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How to accurately forecast sales

Start-ups are at a disadvantage when it comes to their first sales forecast because, clearly, they don't have any historical data to base it on. But there are still ways to create an accurate sales forecast, and it's important to do so because it'll help you work out if your business idea is financially viable.

Sales forecasting – how to get it right

The secret with sales forecasting is to accurately calculate the different types of sales you can expect and how many of each you'll get per month.

The more assumptions you make, the less accurate your forecast will be so you've got to really drill down into the details of your costs and be objective and realistic.

What you need

If you're a start-up, then you won't have any historical data to base your sales forecast on. So instead you'll need:

- Projections of what you think sales might be.
- An understanding of the competitive marketplace.

We're talking about doing your due diligence. Let's assume you're planning to open a café. Research into similar businesses in your area to find out:

- How much they're turning over – go into each café yourself and take note of their prices. Then determine how many customers they're serving and what those customers are buying.
- What their unique selling point (USP) is – what is it that makes one café stand out from the others? If you've researched all the cafés in your area, you'll know which ones are more popular than others. Why is that?

The number and strength of your competition in the marketplace will have a direct impact on your product or service's sales potential. Assess your competitors' pricing strategies, what they offer and how successful they are.

Your first sales forecast

Figuring out what steps you should take to forecast your next 12 months of sales can be daunting, so start with these steps.

Set your goals

Begin with your financial goals as a base figure for the amount of sales you'll need each year. Work out what you have to sell to make a profit. Conduct a break-even analysis and add on your predicted profits.

See how much that comes to per week, then determine if it's actually possible.

Understand your market

It’s important to do the necessary research here. Whether you’re a business to business (B2B) company or a business to customer (B2C) one, you’ll have to gauge what the demand will be for your product or service.

Talk to potential customers to get an idea of demand, then apply a price to your offering.

The size of your market is a factor affecting your potential sales. Assess it early so you can derive the market’s value and how much your share of it could be. Are there enough customers out there in the market to achieve your sales goals?

Estimate demand

Estimate the number of people in your area, then divide this figure by the number of competitors. That way you can try and estimate what your share of the market might be.

You should also be talking to potential target customers. There’s no point in assuming that there’s going to be demand for what you’re offering – you need to be sure.

Using the café as an example again, you could talk to customers coming out of other cafes about your idea and whether they’d consider coming to you. If you have a USP, tell them what it is and see if it appeals to them. This will give you an idea of demand.

Work out your prices

Contrary to what some people think, you’re actually looking to charge as much as you can for your product or service. Researching your competition will give you an idea of what similar products and services are selling for, but competing on price is not always the best idea for start-ups.

A break-even analysis will tell you how much you have to charge to cover all your costs, without first showing a profit. But since profit is the name of the game, you’ll need to work out what you want your profit margin to be.

You’ll want to charge as much as you can while still remaining competitive. Make an educated guess, then adjust your prices each week you’re open.

If you can gain some useful benchmarking data from your competition, you’ll be in a great position to conduct your first sales forecast. It’s something you should include in your business plan because not only will your bank want an idea of your likely sales (if you’re borrowing money), but you’ll know whether your business is going to generate any profit in its first year.