

Estimating & Projecting Your Sales

Estimating and projection sales for your business are likely the hardest part of completing your business, particularly if yours is a new business. It is however, an absolute necessity in order to determine whether your idea is viable and profitable.

There are a number of ways to estimate your sales. **All** are estimates only and no one way will precisely predict what your sales will actually be. It is good idea to use a variety of different estimations for your sales and come up with a figure that seems both realistic and attainable.

1. Existing Financial Statements & Similar Businesses

If you are lucky enough to have financial statements from an existing or previous business, which is similar to yours, then you should have good indication of the historical level of sales that the business achieved and what it is likely to achieve. You may be able to contact a----- annually, then ask what an average week or day of sales is like and do the math. Statistics Canada and PCFDC also have “business profiles” which can provide a very general indication of the range of sales for a particular type of business in a specific province. If you are able to get some existing financial statements, **do not stop there**, look at the other ways of estimating sales to affirm and substantiate the statements.

2. Average Family Expenditure Statistics

Statistics Canada and PCFDC have average family expenditure statistics, which provide estimates of what the average family in Canada spends on specific goods and services. Often a figure can be obtained on very specific items from shoes to sporting goods, shampoo to between meals and bowling fees. These can be applied to the population and number of households and families within a given trading area to determine the total potential market for a particular good or service. One can then estimate what “market share” or percentage of the market you think your business can realistically expect to attract given the competition. Again this provides only one estimate of what your sales might be.

3. Estimate by Unit, Category and Traffic Counts

Another way of estimating sales is to itemize by unit all the various goods and services you are providing in your business and how many of these you realistically think you can sell and people will buy in a day, week, month or year – depending on the nature of the product. You can also try to estimate the volume of traffic – pedestrian or vehicular, which passes by your proposed location and how many you think, will stop and buy your product or service. Highway traffic counts are available and street counts are sometimes available as is specific demographic data on the numbers of people in particular age groups in the area. The more specific you can identify who your customers are the easier it is to estimate sales.

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4. Estimating by Capacity

Another means of estimating your sales potential is to calculate what you are realistically capable of selling or producing. This applies to manufacturing businesses and the capacity that is possible. This is not always the best way to estimate sales as there is no guarantee that you are able to sell all that you produce. However, it is a means of estimating the best-case scenario and your maximum capacity in order to determine feasibility.

A FEW NOTES ON...

Cost of Goods Sold

It should be noted that Cost of Goods Sold is not an operating expense but must be estimated in relation to sales as it replaces inventory and stock sold. Cost of Goods Sold can generally be estimated using industry averages from Statistics Canada and PCFDC on specific business and industry type.

Inventory Turnover & Opening Inventory

Once you have estimated your sales, you can verify what your opening inventory and inventory requirements might be by dividing your sales by the industry average for inventory turnover.

High & Low Sales Projections

It is always beneficial to estimate a high and low sales projection based on factors, which might detrimentally and favorably affect your business. Businesses plan which honestly and realistically presents all the risks (good and bad) is generally looked on more favorably by financing agencies and government programs.

Assumptions

Always present and note the assumptions used in making your sales projections so that others, particularly financial and government agencies, can see the basis of your projections.

Itemize Sales by Unit & Category

Always itemize, calculate and present your sales projections by unit (i.e. parts, labour, product categories, etc.) for your own purposes to keep track of which departments and products are generating revenues & for financing agencies to see your assumptions for each sales area.

	<i>Total SALES</i>		\$	_____
Minus	<i>Cost of Goods Sold</i>	-	\$	_____
Equals	<i>Profit Margin/Gross Margin</i>	=	\$	_____

Gross Profit Margin pays the operating costs, expenses, wages, loan payments etc.

Forecasting Sales

You should realize that the whole projected cash flow means ***nothing*** if your sales projections are not accurate. You will also find that accurately forecasting sales is a challenging task. Your projections must reflect what you found in your market research, customer demand, and levels of competition, seasonal fluctuations and your business' capacity. Here are two methods for determining your sales level.

“Top Down” Forecasting

Step One *Gather All Relevant Information*

What is the total market area population?

What is the target market population? (Ex. The elderly population)

How often/What quantity does each potential customer purchase?

-(You will have to conduct a survey to obtain this information)

What is the average price now paid for this product/service?

Step Two *Determine Total Market Value*

Multiply average frequency of purchase by number of potential customers to find current number of sales from your target market. Then multiply this number by the average price per purchase to find the value of the market.

Step Three *Determine Your Monthly Sales Volume*

If every customer immediately purchased all his or her goods/services from your new business your monthly volume would be the total annual market value divided by twelve months. Unfortunately, this will not be the case. To determine your monthly sales you must estimate your monthly market share. Consider all contributing factors. The following questions may help.

- *Is your industry seasonal? (Ex. Flower shop's sales peak at Christmas, Mother's Day, and for the July wedding season)*
- *How long will it take to become established in the market? (Ex. Your first few months may only capture a minuscule market share)*
- *What are the average monthly sales of your competitors? (Your survey may have found where the customers currently purchase and from this you could estimate competitor sales)*
- *Will your current office/floor space place an upper limit on sales?*

Multiply your monthly market share (percentage) by the total market value to determine your monthly sales. Remember, different months and products/services should have a different share.

“Bottom Up” Forecasting

- Step One** ***Determine Your Total Daily/Monthly Volume***
How many jobs can you and your employees do in one day?
What time will be required for each contract?
How much time will have to be set aside for administration or other non-revenue generating activities?
- Step Two** ***Determine Your Total Daily/Monthly Cash Generating Capacity***
Multiply the total number of jobs you will be able to complete by the average price per job. If you work by the hour, multiply the number of hours by your hourly rate. The resulting sales volume is your maximum capacity.
- Step Three** ***Bring In Your Industry Factors***
Some businesses may have the privilege of assuming that your sales will always be at maximum capacity, but this is the exception rather than the rule. Consider all contributing factors (a few were listed in the “Top Down” approach) to estimate your monthly sales. Your market survey may give you good clues as to what level of interest exists for your product/service. But remember to be conservative with sales expectation based on a survey because people usually spend less than they say they will.

➤ **NOTE:** Bankers and other investors know that you can’t predict the future. However, if you can show that your estimates are a conservative interpretation of reality in your industry, they will be satisfied. *Describe how all of the factors combine to give you your monthly sales forecast.*