

Working out your future sales

In **Essential Business Nudge 6** we talked about the importance of cash flow. Being able to predict your future sales is a crucial business skill and these sales figures form a vital part of your cash flow forecast. Many people find this idea of forecasting sales uncomfortable because of the uncertainty involved. But the future is always going to be uncertain and you need to be able to make reasonable sales projections, so that you can plan your business strategy. It's no good just adding some numbers into a spreadsheet and hoping for the best!

Introducing the sales forecast

A sales forecast is a projection of the amount of income your business will generate from the sales of its products or services. The forecast will help you to plan ahead for:

- **Cash flow needs** – knowing how much you can reasonably expect to bring in through sales can help prevent cash flow problems by highlighting if and when your business may need additional capital, such as an overdraft facility, loan or additional investment.
- **Future resource requirements** – for example, the number of staff or freelancers you might need to produce sufficient orders to meet demand or provide a certain level of service.
- **Purchasing, production and marketing activities** – if you are going to reach your planned sales levels, what needs to be done and who will do it, by when?

It's time to take action

Download the Excel® spreadsheet, 'Sales forecast' and complete it with the help of the tips on **page 2**. As you do so, try to bear in mind:

- **Don't be tempted to overestimate your forecasts** – make sure any assumptions you make are reasonable and achievable.
- **Once you have created a sales forecast**, use it to set targets, prepare budgets, raise finance and look closely into staff and other resource requirements.
- **You should compare actual sales results** with your forecast, revise your forecast regularly as a result of this comparison, and carry out sensitivity analyses to consider the 'what if?' scenarios — such as what would happen to your forecast if customer numbers dropped by 10%, or if you increased prices by 5%. This will also help you to anticipate your cash flow requirements and will also come in handy when adjusting future forecasts.



Download your **Sales Forecast** Excel spreadsheet via the Nudges page



Take a look at the online forecasting tool **Finanscapes**. It makes this whole process much easier!

www.finanscapes.com



Chapter 3 of your **Understanding Your Business Finances** workbook will help you understand sales forecasting more fully

Completing your sales forecast

Available as a Microsoft Excel spreadsheet
 » **DOWNLOAD** via the **Nudges** page



Make it yours

- 1 Enter your **business name** and the **sales period** of your sales forecast. You can start the forecast any time in the year.

Pain-free forecasting in six steps

- 2 List the products or services you plan to sell in the **Product (or service)** column (predictably enough).
- 3 Type in the unit price per product or service in the **Unit price** column.
 In this forecast you can change the price of your products or services in six-month periods – so if you set your prices in the first six months (**3a**) and wish to change them going forward, you can do so in the second six-month period (**3b**). This is useful if you decide you'd like to 'test' different prices at different times of year.
- 4 Work across the sheet, estimating how many of each product or service you plan to sell in each month, entering that number in the **No sold** column for each of those months (Months 1-6 in the top section and Months 7-12 in the bottom section). Be realistic! Your sales forecast is no place for wishful thinking.
- 5 The **Month totals** figures are calculated automatically so that you can see how each product or service is performing across each six-month period.
- 6 The **Year Sales Totals** is also calculated automatically and gives you an 'at a glance' view of your carefully-thought-out sales forecast for the year.

Sales forecast														
Business name: My new business												Sales period: January-December 2015		
PRODUCT (OR SERVICE)		Month 1		Month 2		Month 3		Month 4		Month 5		Month 6		Month TOTALS
Product (or service)	Unit price	No sold		No sold		No sold		No sold		No sold		No sold		
1 Example product	20.00	20	400.00	5	100.00	4	80.00	0	-	20	400.00	3	60.00	1,040.00
2 Consultancy/per hour	40.00	10	400.00	12	480.00	40	1,600.00	0	-	15	600.00	28	1,120.00	4,200.00
3		0	-	0	-	0	-	0	-	0	-	0	-	-
4		0	-	0	-	0	-	0	-	0	-	0	-	-
5		0	-	0	-	0	-	0	-	0	-	0	-	-
6		0	-	0	-	0	-	0	-	0	-	0	-	-
7		0	-	0	-	0	-	0	-	0	-	0	-	-
8		0	-	0	-	0	-	0	-	0	-	0	-	-
Month totals		£ 800.00		£ 580.00		£ 1,680.00		£ -		£ 1,000.00		£ 1,180.00		£ 5,240.00
PRODUCT (OR SERVICE)		Month 7		Month 8		Month 9		Month 10		Month 11		Month 12		Month TOTALS
Product (or service)	Unit price	No sold		No sold		No sold		No sold		No sold		No sold		
1 Example product	20.00	100	2,000.00	42	840.00	34	680.00	16	320.00	20	400.00	12	240.00	4,480.00
2 Consultancy/per hour	50.00	40	2,000.00	34	1,700.00	65	3,250.00	38	1,900.00	0	-	2	100.00	8,950.00
3 Example product 2	100.00	4	400.00	3	300.00	3	300.00	6	600.00	1	100.00	1	100.00	1,800.00
4		0	-	0	-	0	-	0	-	0	-	0	-	-
5		0	-	0	-	0	-	0	-	0	-	0	-	-
6		0	-	0	-	0	-	0	-	0	-	0	-	-
7		0	-	0	-	0	-	0	-	0	-	0	-	-
8		0	-	0	-	0	-	0	-	0	-	0	-	-
Month totals		£ 4,400.00		£ 2,840.00		£ 4,230.00		£ 2,820.00		£ 500.00		£ 440.00		£ 15,230.00
YEAR SALES TOTALS												=	£ 20,470.00	

NOTE You can only enter details into the Product/Service, Unit Price & No sold columns. All other cells are locked and contain automatic calculations.

Questions to ask yourself when forecasting

About your market:

- Is there an established market for our product or service? If so, what is the size of that market? Is the market growing or declining? Might seasonal factors affect sales? If so, how can we handle that?

About your customers:

- Do we have a clear picture of our existing and potential customers? Realistically, how many of these customers will actually buy our products or services? Do we have enough information about our customers to be able to have a clear strategy about our pricing? If not, how can we find that information?

About your capacity:

- Do we have the capacity (or the capability!) to deliver on this sales forecast? What impact might changes in our staff/freelancers have?

About your competitors:

- How many competitors do we have? (Even if your business appears to be unique, new competitors are likely to enter the market so it's important to keep checking for new competitors.)
- How do our products or services fit into the marketplace? How can we differentiate our business from what your competitors offer? Do we have flexibility with regard to pricing and the range of products or services we're offering?

External factors:

- What impact might political, economic, socio-cultural, technological, environmental and legal (known as 'PESTEL') factors – for example, oil prices, seasonal trends, interest rates, legislation, political and health issues, and so on – have on our business?
- How might the economic climate and other external factors affect our business and our customers' attitudes? What might happen in future that will have either a positive or negative effect on our sales projections?

It's not easy to predict sales precisely and a good sales forecast should allow for things that might affect sales. Be a bit of pessimist and build in a margin for error. Then if things go better than planned, you can celebrate... at least until your next forecast.