Sales & inventory forecasting for small business

Table of Contents

1.1 What is sales & inventory forecasting?

Sales and inventory forecasting are necessary tools for growing any business sustainably.

Project Business Growth	Plan for Demand	Superior Customer Experience
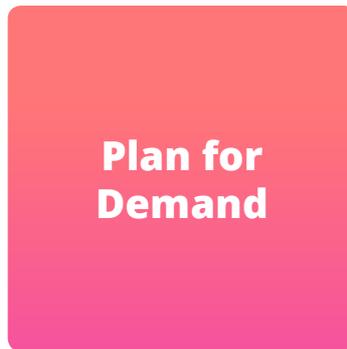
What is sales and inventory forecasting?

Sales forecasting is the process of making an informed estimation about your future level of sales over a defined period. Accurate sales forecasting is critical to smart business management, as it allows you to plan for demand and effectively manage cash flow and inventory.

Inventory forecasting is the process of predicting when and how much you'll need to order. It uses a combination of factors such as previous sales history, trends in sales and demand, and the average lead time for receiving new inventory to determine the optimal time to reorder stock.

1.2 Why is sales & inventory forecasting important?

Sales forecasting helps with business planning, budgeting, and goal setting. Once you have a good understanding of what your future sales could look like, you can begin to develop an informed procurement strategy to make sure your supply matches customer demand.

Through sales forecasting, you can also identify and rectify any kinks in the sales pipeline ahead of time to ensure your business performance remains robust throughout the entire period.

When it comes to inventory management, most eCommerce business owners know all too well that too little or too much inventory can be detrimental to operations. Buying too much inventory can have a significant negative effect on cash flow and earning potential, while having too little stock can mean customers are unable to make purchases, resulting in decreased sales.
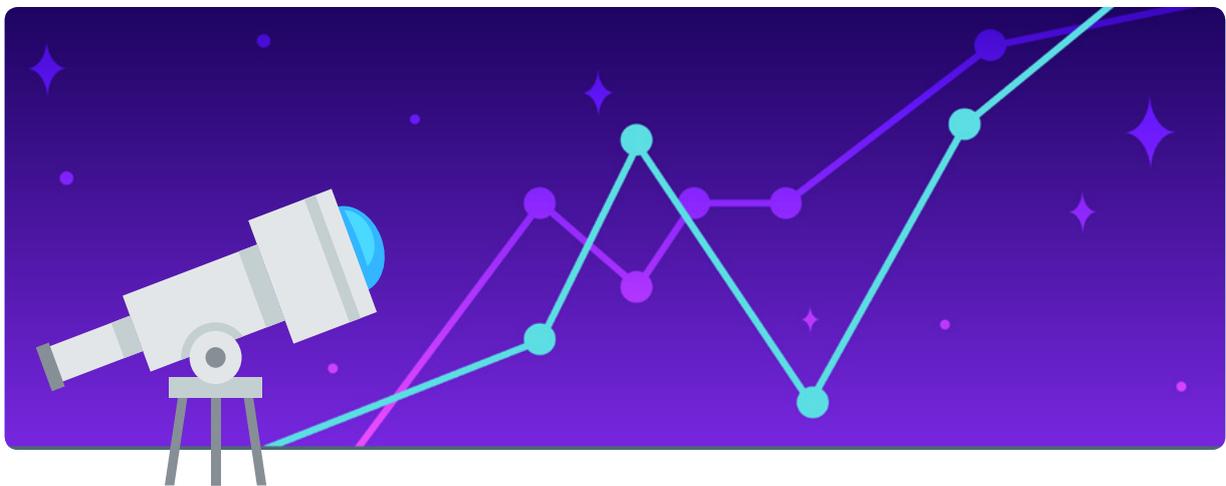
Accurate inventory forecasting can have a big impact on the inventory management process and makes sure stock levels remain at an optimal level. Keeping just enough inventory on hand can also reduce tax liabilities by lessening the amount that needs to be subtracted from deductible expenses – meaning you'll have more cash to invest back into your business.

Read more about growth hacking your business with sales and inventory forecasting.

2.1 How to start a sales forecast

Although the exact sales forecast process will be unique to your business, follow these four fundamental steps and you'll be on the right track to making accurate sales projections.

1 — **Write well-researched, relevant, and engaging content**
If you sell across more than one platform (on your website and Amazon, for example), you'll need to define each sales channel so that you can start to create a sales forecast that is accurate for each platform you sell on.

2 — **Use keywords wisely**
If you have accurate information on sales over the last year, start by using this data to make educated guesses about the level of sales you'll be making in the future. Take note of periods of seasonality or variability in sales that deviate from the norm. These become critical in planning for your future.

3 — **Use internal linking**
Although you won't have any previous sales data for new products you plan on introducing, it's worth looking to similar type products as a guide for how those new products may perform. For example, if you sold a printed t-shirt last year, you might use the historical sales data for that t-shirt to predict sales for a new t-shirt at a similar price point.

4 — **Optimize metadata**
Your sales forecast will allow you to plan more effectively if you include projections up to at least 12 months in advance.

2.2 Key sales forecast metrics

Once you have the basis for your sales forecast in place, you should define and track the following metrics over the entire forecast period:

1

Product sales

Number of each product sold on a monthly basis, per channel

2

New customers

Percentage of sales coming from new customers, per channel

3

Repeat customers

Percentage of sales coming from repeat customers, per channel

4

Monthly revenues

The total made from all products sold

5

Monthly cost of goods sold

The total cost to you of all products sold

6

Monthly gross margin

Monthly revenue minus monthly cost of goods sold

To make life easier, consider using a forecasting model like TradeGecko's free Sales & Inventory Forecast Template, which automatically populates total sales revenues and margins based on your initial sales-per-product inputs. This valuable template saves time and ensures the data you're seeing is accurate – plus it generates graphed reports to make understanding the data easier.

2.1 How to start a sales forecast

With inventory forecasting, you can begin to build a procurement strategy so that you have just enough stock on hand to meet sales demand – resulting in a high inventory turnover rate and low inventory holding cost.

Define your base demand

Planning for inventory relies on knowing how many sales you can expect to make in the future. Once you have your base sales data in place, start by determining the number of products you'll need in stock to meet demand.

Identify upcoming trends

Look to the past period's inventory fluctuations, including any stock-out or overstock periods, and take note of any likely future variability in inventory.

Determine your product lead time

To make sure you have enough stock on hand when a sale is made, work out how long it takes for you to receive stock after a purchase order is made.

Calculate your reorder point

Use the reorder point formula to calculate exactly when it's time to place an order for a new shipment of products.

2.4 Key inventory forecast metrics

Along with your sales forecast metrics, you should also outline and track the following inventory metrics:

1
Product lead time
The number of months it takes from placing a purchase order to being ready to sell each product

2
Sales period
How many months of sales are expected from each product

3
Costs paid per purchase
What percentage of the costs of products are paid when a purchase order is placed

4
Days payable
How many days you have to pay the remainder of the unpaid inventory costs

5
Stock levels
The amount of each product you need to keep in stock, based on sales forecasts*

6
Purchase costs
The cash needed to make purchases*

*TradeGecko's inventory and sales forecast tool automatically populates appropriate inventory purchases and the cash required to make those purchases based on your data from the first four metrics.

3.1 What is demand forecasting?

Smart demand forecasting can have a significant positive impact on the operations, reputation, and sales of any business.

Demand forecasting refers to making estimations about future customer demand using historical data and other information. Proper demand forecasting gives businesses valuable information about their potential in their current market and other markets, so that managers can make informed decisions about pricing, business growth strategies, and market potential. Without demand forecasting, businesses risk making poor decisions about their products and target markets.
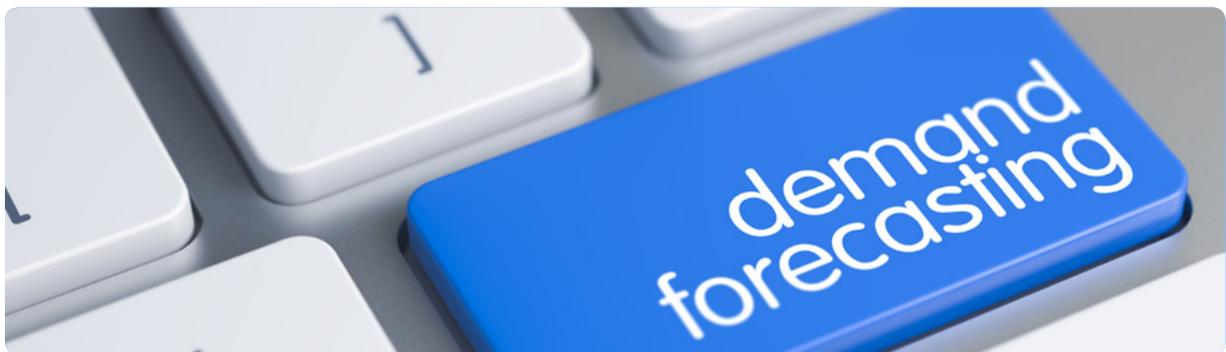
Why is demand forecasting important for businesses?

- It allows businesses to more effectively optimize inventory, increasing turnover rates and reducing holding costs.
- It provides insight into upcoming cash flow, meaning businesses can more accurately budget to pay suppliers and other operational costs.
- Anticipating demand means knowing when to increase staff and other resources to keep operations running smoothly during peak periods.

3.2 Types of demand forecasting

Most demand forecasting techniques fall into one of three basic categories:

Qualitative forecasting

Qualitative forecasting techniques are used when there isn't a lot of data available to work with, such as for a relatively new business or when a product is introduced to the market. In this instance, other information such as expert opinions, market research, and comparative analyses are used to form quantitative estimates about demand.

Time series analysis

When historical data is available for a product or product line and trends are clear, businesses tend to use the time series analysis approach to demand forecasting. A time series analysis is useful for identifying seasonal fluctuations in demand, cyclical patterns, and key sales trends.

The time series analysis approach is most effective when used by well-established businesses who have several years' worth of data to work from and relatively stable trend patterns.

Causal models

The causal model is the most sophisticated and complex forecasting tool for businesses because it uses specific information about relationships between variables affecting demand in the market, such as competitors, economic forces, and other socioeconomic factors. As with time series analysis, historical data is key to creating a causal model forecast.

Read more about demand forecasting and how it can help your business.

4.1 Forecasting case studies: Successes

IKEA

IKEA's inventory management strategy relies on a proprietary inventory system that provides logistics managers with point-of-sale (POS) data and warehouse management system data. IKEA's strategy outlines how much inventory comes into the store through direct shipping and from distribution centers. From this information, the logistics manager can accurately forecast sales for the following couple of days and order products to meet the expected demand. If the sales data doesn't align with the project turnover for that day, the manager manually counts the products in stock.

Here, we can see an excellent example of forecasting technology aiding business logistics, with a manual process acting as a safety net to ensure complete accuracy.

Zara

Zara's just-in-time production approach means they design, manufacture, distribute, and sell clothes within a two-week period. They keep a large amount of production in-house, so they can be more flexible in their production cycle and control more of the supply chain and manufacturing process than competitors.

So, how do they manage such an efficient production cycle? Sales and customer feedback data is sent back to Zara designers as soon as it's received so that adjustments can be made quickly and in line with customer demand. Zara also have extra labor capacity at all times so that they can meet demand as it shifts – supporting the company's lean inventory management approach.

4.2 Forecasting case studies: Failures

Walmart

With over 11,000 stores in 27 countries and an average of $32 billion in inventory, Walmart's supply chain is understandably complex. But while their logistics are known for being precise and technologically advanced, in 2013 they also developed a reputation for having a serious in-store out-of-stock problem

Walmart's lack of stock on shelves was attributed to mismanaged inventory – meaning stock was available in warehouses, but there wasn't enough staff on hand to move it to the shelves. In this instance, cost-cutting measures resulted in a negative customer experience for many, which is something that could have been avoided by properly forecasting demand.

Nike

In 2001, Nike installed demand-planning software without adequate testing, resulting in an overstock of low-selling shoes and not enough stock of the popular Air Jordans. This ended up costing Nike $100 million worth of sales

In this case, Nike lost out by trying to implement a new system too quickly. While demand and forecasting technology is essential for predicting sales and managing inventory, any new system should go through rigorous testing before being rolled out.

4.3 Common supply and demand issues
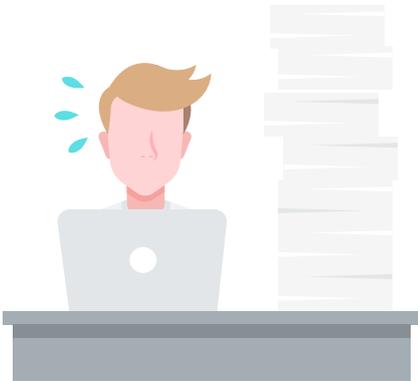
Understaffing

If you haven't adequately forecasted sales and accounted for peak sales periods, there's a good chance you'll be left understaffed in-store, at the warehouse, or providing customer service online. Having too few staff on hand means a poor customer experience and disruption of the fulfillment process.

Incorrectly budgeting for operations

It's difficult to budget for operational spending without adequate forecasting. If you do experience an unexpected surge in sales, it's likely you won't have the operational facilities in place to meet demand.

Loss of credibility

Above all, poor sales forecasting and inventory planning can have a significant negative impact on the credibility of a business. If you're unable to meet demand, you'll deliver an unsatisfactory (or negative) customer experience, which in turn leads to lost sales down the line.

5.1 Sales & inventory forecasting tools

Most eCommerce businesses' sales are impacted by a number of factors that can complicate simple forecasting methods.

Utilizing a customizable template like TradeGecko's Sales and Inventory Forecast Model allows you to input the necessary data ahead of time, with all the forecasting calculations done for you.

From here, you can forecast sales, costs, and revenue in one place, as well as project your sales by channel, so you can determine where to focus your marketing efforts and other investments. Taking the manual processes out of forecasting leaves less room for error and frees you up to start planning for the future.

Using a dedicated forecasting tool, you'll also be able to project inventory levels over a defined period and make adjustments along the way. Being diligent about tracking and predicting inventory means you can purchase new inventory with confidence and keep stock levels at appropriate levels year-round.
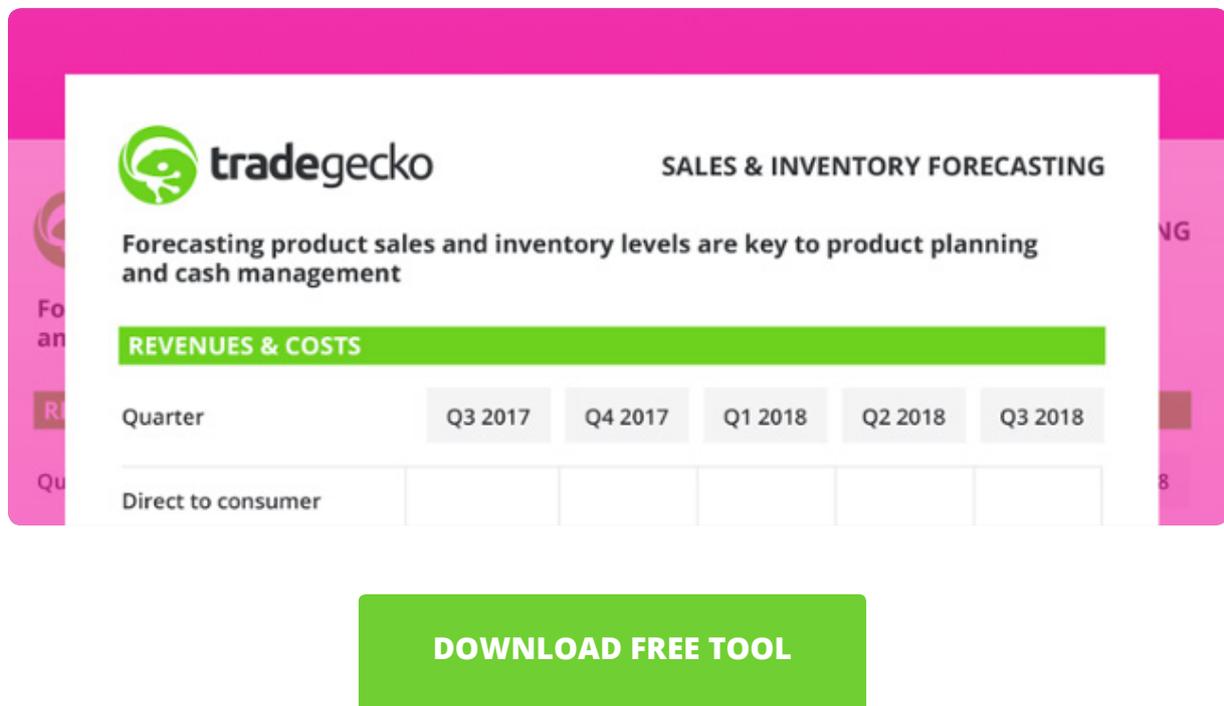
**DOWNLOAD FREE TOOL**

Powerful **inventory and order management software** to take control of your business!
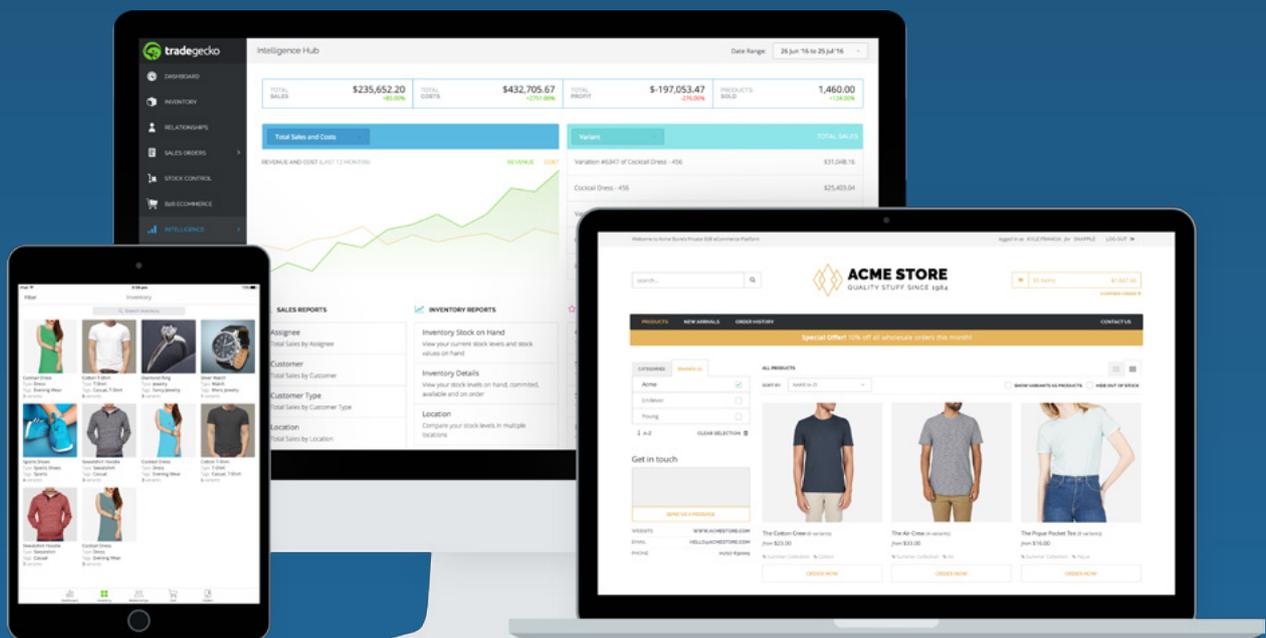
About TradeGecko | tradegecko.com

Founded in 2012, TradeGecko is a cloud-based inventory and order management platform for SMEs, serving B2B wholesalers, distributors and eCommerce businesses. TradeGecko now has a global customer base in over 90 countries serviced from their offices in Singapore, Canada and the Philippines.