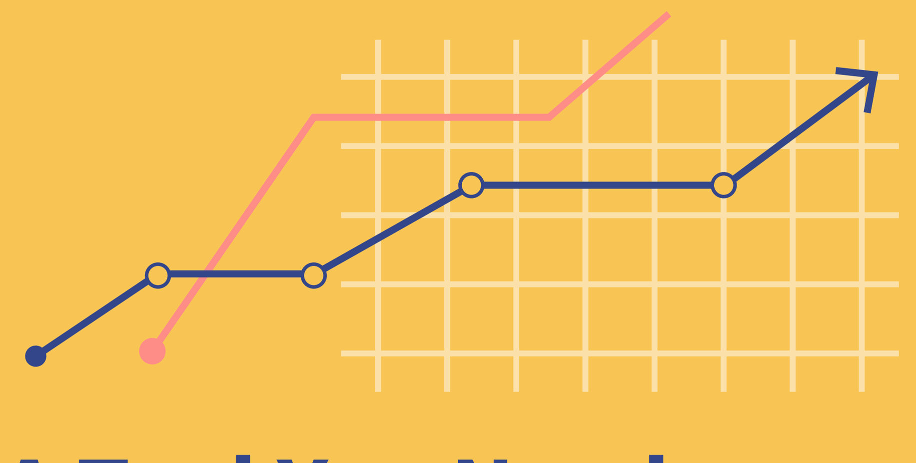
Each sales rep gives his forecast ("I can close this deal valued at $5,000 in 30 days.") All forecasts are then added up to get the total sales forecast for a given period.

Take note: You need to be monitoring your reps' performance to gauge the validity of their forecasts.

2 Jury of Executive Opinion

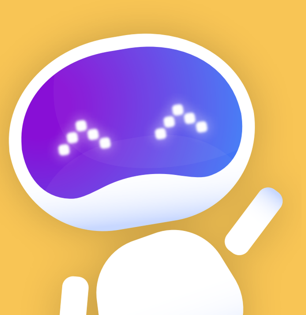
Similar to #1, but this time, company executives do their sales forecasts for the period. You then get the average of all the forecasts.

Take note: Executives should factor in a number of variables (most of them easily tracked in a CRM) before predicting sales.



A Tool You Need for Sales Forecasting

A CRM like **Lucrativ** is a must for sales forecasting. It helps you establish a sales process and document it for data. It can also track leads and opportunities, monitor team and individual performances, and set workflows for targets. All these factors come into play when trying to land informed sales predictions.



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Resources:
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