

## Objective 5.06-A Study Guide-KEY

Learning the \_\_\_\_\_ about Sales Forecasts

A \_\_\_\_\_ **forecast** is a \_\_\_\_\_ of what a firm's sales will be during a \_\_\_\_\_ future \_\_\_\_\_ period.

Sales \_\_\_\_\_ can be short-term, \_\_\_\_\_, or long-term in nature.

Business \_\_\_\_\_ and owners use sales \_\_\_\_\_ frequently when making \_\_\_\_\_ for their businesses. Sales forecasts help \_\_\_\_\_ to determine:

- o How \_\_\_\_\_ to buy
- o What new \_\_\_\_\_ to offer
- o How many \_\_\_\_\_ are needed
- o What prices to charge
- o Whether \_\_\_\_\_ is needed

Approaches to \_\_\_\_\_

Before choosing a method for forecasting \_\_\_\_\_, businesses must decide which \_\_\_\_\_ approach to take. These \_\_\_\_\_ are referred to as the:

**Top-down approach:** In this \_\_\_\_\_ also known as the \_\_\_\_\_ approach, the sales \_\_\_\_\_ is prepared for the \_\_\_\_\_ as a whole. Then, the \_\_\_\_\_ is broken down into forecasts for specific products, \_\_\_\_\_, territories, product lines, \_\_\_\_\_, etc.

**Bottom-up approach:** In this approach, also known as the \_\_\_\_\_ approach, the sales forecast is prepared by \_\_\_\_\_ with separate forecasts for \_\_\_\_\_ products, salespersons, territories, etc. Then, these individual \_\_\_\_\_ are combined into a forecast for the entire \_\_\_\_\_. For example, a shoe company might gather \_\_\_\_\_ for each line of shoes or for each salesperson's \_\_\_\_\_ and combine the \_\_\_\_\_ to forecast sales for the \_\_\_\_\_ company.

Categories of \_\_\_\_\_ Methods

Quantitative Forecasting:

1. \_\_\_\_\_ methods of forecasting sales are based on the results of gathering and \_\_\_\_\_ all kinds of \_\_\_\_\_ market data.

2. Numerical data may come from internal \_\_\_\_\_ such as:

- o \_\_\_\_\_ records
- o Past product/\_\_\_\_\_ research
- o Customer \_\_\_\_\_ that the company has on hand

Numerical data such as \_\_\_\_\_ trends, population \_\_\_\_\_, consumer spending, and \_\_\_\_\_ forecasts come from \_\_\_\_\_ sources such as government reports, business \_\_\_\_\_, and trade associations.

Qualitative Forecasting: \_\_\_\_\_, or judgmental, \_\_\_\_\_ methods are based on \_\_\_\_\_ opinion and personal experience. The company \_\_\_\_\_ its sales forecasts by asking \_\_\_\_\_ people such as \_\_\_\_\_ in the field, sales \_\_\_\_\_ customers, and company executives.

These individuals base their \_\_\_\_\_ on what they have seen \_\_\_\_\_ in the past as well as no current observations of the \_\_\_\_\_ or of the industry.

This \_\_\_\_\_ is especially common when sufficient \_\_\_\_\_ data isn't available, i.e., for a new business or a less-\_\_\_\_\_ market environment.

Methods of \_\_\_\_\_ Sales

\_\_\_\_\_ **methods:** There are many, many different quantitative \_\_\_\_\_ of forecasting sales. Unfortunately, many of these \_\_\_\_\_ are highly sophisticated. For that reason, we are not going to focus on them in this course. Instead, we are going to \_\_\_\_\_ on the qualitative \_\_\_\_\_ that many small- and medium-sized \_\_\_\_\_ use to forecast sales

Qualitative methods:

**Jury of \_\_\_\_\_ Opinion**

- o This qualitative method \_\_\_\_\_ opinions from a group of company \_\_\_\_\_ that meets together to \_\_\_\_\_ sales.
- o The executives' predictions are \_\_\_\_\_ so that the forecast is \_\_\_\_\_ of their points of view.

o Advantages:

Based on \_\_\_\_\_, inside opinion  
\_\_\_\_\_ and easy to use

o Disadvantages:

Results \_\_\_\_\_ on executives' skills All \_\_\_\_\_ carry equal weight, which is a  
\_\_\_\_\_ if some  
executives' predictions are not as \_\_\_\_\_ /accurate as others

\_\_\_\_\_ **Technique**

- o This \_\_\_\_\_, also called the \_\_\_\_\_ survey, is a variation of the \_\_\_\_\_ of executive opinion.
- o It involves company \_\_\_\_\_ and outside experts such as \_\_\_\_\_ professors, consultants, or industry analysts.
- o It is based on the \_\_\_\_\_ that several experts can \_\_\_\_\_ at a better forecast than one.
- o In the Delphi \_\_\_\_\_, predictions are made secretly and then \_\_\_\_\_ together. The results of the first poll are sent to the \_\_\_\_\_ who are asked to respond with a \_\_\_\_\_ opinion. The process is repeated until a very \_\_\_\_\_, firm median is agreed upon.

o Advantages:

Can prevent \_\_\_\_\_ pressure and groupthink  
Can prevent forceful individuals from \_\_\_\_\_ others  
Can prevent time-\_\_\_\_\_ discussions or arguments  
Can gather \_\_\_\_\_ from those who won't \_\_\_\_\_ out in groups

o Disadvantages:

Takes a lot of \_\_\_\_\_ to complete \_\_\_\_\_ rounds of the process  
Can be \_\_\_\_\_

Methods of \_\_\_\_\_ Sales

Sales \_\_\_\_\_ composite

- o This method \_\_\_\_\_ opinions from the \_\_\_\_\_ force.
- o Each \_\_\_\_\_ forecasts his/her sales for a \_\_\_\_\_ period.
- o The sales \_\_\_\_\_ then adds those forecasts together to get the \_\_\_\_\_ force composite forecast for the period.

o Advantages:

\_\_\_\_\_ forecasts for individual \_\_\_\_\_ (The sales force works \_\_\_\_\_ with customers and understands the \_\_\_\_\_ for certain products.)

Higher sales \_\_\_\_\_ (When the sales force \_\_\_\_\_ its own sales, sales personnel are more \_\_\_\_\_ to achieve those \_\_\_\_\_ )

\_\_\_\_\_ to use

Provides \_\_\_\_\_ information

o Disadvantages:

Lacks a long-\_\_\_\_\_ view (The sales force may not have enough \_\_\_\_\_ about the company's future plans to \_\_\_\_\_ predict long- term sales.)

Sales force \_\_\_\_\_ due to having to take time away from \_\_\_\_\_ to prepare sales forecasts \_\_\_\_\_ that benefit sales force (A \_\_\_\_\_ may forecast sales \_\_\_\_\_ than s/he thinks can be \_\_\_\_\_ to be sure the \_\_\_\_\_ is met.)

Survey of buyer \_\_\_\_\_

o This \_\_\_\_\_ method gathers \_\_\_\_\_ about consumers' plans to \_\_\_\_\_ products.

o Analysts ask \_\_\_\_\_ (via telephone, \_\_\_\_\_ contact, or \_\_\_\_\_ ) what and how \_\_\_\_\_ they intend to \_\_\_\_\_ in the future.

o This \_\_\_\_\_ is \_\_\_\_\_ to create sales estimates for individual products.

o Then, these \_\_\_\_\_ are combined to forecast \_\_\_\_\_ sales for the company.

o Advantages:

Reasonably \_\_\_\_\_ forecasts (The forecasts are based on \_\_\_\_\_ received from actual users of the product.)

Easy to \_\_\_\_\_ costs (The way in which the \_\_\_\_\_ are administered is chosen by the \_\_\_\_\_ and can be very \_\_\_\_\_ .)

Outside \_\_\_\_\_ is available (For example, *The Quarterly \_\_\_\_\_ of Buying Intentions* publishes surveys of \_\_\_\_\_ buying i \_\_\_\_\_ obtained by the U.S. Bureau of the Census.)

Sales \_\_\_\_\_ : The Process

The steps to follow to \_\_\_\_\_ a sales forecast include:

1. Gather the \_\_\_\_\_ that you will use.

First, \_\_\_\_\_ at the past.

\_\_\_\_\_ sales figures for individual \_\_\_\_\_ or product lines and the \_\_\_\_\_ total sales figures.

Show whether \_\_\_\_\_ and overall sales have been \_\_\_\_\_ or decreasing.

Compare sales by \_\_\_\_\_ periods. Which times of the year usually have the \_\_\_\_\_ total sales?

Show sales trends for \_\_\_\_\_ products. For example, Target would look at \_\_\_\_\_ of shoes separately from sales of lamps.

Compare \_\_\_\_\_ forecasts of years past with \_\_\_\_\_ sales. Have the company's \_\_\_\_\_ techniques worked well or are there \_\_\_\_\_ to be made?

Note: If a \_\_\_\_\_ is new and does not have prior sales data to \_\_\_\_\_ , forecasters should study the past sales of similar businesses. This \_\_\_\_\_ is available from \_\_\_\_\_ publication, government reports, and \_\_\_\_\_ associations.

o Next, look at what is going on now.

\_\_\_\_\_ changes. These are changes \_\_\_\_\_ outside the business over which the \_\_\_\_\_ has no control but could have an affect on the \_\_\_\_\_ sales (e.g., a new law that \_\_\_\_\_ the time of day that a \_\_\_\_\_ may sell alcoholic beverages). Forecasters \_\_\_\_\_ collect information about \_\_\_\_\_ in such areas as:

i. The \_\_\_\_\_. Has the number of \_\_\_\_\_ increased or decreased? Are there new \_\_\_\_\_ activities that will \_\_\_\_\_ sales? For example, has a competitor dropped prices?

ii. The market. Have your \_\_\_\_\_ (or anything about them) changed? Is the \_\_\_\_\_ of your trading area changing? For example, has the \_\_\_\_\_ n which your store is located recently lost any stores?

iii. The \_\_\_\_\_. What is the state of the \_\_\_\_\_ in your market? In your state? Nation? The following \_\_\_\_\_ information is useful when preparing sales \_\_\_\_\_ : Gross national product, levels of personal income, \_\_\_\_\_ /unemployment numbers, \_\_\_\_\_ consumer spending, and total sales.

Internal \_\_\_\_\_. Changes that are going on within the \_\_\_\_\_ are under its control. Sales forecasters should \_\_\_\_\_ data about such types of \_\_\_\_\_ changes as:

i. \_\_\_\_\_ changes. Have there been changes in your \_\_\_\_\_ ? Product? \_\_\_\_\_ plan? How your product is \_\_\_\_\_ ?

ii. \_\_\_\_\_ changes. Examples of operational \_\_\_\_\_ include enlarging or \_\_\_\_\_ a business or adding a parking lot.

iii. \_\_\_\_\_ changes. Has the size of the sales force remained the same? Has \_\_\_\_\_ changed?

2. Determine the \_\_\_\_\_ by which your sales increased or \_\_\_\_\_ last year.

o Use the data that you \_\_\_\_\_ to determine your sales for the prior two years.

o Next, \_\_\_\_\_ the difference between the two \_\_\_\_\_ sales (i.e., subtract the first year's sales from last year's sales; if your answer is \_\_\_\_\_ your sales increased; if your answer is \_\_\_\_\_, your sales decreased).

3. Determine the \_\_\_\_\_ of increase or decrease.

o To \_\_\_\_\_ the percent of increase or decrease, divide the amount of \_\_\_\_\_ increase/decrease by the sales for the \_\_\_\_\_ year.

4. Add outside \_\_\_\_\_ of increases in sales for your \_\_\_\_\_ area from positive \_\_\_\_\_ forecasts, \_\_\_\_\_ growth, reduced competition, etc.

o For example, if experts are \_\_\_\_\_ that the economy and/or \_\_\_\_\_ will grow, add the percent of predicted \_\_\_\_\_ to the company's \_\_\_\_\_ of increase/decrease in sales.

5. Subtract \_\_\_\_\_ predictions of decreases in sales from negative \_\_\_\_\_ forecasts, reductions in population, increased \_\_\_\_\_, etc.

o For example, if you learn that a new \_\_\_\_\_ is expected to reduce your sales, \_\_\_\_\_ the percent of reduction in sales from your \_\_\_\_\_ percent of increase/decrease in sales.

6. Convert your final forecast \_\_\_\_\_ into a dollar figure.

o Multiply the percent of i \_\_\_\_\_ /decrease by last year's sales.

o If you \_\_\_\_\_ sales to increase, add your \_\_\_\_\_ to last year's sales. If you expect sales to decrease, subtract your answer from last \_\_\_\_\_ sales.

Note: Keep in mind that \_\_\_\_\_ your sales will be an inexact science. Don't rely too \_\_\_\_\_ on your \_\_\_\_\_. If you're going to err, err on the conservative side. It's better to be pleasantly surprised by higher than projected sales \_\_\_\_\_ being caught off-guard by lower than \_\_\_\_\_ sales.