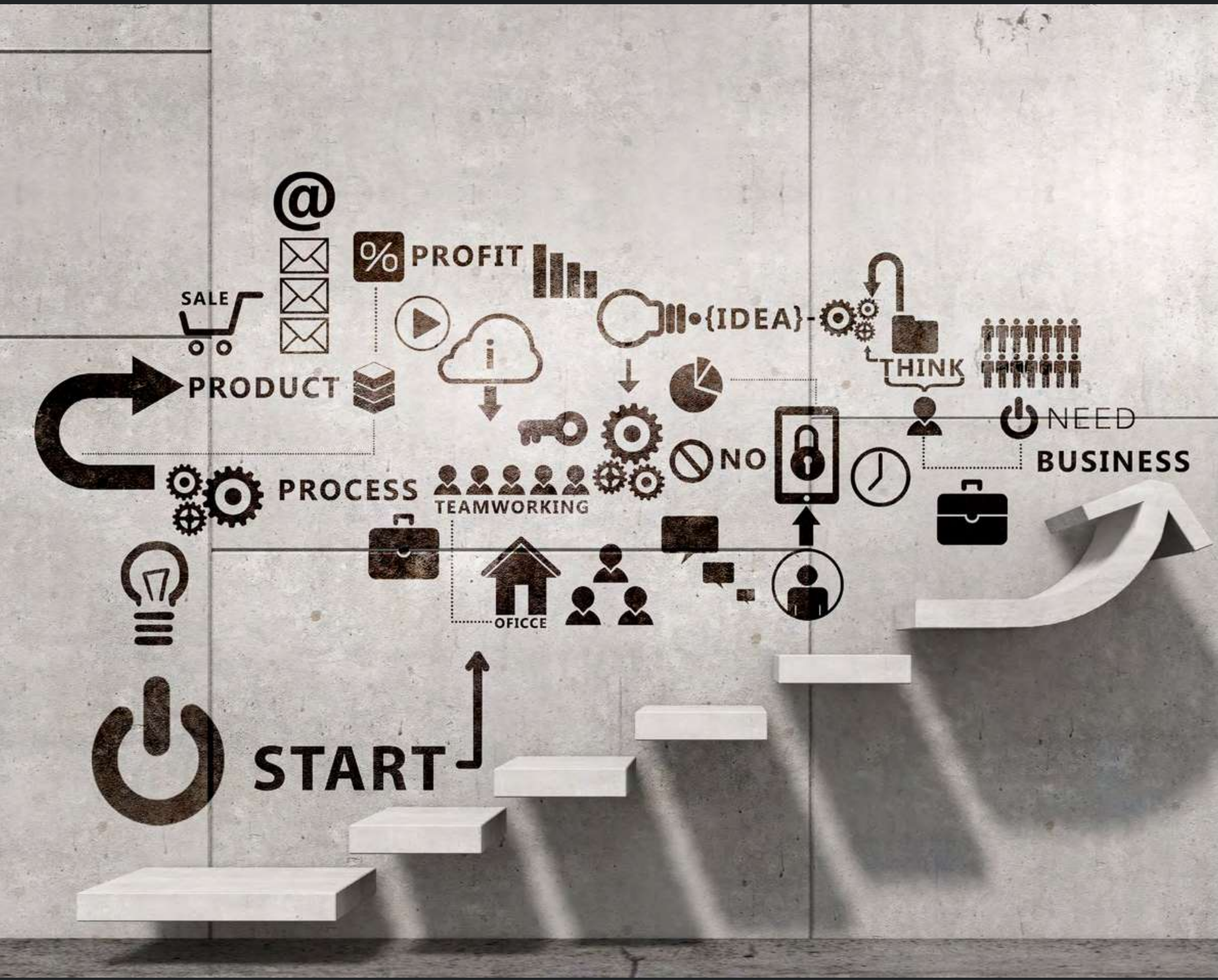
6 Four Sales Forecasting **Methods For New Businesses**



Forecasting sales can seem like guesswork. There are a lot of estimates, and those estimates are often based on assumptions. But you can approach it scientifically. Here's how.

What is forecasting in business?

Forecasting goes hand-in-hand with budgeting to help you predict the financial outlook of your business. You start by estimating income (sales) and expenses over a period of time, such as six months. That's your starting forecast and you use those numbers to draw up a budget.

As time goes by, you'll see how the business is actually doing and adjust your forecast to be more realistic. If things are going well, your forecast will become more optimistic. If things start slowing down, your forecasts will become more conservative. Your first forecast is probably going to be the hardest to do. While you can get quotes to help estimate costs, predicting sales is far trickier.

Sales forecasting methods and their flaws

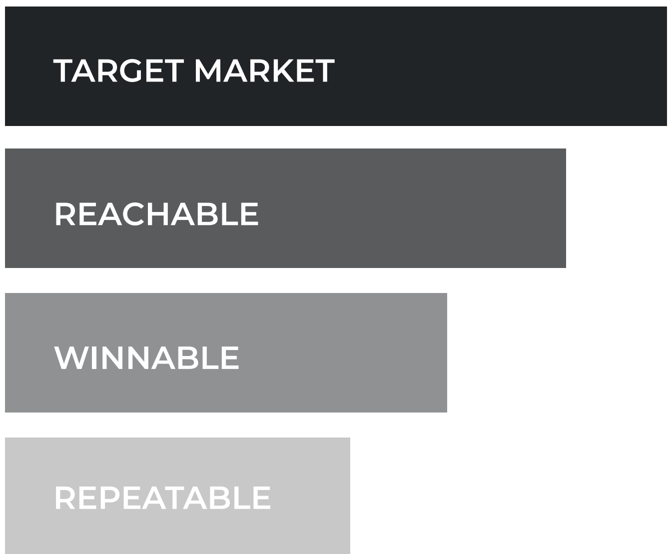
The first thing you need to know about sales forecasts is that they're never going to be right – not 100% anyway. The idea is to make the margin of error as small as possible.

There are dozens of sales forecasting methods, but most of them are built for existing businesses. They require you to have information about past sales. New businesses don't have that luxury. That leaves you with four options – and you should probably use at least two of them.

1. The ballpark method

Start by identifying the total target market and work your way backwards to see how many could become customers. Do this exercise for your first three months, your first six months, and your first year. Check your assumptions with an industry insider or an accountant.

Categorise your most likely customers by age, profession, location and so on. How many people fit the description of your target market? Your marketing will only reach some of that group. And you can only expect to win a portion of those as customers. Whittle the numbers down as realistically as you can.



How many of the target market can you connect with? And what portion of them will switch to you?

2. The borrowed-homework method

No matter how wonderful or weird your business is, someone's doing something like it, somewhere. Their business doesn't have to be identical to yours, just similar. Find those people and ask them how sales have gone.

You don't need to pry into their finances, or get exact numbers. Start with broad questions about their business. A lot of owners will open up and share their story.

Don't compare yourself to outliers. If another business went viral for some reason, they're not a good model for your sales forecasts. Virality is not, unfortunately, a strategy.

- Was it slow at the beginning?
- When did sales pick up?
- What's the busiest part of the week?
- Do sales go up and down with the seasons?
- What cost caught you most by surprise?
- You can get a lot of useful information by asking simple, unassuming questions.

3. The working-backwards method (setting a sales target)

You could start the forecasting process by seeing how many sales you need to sustain a viable business. This isn't a sales forecast so much as a (minimum) sales figure.

Once you know the minimum your budget will allow, some market research can help you see if that's a realistic sales target. You could start by asking other businesses that serve the same market. Or you could go direct to customers and ask about their buying habits.

If it seems feasible to hit the target, you might make (or buy) the corresponding amount of product and set out to sell it. This method is more likely to be used by someone who's turning a hobby into a business. It allows them to start small, build slowly, and control costs.

Instead of a sales forecast, some new businesses use their budget to set a minimum sales target.

4. The ask-an-expert method

You know who's seen a lot of business ideas, budgets and forecasts? Accountants and bookkeepers. Investors, too. Go and speak to them. They love to hear about new business ideas.

Some advisors will give you the first chat for free. But even if they charge you, you'll gain a lot of useful information in one short visit, so you'll get great value. Use one of the sales forecasting methods above to generate your own set of rough numbers and ask them for a sanity check.

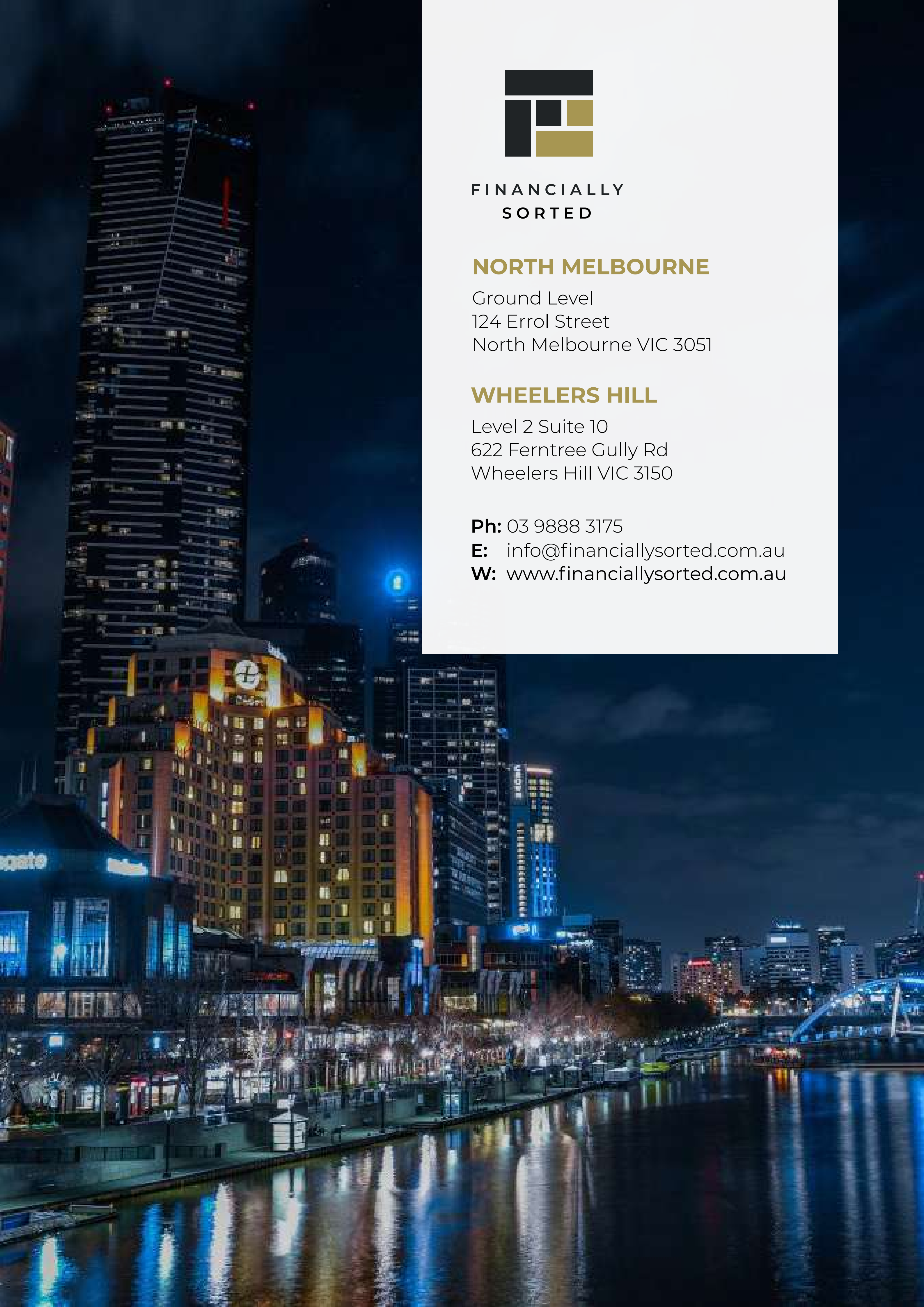
Find an accountant who has clients in your industry. It sometimes helps if they're local too – though that's not always vital. You can search advisors by industry and location in the Financially Sorted advisor directory.

Do your own numbers before visiting an advisor. It gives them something to react to.

Do several sales forecasts when starting a business

You don't know how well your new business will go, so explore a few options. Run a scenario with really soft sales, one with strong results, and another in the middle.

That's how to start a business with confidence, because you'll be prepared for all eventualities. If sales start slow, you'll have a draft budget for that. If business booms, you've already done some thinking about how to meet the demand. Working through the scenarios will teach you a lot. Have fun with them.



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