MARKET AND SALES FORECASTING pdf

1: How Are Market Demand, Market Potential & Sales Forecasting Related to Each Other? | www.enganch

Sales forecasting is the process of estimating future sales. Accurate sales forecasts enable companies to make informed business decisions and predict short-term and long-term performance. Companies can base their forecasts on past sales data, industry-wide comparisons, and economic trends.

Some refer to the process as sales forecasting, while others call it demand forecasting or product forecasting. No matter what terms are used, market demand, market potential and sales forecasting are inextricably tied together by virtue of the end result--knowing what, how much and when consumers want to purchase goods or services. Market Demand Demand reflects the willingness of a consumer to purchase a good or service. Market demand reflects the willingness of all consumers within a given market to purchase a good or service. Companies spend millions of dollars on software and experts to help them predict or forecast market demand. Companies forecast market demand because it fluctuates and has an unstable nature. If every company knew exactly how many people would buy a given product or service, the need to forecast market demand would evaporate. The maximum number of widgets sold by every company that sells widgets in that same market comprises the market potential for widgets in that market. Market potential refers to the maximum sales volume of any given product or service in a given market before the product or service reaches market saturation. Sales Forecasting Sales forecasting refers to the process by which a company attempts to predict future market demand of a product or service. Companies typically use historical sales data to predict future market demand. Problems can occur with blindly using historical sales data as a forecast input because at times it does not parallel actual market demand. Sales For example, a furniture company makes a very popular dining room set but has constant production issues in manufacturing. Because of these issues, it cannot keep up with demand for the product. At the end of the year, the historical sales data show the company sold 5, of the dining room sets between September and December, but the historical sales data misses a vital piece of the demand equation: If the dining room continued to sell at its current rate and the company only used the 5, units as an input to forecast the future market demand, the forecast would fall short during the same time period next year because it does not reflect the actual market demand of 7, units. The result leads to loss sales and revenue. Considerations Despite being called "sales forecasting," the goal remains forecasting future market demand. This becomes more difficult when trying to forecast new goods or services and the market potential for these new products. Many different forecast methods exist for determining market potential, but as with all forecasts the result is inherently wrong, the Don Rice Company notes. Whether forecasting market demand or market potential, using clean, accurate and relevant data--human and system-generated--gets the forecasting process off to a good start.

2: The market share method for forecasting sales | GoForth Institute | Canadian Entrepreneur Training

The market forecast is the prediction of how much of all brands in a product category will be sold in a given time, while sales forecasts predict sales of a single brand. For the remainder of this section, we will look at several means of calculating market potential.

Under this method, salesmen, or intermediaries are required to make out an estimate sales in their respective territories for a given period. Salesmen are in close touch with the consumers and possess good knowledge about the future demand trend. Thus all the sales force estimates are processed, integrated, modified, and a sales volume estimate formed for the whole market, for the given period. Under the market test method, products are introduced in a limited geographical area and the result is studied. Taking this result as a base, sales forecast is made. This test is conducted as a sample on pre-test basis in order to understand the market response. But study is made on the basis of a part of a market. Consumers, as a source of information, are approached to know their likely purchases during the period under a given set of conditions. This method is suitable when there are few customers. This type of forecasting is generally adopted for industrial goods. It is suitable for industries, which produce costly goods to a limited number of buyers- wholesalers, retailers, potential consumers etc. A survey is conducted on face to face basis or survey method. It is because changes are constant while buyer behaviour and buying decisions change frequently. The principal factors which affect the sales may be determined. By studying the behaviours of the factors, forecasting should be made. Correlation is the statistical analysis which analyses the degree of extent to which two variables fluctuate with reference to each other. In the same way, regression analysis is a statistical device, which helps us to estimate or predict the unknown values of one variable from the known values of another variable. The permitted intake capacity of each and the medium through which the students are taught are known. Is it a compulsory or an optional subject? By getting all these details and also by considering the sales activities of promotional work, you may be able to declare the probable copies to be printed. The key to the successful use of this method lies in the selection of the appropriate market factors. Minimizing the number of market factors is also important. Thus the demand decision makers have to consider price, competitions, advertising, disposal income, buying habits, consumption habits, consumer price index, change in population etc.

3: Sales Forecasting: Meaning, Factors, Importance and Limitations

Sales forecasting is crucial for almost any business, because it affects sales deployment, financial planning, budgeting, operations planning, and marketing planning.

By monitoring the demand sales forecasting is the key and one big factor to generate sales and hitting the target sales plan. Likewise to Sales forecasting is a useful technique to control the quantity of ordering. Sales forecasting is a lay out of the sales plan or sales target ,where you are estimating the sales target on that particular year. Sales Forecasting can help us control the losses of the sales. It can give us theory how the sales flow. Both sales forecast and demand forecast may or may not be same for a typical condition. In general, sales forecast can be adjusted to reduce or exceed the demand forecast based on the performance of the company. That is the sales targets product wise. The major difference is in what history is input into the algorithms. Demand forecasting must correct for a variety of external factors like promotional events to calculate base demand. Planning inventory replenishment requires scrubbing the sales data of events that will not repeat. Likewise, it also necessitates the ability to buy inventory for future, new events. Demand forecasting and Sales Forecasting are different and their respective uses should not be the same for the many reasons highlighted today. Technology hardware and the resulting software runs faster for less money and more accurately than even5 years ago. That means today you have better choices to pick and choose for your business need. These choices provide significant opportunities to improve your inventory replenishment practices and achieve higher sales, lower operating costs, and better service for your customers. This is followed by Forecasting the market for a particular product s e. This helps companies to adjust their sales and marketing strategy. For example, in share market the prices of the shares are adjusted as per the demand forecast. However, Sales forecast deals with probable total sales number for the organization in all territories and is generally used to plan future budget and ventures of the same or sister concerned companies.

4: Sales Forecasting: Top 9 Methods of Sales Forecasting

For unit sales, billable hours and revenue only lines of sales, start by forecasting units month by month for the first year, as shown here below for the thermos-for-subscribers line of sales in the Soup There It Is plan.

Once you implement the marketing strategy, the entire company will have to deal with the consequences. An important part of the marketing strategy is the forecasting process. Perhaps the most important forecast in this respect is the sales forecast, which estimates how much will be sold by the company within a given time period. The rest of the company should be prepared to meet the demands of the sales forecast. When it comes to preparing forecasts, of utmost importance is accuracy. If you overestimate how much consumers will demand of your product, then you could end up spending an exorbitant amount of money, on such things as manufacturing and distribution, only to be unable to recoup it, when the actual sales start to flow in. When you overestimate demand, you might overextend yourself financially and find that your revenue is incapable of paying your vendors, suppliers, and other business creditors. Sometimes, you might have to lay off your employees. Performing an underestimation of demand levels can also be disastrous for your company. When you introduce a new product into the market, you have to market it in order to generate demand for the product. In case you are incapable of delivering just the right amount of product as demanded by the market, then your market share is in danger of being snatched away from you by your competitors. Your marketing department has to do a lot more than simply generate sales forecasts. Their forecasts have to be a little more elaborate because there will be many factors that will determine how much your company will be able to sell. These factors, such the reaction of your competitors, the cost of the products, and others should be considered to determine how much you are likely to sell. As the factors change over time, you will also have to change your forecasts. A sales forecast is therefore really a special forecast that is the composite of a variety of estimates and it has to be dynamic enough to change. Usually, the first step to take is to determine something called market potential. This is an estimate of the total sales expected across the industry for a given product category within a certain time frame. It could be a month, a quarter, a year, and so on. The key idea here is the market potential is an estimate of what the market can take in total, from all the companies within it, so it includes both you and your competitors. Once you have a good idea of what the market potential is, you can estimate the sales potential. This is an estimate of the maximum revenue you are likely to generate from the sale of a product. Alternatively, you can estimate it as the maximum number of units of the product that your company can hope to sell in a given market over a given time period. The sales potential is typically represented in percentage terms, where it is a percentage of the market potential. It is also the same as the estimate of the markets total market share in a given time period. Any method that forecasts sales potential is therefore also a market share forecasting method. Companies will typically sell less than their sales potential. After all, not everyone that is expected to buy a product will end up buying that product. Some will postpone their purchases while others will never make it. Others yet will buy the product from your competitors while others still will prefer some kind of substitute. As you make a budget, it is a good idea to compare the revenue forecasts against both the costs of the product and the market potential. Different Forecasting Methods A forecast is really nothing more than a guess of what is likely to happen. This kind of guess, however, is neither arbitrary nor frivolous. It is the product of an elaborate process. There are lots of different processes by which you can make a forecast and most forecasts are arrived at by blending several of these processes. Survey and Judgement Forecasting Techniques The most important thing to understand before forecasting is that a forecast is really just a judgment made by someone. Some techniques rely more on judgment than others, however, and they are generally known as judgment techniques. These techniques include customer surveys, expert opinions, customer intention survey, and estimates by salespeople. Channel and Customer Surveys: In some kinds of markets, such as business to business markets, research companies tend to ask customers how much they are likely to spend on given products in a given time period. The answers are used to make a forecast. The research companies will then sell the research to companies. Sometimes the companies will conduct their own surveys to produce their own forecasts. These surveys are generally better at determining the market potential than the sales potential. They are, therefore, market potential forecasting methods. This is a type of forecast based on information gathered from the sales force of a company. Salespeople usually have a good intuition of how much of a product can reasonably sell in a given time period. This method of forecasting is therefore not suitable to new products. It is typically best used for existing products and near-term estimates. This is pretty much the best guess of the company executives. It is usually the starting point of many forecasts. It can be made even more thorough and accurate by basing the bonuses of executives on the amount of sales they make. They will, therefore, have an incentive to generate well-thought-out opinions on the sales potential of a product. Nonetheless, executive opinion should always be backed by quantitative techniques and research. This is just like executive opinion, only the expert is a third party from outside the company. Just like executive opinion, it should also be backed by research and quantitative methods. Time Series Forecasting Techniques Time series techniques observe patterns in sales. One of these techniques, trend analysis, can be used to measure the rate of growth of sales in the past and extrapolate it to the future. A past growth of 3 percent in sales year over year might be a good basis to estimate future growth at 3 percent, as well. Time series analysis is most useful in a stable market. A market that either fluctuates or frequently gets disrupted will not lend itself very well to this method. Correlates Techniques There are a variety of highly sophisticated forecasting models that can be used to forecast sales. One of these is correlational analysis, which is a special form of trend analysis. It bases sales forecasts on the trend patterns of related variables. For example, furniture making companies frequently base their future furniture sales on the rate at which new houses are being built. Response Models Sometimes a company will base its forecasts based on past responses of customers to marketing techniques. They can then estimate when customers are price sensitive, how they respond to offers, and so on. The company launches a new product in a small market in order to gain knowledge of how the larger market would respond to the product based on the reaction of the smaller market. Such an experiment will typically show how the marketing plan can influence sales. That is why it is called a response model. Once data has been gained from the limited market, it can easily be extrapolated to the larger market. The importance of market forecasting cannot be understated. With a good idea of what to expect from the market, your company will be better able to anticipate and meet its needs.

5: What are the differences between demand forecast and sales forecast? - www.enganchecubano.com Sp

Sales forecast can also been 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.

Meaning, Factors, Importance and Limitations Article shared by: Meaning, Factors, Importance and Limitations! Meaning Future is uncertain. Man thinks about future. He may be a businessman, a broker, a manufacturer, a commission agent etc. All guess about the future in their respective field of interest. We try to know, through a clear imagination, what will be happening in the near futureâ€"after a weak, month or year. It can be called forecast or prediction. The process of forecasting is based on reliable data of past and present. Forecasting is not new, as it has been practiced from time immemorial. Forecasting is one of the important aspects of administration. The comer-stone of successful marketing planning is the measurement and forecasting to market demand. A sales forecast is not just a sales predicting. It is the act of matching opportunities with the marketing efforts. Thus sales forecasting shows the probable volume of sales. An accurate sales forecast can be made, if the following factors are considered carefully: It is essential to consider all economic conditions relating to the firm and the consumers. The forecaster must see the general economic trend-inflation or deflation, which affect the business favourably or adversely. A thorough knowledge of the economic, political and the general trend of the business facilitate to build a forecast more accurately. Past behaviour of market, national income, disposable personal income, consuming habits of the customers etc. Products like, wearing apparel, luxurious goods, furniture, vehicles; the size of population by its composition-customers by age, sex, type, economic condition etc. And trend of fashions, religious habits, social group influences etc. Markets are full of similar products manufactured by different firms, which compete among themselves to increase the sales. As such, the pricing policy, design, advanced technological improvements, promotional activities etc. A new firm may come up with products to the markets and naturally affect the market share of the existing firms. Unstable conditionsâ€"industrial unrest, government control through rules and regulations, improper availability of raw materials etc. Future sales are greatly affected by the changes in pricing, advertising policy, quality of products etc. A careful study in relation to the changes on the sales volume may be studied carefully. Sales can be increased by price cut, enhancing advertising policies, increased sales promotions, concessions to customers etc. The required information must be collected on the basis of periodâ€"short run, medium run or long run forecasts. Importance of Sales Forecasting: Supply and demand for the products can easily be adjusted, by overcoming temporary demand, in the light of the anticipated estimate; and regular supply is facilitated. A good inventory control is advantageously benefited by avoiding the weakness of under stocking and overstocking. Allocation and reallocation of sales territories are facilitated. It is a forward planner as all other requirements of raw materials, labour, plant layout, financial needs, warehousing, transport facility etc. Sales opportunities are searched out on the basis of forecast; mid thus discovery of selling success is made. It is a gear, by which all other activities are controlled as a basis of forecasting. Advertisement programmes are beneficially adjusted with full advantage to the firm. It is an indicator to the department of finance as to how much and when finance is needed; and it helps to overcome difficult situations. It is a measuring rod by which the efficiency of the sales personnel or the sales department, as a whole, can be measured. Sales personnel and sales quotas are also regularized-increasing or decreasing-by knowing the sales volume, in advance. It regularizes productions through the vision of sales forecast and avoids overtime at high premium rates. It also reduces idle time in manufacturing. As is the sales forecast, so is the progress of the firm. The master plan or budget of a firm is based on forecasts. The collaboration of all concerned leads to a unified front, an understanding of the reasons for decisions, and a broadened outlook. This type of forecast is important to understand the general economic trend through a careful study of Five Year Plans, Gross national products. National income, Government expenditure, Unemployment, Consumer spending habits etc. This is in order to have an accurate forecast. Big companies, in India, adopt this method. The future market demand is calculated through industrial forecast or market forecast. The expected sales forecasts of all the industries, in the same line of business are combined. Market demand may be affected by controllable-price, distribution, promotion, etc. The executive must take into account all these conditions while forecasting. The third step goes to the firm concerned to look into the market share, for which forecast is to be made. By considering both controllable and uncontrollable, based on chosen marketing plans within the firm, with that of other industries, steps are taken in formulating forecasts. There are three classes of sales forecasts: It is also known as operating forecast, covering a maximum of one year or it may be half-yearly, quarterly, monthly and even weekly. This type of forecasting can be advantageously utilized for estimating stock requirements, providing working capital, establishing sales quotas, fast moving factors. It facilitates the management to improve and co-ordinate the policies and practice of marketing-production, inventory, purchasing, financing etc. Short-run forecast is preferred to all types and brings more benefits than other types. This type of forecast may cover from more than one year to two or four years. This helps the management to estimate probable profit and control over budgets, expenditure, production etc. Factors-price trend, tax policies, institutional credit etc. This type of forecast may cover one year to five years, depending on the nature of the firm. Seasonal changes are not considered. The forecaster takes into account the population changes, competition changes, economic depression or boom, inventions etc. This type is good for adding new products and dropping old ones. Limitations of Sales Forecast: In certain cases forecast may become inaccurate. The failure may be due to the following factors: Present style may change any time. It is difficult to say as to when a new fashion will be adopted by the consumers and how long it will be accepted by the buyers. If our product is similar to the fashion and is popular, we are able to have the best result; and if our products are not in accordance with the fashion, then sales will be affected. Lack of Sales History: A sales history or past records are essential for a sound forecast plan. If the past data are not available, then forecast is made on guess-work, without a base. Mainly a new product has no sales history and forecast made on guess may be a failure. The forecaster may not be able to predict exactly the behaviour of consumers. Certain market environments are quick in action. Even rumours can affect market variables. For instance, when we use a particular brand of soap, it may generate itching feeling on a few people and if the news spread among the public, sales will be seriously affected. It is possible that the growth may not remain uniform. It may decline or be stationary. The economic condition of a country may not be favourable to the business activities-policies of the government, imposition of controls etc. It may affect the sales. The methods of forecasting discussed above have respective merits and demerits. No single method may be suitable. Therefore, a combination method is suitable and may give a good result. The forecaster must be cautious while drawing decisions on sales forecast. Periodical review and revision of sales forecast may be done, in the light of performance. A method which is quick, less costly and more accurate may be adopted.

6: Sales Forecasting | Meaning | Importance | Methods | Features

Sales forecasting is especially difficult when you don't have any previous sales history to guide you, as is the case when you're working on preparing cash flow projections as part of writing a business plan.

Meaning, Importance and Methods Article shared by: After reading this article you will learn about: Meaning of Sales Forecasting 2. Importance of Sales Forecasting 3. 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. Some firms manufacture on the order basis, but in general, firm produces the material in advance to meet the future demand. Forecasting means estimation of quantity, type and quality of future work e. 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 been 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: Factors Considered for Sales Forecasting: Following factors should be considered while making the sales forecast: 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. When the government produces or purchases then depending upon the government policy and rules, the sales of the products are also affected. 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. 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: Short-term forecasting and 2. 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: To adopt suitable production policy so that the problem of overproduction and short supply of raw material, machines etc. To reduce the cost of raw materials, machinery etc. To have proper control of inventory. To set the sales targets. To have proper controls. To arrange the financial requirements in advance to meet the demand. The forecasting that covers a period of 5, 10 and even 20 years. 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: To plan for the new unit of production or expansion of existing unit to meet the demand. To plan the long-term financial requirements. To train the personnel so that man-power requirement can be met in future. Methods Used for Sales Forecasting: Following are the methods generally employed for sales forecasting: This is direct method for making forecasting for short-term, in which the customers are asked what they are thinking to buy in near future say, in the coming year. In this method all the burden is with consumers, which may misjudge or mislead or may be uncertain about the quantity to be purchased by them in near future. The disadvantages of this method are as follows: When consumers have to select between different alternatives, they are unable to foresee their choices. Buyers may be anxious for purchasing the products but due to certain limitations they may be unable to purchase them. Collective Opinion or Sales Force Polling: This final estimate then goes through severs checking to avoid undue imagination which is done many times by the salesmen. The revised estimates are then again examined in the light of factors like expected change in design, change in prices, advertisements, competition, purchasing power of local people, employment, population etc. This method of collective opinion takes advantages of collective wisdom of salesmen, senior executives like production manager, sales manager, marketing officials and managers. This method is simple and requires no statistical technique. The forecasts are based on the knowledge of salesmen, who are directly responsible for the sales. In practice, this method is much useful in the case of new products. This method is useful only for short-term forecasting, i. As Salesmen have no knowledge about the economic changes, the estimate by them are not so correct many times. As the estimation is full time job, the quality to look into the future must be with the salesmen. In this method the trend line is projected by some statistical method, generally, by least square method. The time series forecasts are the demand characteristics over time. These time series data are analysed for forecasting future activity levels. The demands have following patterns: In this pattern demand remains constant throughout the period. It refers to the long-term growth or decline in the average level of demand, as shown in Fig. It refers to the annually repetitive demand fluctuation that may be caused by weather, tradition or other factors. Business cycle refers to the large deviation to actual demand values due to complex environmental influences. These are similar to the seasonable components except that seasonality occurs at regular intervals and is of constant durations whereas it varies in both time and duration of occurrence. In long term forecast more than 2 years seasonal factors are ignored and focus is given on trend component with a minor emphasis on business cycle. Generally when a business concern is in operation, combination of trend and seasonal variations are given importance. Such a pattern is shown in Fig. The annual sales of a company are as follows: By the method of least squares, find the trend values for each of the five years. Also estimate the annual sales for In this method the forecasting is dependent upon certain economic indicators, which are generally published by Central Statistical Organization under the national income estimates. Some of these indicators are: Agricultural income for the demand of agricultural inputs, implements etc. Construction contracts sanctioned for demand of building materials. The forecasting is done with the help of least square equations. The examples illustrated below will give an idea, how the forecasting is done. This method has some limitations, likewise. Appropriate economic indicator is difficult to find out. For newer products, no past data are available. Suppose a firm is manufacturing automobiles and finds a relationship between sale of automobile and the Index demand for cars. The sales for the last five years are: Find the relation between the demand index and sale of automobile. Further, make a forecast for the year ; supposing the demand index rise to Use least square method. Thus equation vi is the relation between the demand Index and sales. Forecasting for year with demand Index Elements of a Good Sales Forecasting: Following four elements are suggested for adopting a sales forecasting method:

7: Methods of Market Forecasting | www.enganchecubano.com

Projection of achievable sales revenue, based on historical sales data, analysis of market surveys and trends, and salespersons' estimates. Also called sales budget, it forms the basis of a business plan because the level of sales revenue affects practically every aspect of a business.

They are explained as follows. Jury of Executive Opinion Method: This is a conventional approach to sales forecasting. Under the Jury of Executive opinion method, sales forecasts are made based on the opinions of the top executives of the company. The executives will take into account the past performance of the business, the present market conditions and the future trend before arriving at a conclusion. This is a very simple method of sales forecast and the approach is mainly subjective. Merits of executives opinion method 1. It is a very simple method. Detailed analysis is not required to arrive at a conclusion. Indirectly, the executives who have made the estimation become responsible for its achievement also. Demerits of executives opinion method 1. It is merely based on opinion rather than on facts and figures. Objective analysis is not done. It is a mere guess work and the approach is unscientific. It is a general estimation of future sales and the prediction is not done area-wise, product-wise and customer-wise. Sales Force Opinion Method In this case, the sales representatives of the business are asked to forecast sales for their respective areas. Their views will be combined with those of the sales managers in arriving at an estimate. The sales representatives have sound knowledge of the trend in their respective sales territories and their views are important in sales forecast. Merits of Sales force opinion method 1. It is a very practical approach. Each sales territory gets focus. The sales representatives who have made the estimation also become responsible for attaining the target. Demerits of Sales force opinion method 1. The success of this approach depends on the efficiency of the sales people. Some salesmen may be non-committal and may not give correct information. This approach is particularly suitable in the case of industrial goods where the number of buyers is limited and can be personally contacted. In the case of consumer products , only sample approach is possible, as there are a large number of such buyers. Firsthand information can be obtained. This approach will certainly work in the case of industrial goods marketing. It may not give reliable information in the case of consumer goods marketing. The expectations of the buyer may change in future. Such an approach is suitable only to prepare short-term plans. Statistical Method Trend Analysis, a statistical tool, helps to Predict future sales based on the past sales figures of a business. Merits of Statistical Method 1. It is an objective forecast. No guess work is involved in it 3. It is simple to use. Demerits of Statistical Method 1. It ignores market conditions. It does not make provision for uncertainties. Limitations of Sales Forecast 1. The tastes and preferences of the buyers do not remain constant. A sudden change in the preference of the buyers may render the forecasts meaningless. The economic conditions prevailing in every country also do not remain stable. Purchasing power of money, desire to save and invest etc. The political conditions in a State also influence sales forecast. The policies of the Government regarding business change often. A sudden hike in excise duty or sales tax by the Government may affect sales. The entry of competitors may also affect sales. Progress in science and technology may render the present technology obsolete. As a result, products which are right now enjoying a good market may lose market and the demand for products made using the latest technology will increase. This is particularly true in the case of market for electronic goods, computer hardware, software and so on. Features of a good forecasting method There are various methods of forecasting demand of product in market. Of them, some are very costly and a few are cheap. Some forecasting methods are flexible and some require skill and sophistication. Therefore, there is a problem of choosing the best method for a particular demand situation. What are the criteria of a good forecasting method? Plausibility The management should have good understanding of the technique chose and they should have confidence in the technique adopted. Then only proper interpretation will be made. According to Joel Dean, the plausibility requirements can often increase the accuracy of the result. Accuracy entails the executives to accept the results. Experienced executives will have a market feel and they can contribute effectively. Simplicity The method chosen should be of simple nature or ease of comprehension by the executives. Elaborate mathematical and econometric procedures are less desirable, if the management does not really understand what the forecaster is doing. Economy Cost is a primary consideration which should be weighed against the importance of the forecasts to the business operation. There is no point in adopting very high levels of accuracy at great expense, if the forecast has little importance in the business. Availability Immediate availability of data is a vital requirement in forecasting method. The technique should yield quick and meaningful result. Delay in result will adversely affect the managerial decision. To conclude, the ideal forecasting method is the one which yields good returns and costs in accuracy meets new circumstances with flexibility.

MARKET AND SALES FORECASTING pdf

8: Sales forecasting - How to forecast sales of a product or total sales?

Sales Forecasting is a measure of the market response; it is not a measure of market demand. Many types of events will create sales unit increases and decreases that raise or lower a sales forecast. However, a sales forecast engine may not react correctly.

Promotional mix Investment in production capacity Types of forecasting There are two major types of forecasting, which can be broadly described as macro and micro: Macro forecasting is concerned with forecasting markets in total. This is about determining the existing level of Market Demand and considering what will happen to market demand in the future. Micro forecasting is concerned with detailed unit sales forecasts. The selection of which type of forecasting to use depends on several factors: However, this involves more cost 2 The availability of data and information â€” in some markets there is a wealth of available sales information e. Creating the Sales Forecast for a Product 1 The first stage in creating the sales forecast is to estimate Market Demand. Definition â€” Market Demand for a product is the total volume that would be bought by a defined customer group, in a defined geographical area, in a defined time period, in a given marketing environment. This is sometimes referred to as the Market Demand Curve. Thus market demand can be defined as: Customers in India Defined Time Period: A financial year Defined Marketing Environment: Strong consumer spending in India but overseas holidays affected by concerns over international terrorism For example, you might calculate market demand of a holiday package as follows: Rs â€” Estimate of market demand: This can be expressed as a formula: A sales target or goal is set for the sales force as a way of defining and encouraging sales effort. A sales budget is a more conservative estimate of the expected volume of sales. It is primarily used for making current purchasing , production and cash-flow decisions. Sales budgets need to take into account the risks involved in sales forecasting. They are, therefore, generally set lower than the sales forecast. Obtaining information on existing market demand As a starting point for estimating market demand, a company needs to know the actual industry sales taking place in the market. This involves identifying its competitors and estimating their sales. An industry trade association will often collect and publish sometime only to members total industry sales, although rarely listing individual company sales separately. By using this information, each company can evaluate its performance against the whole market. This is an important piece of analysis. This must mean that Company A is losing market share â€” its relative standing in the industry. These are usually good sources of information for consumer markets â€” where retail sales can be tracked in great detail at the point of sale. Such sources are less useful in industrial markets that usually rely on distributors. Estimating Future Demand So far we have identified how a company can determine the current position: Very few products or services lend themselves to easy forecasting. These tend to involve a product whose absolute level or trend of sales is fairly constant and where competition is either non-existent e. In most markets, total demand and company demand are not stable â€” which makes good sales forecasting a critical success factor. A common method of preparing a sales forecast has three stages: Prepare a macroeconomic forecast â€” what will happen to overall economic activity in the relevant economies in which a product is to be sold. Prepare an industry sales forecast â€” what will happen to overall sales in an industry based on the issues that influence the macroeconomic forecast. Sales forecasts can be based on three types of information: What customers say about their intentions to continue buying products in the industry What customers are actually doing in the market What customers have done in the past in the market There are many market research businesses that undertake surveys of customer intentions â€” and sell this information to businesses that need the data for sales forecasting purposes. The value of a customer intention survey increases when there are a relatively small number of customers, the cost of reaching them is small, and they have clear intentions. An alternative way of measuring customer intentions is to sample the opinions of the sales force or to consult industry experts. Time Series Analysis Many businesses prepare their sales forecast on the basis of past sales. Time series analysis involves breaking past sales down into four components: Seasonal or cyclical factors. Sales are affected by swings in general economic activity e. Seasonal and cyclical factors occur in a regular pattern; Erratic events; these include strikes, fashion fads, war scares and other disturbances to the market which need to be isolated from past sales data in order to be able to identify the more normal pattern of sales Responses: Smooth out the erratic factors e.

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The sales forecast section is a key section of your business plan. This section relates directly to the market analysis, competitive edge, marketing plan and pricing sections (see our guide to writing a business plan).

Therefore if you are just starting out it will probably take you a bit of time to get there so you need to try to estimate what your ramp-up is going to be. Also, if you are selling your goods through a distributor he should be in a position to give you an estimate. My advice here would be not to take it at face value and to discount it slightly to avoid any bad surprises. Lead based sales forecasting One of the best techniques to forecast the sales of businesses that have a sales force is to build your volume forecast based on your lead generation capacity. To forecast your sales, you can estimate how many phone calls an average sales representative can handle in one day. From there you can deduct how many meetings your sales representative is likely to get based on an estimated success rate. And then apply another estimated success rate to deduct the number of sales from the number of meetings. Try to work out the entire sales funnel rather than using a global conversion ratio. That way you will be able to track the intermediary steps and adjust your sales forecast on the fly as you get more clarity on what the conversion rate at each step is. You will also be able to set more precise objectives to your sales force. With this technique your sales forecast will look like this: This tool will give you an estimate of the traffic associated with each keyword as well as an estimate of the number of clicks you should get for a given ad campaign. Then to build your volume forecast you need to figure out how much you can afford to spend on Adwords which will give you an estimated number of clicks. You can then apply a conversion ratio to the number of clicks to estimate you number of sales. Your sales forecast will be something like this: The idea here is to compute the implied market share of your forecast and check how realistic it is. If the number seems too high then you probably missed something. If you are a capacity constraint business such as a hotel or a restaurant you also need to ensure that the volume makes sense compared to your capacity. You also need to factor in the seasonality and check that it is reflected properly in your sales forecasts. Why the bottom-up approach is king There are two reasons why you need to build your sales forecast using a bottom-up approach and not a top-down approach. The first one is that, once you have started trading it enables you to check your assumptions and adjust your forecast based on your actual numbers. For example, if you estimated that your salesmen will be able to get in average x meetings per month but they are actually getting y. Just replace x by y in your model and you have a revised, more accurate forecast on which you can take business decisions. The second reason is to prepare your discussion with investors. If you use a pure top-down approach and say: And you are in trouble. Now if you say: The investor will most likely say nothing, give a phone call to a competitor or an expert and ask him if 25 leads per salesman per month makes sense and what is the average success rate in the industry. If you are not too far off remember that you need to demonstrate that you know your market the investor will come back to you and ask you to run your model with the numbers the expert gave him which you will then challenge because it is your market and you are the expert! The bottom line is that using a bottom-up approach enable a constructive discussion based on the assumptions used to build the number whereas the top-down approach is a black box and it just looks like you took a guess. No one likes to invest money based on a guess.

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