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Business Plan: Sales Projection More Than Just a Number

When starting out, financial forecasts may seem overwhelming. We'll help you conquer the numbers with this easy-to-follow tips to forecasting revenues and expenses during startup.



A few years ago, while shopping for a gift for my wife (the details of which are a story for another day), I was assisted by Marcia (not her real name), the store manager. While helping me find the perfect gift, I complimented her on her knowledge of the products and the business. She quickly informed me, "Thanks. I plan to open my own boutique and I'm thoroughly invested in learning all I can while working here." I then let her know that I am an entrepreneur advisor and to contact me if she needed help getting the business started.

Two years later I received a call from Marcia. She was ready to start her business and asked if I would review her business plan, and I did. Marcia's plan looked and read great. She brilliantly identified the need her store met for the customers. The plan went on to explain why her business would be successful by highlighting her niche and differences from the competition. Her marketing and operations plan made sense. I was impressed.

While reviewing the financial projections, one issue caused me great concern - **her sales projections**. I asked Marcia how she arrived at her monthly sales figures, to which she replied, "My marketing plan. The digital marketing (i.e. social media, email marketing, etc.), incentives, offline advertising." I said, "I read that in your plan but that does not tell me how what has to happen sales wise to generate the numbers. Marcia gave me a quizzical look and uttered, "Hmmm...". I reassured her by saying, "Let me explain."

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The Sales Projection

One of the toughest aspects of starting a new business is projecting the number of sales you will generate. Expenses are fairly predictable. You know the cost of your rent, insurance, office supplies, utilities, etc. Even your cost of goods and the gross profit margin is easy to calculate. However, predicting how many people will walk through your doors and purchase is not as easy to identify. Those numbers are filled with uncertainty.

Here is one way to approach the challenge of forecasting sales for a new business.

You have a good idea about the cost of your operating expenses. In addition, you know your profit margin on the goods/services you sell. (profit margin is: $\text{price} - \text{cost of goods} = \text{gross profit amount}$; $\text{gross profit amount} \div \text{price} = \text{gross profit margin}$).

With this information, we can determine the amount in sales that have to be made to reach breakeven (breakeven is $\text{sales} = \text{operating expenses} + \text{cost of goods}$; to calculate breakeven: $\text{operating expenses} \div \text{gross profit margin} = \text{breakeven}$). So, let's base your sales forecast on what's required for the business to break even.

Note: You should produce multiple scenarios of your financial projections, i.e. best case, worst case, middle case and analyze their possibilities to arrive at what makes sense for your business.

Let's say that your operating expenses are \$125,000 annually and your gross profit margin is 52%, your breakeven is $\$125,000 \div 50\% = \$250,000$ which averages ***\$20,833.33 per month***. Now we need the amount of the average customer spends in your industry.

Conduct some research to identify the average spend (typical sources U.S. Census Bureau, American Buyers Demographics of Shopping, Google).

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In this example let's use \$25 per customer as the average spend. If the average spend is \$25 then you need 833 customers per month (***$\$20,833.33 \div \$25 = 833.33$ customers***).

You need 192 customers weekly (***$833 \times 12 \text{ mo.} = 9996 \div 52 \text{ weeks} = 192$***). Now you know what your business has to do to generate the sales you are projecting.

This information also contributes to your determining the kind of location that is best for your business. If your business is dependent on walk-in traffic, maybe you need to be in an area that has ample foot traffic, free parking, etc.

In summary, when projecting sales, you must have a roadmap to attain them. Do this when you start your business, make it a habit/routine in operating your business, and you will achieve success.

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