



Making Sense: Sales Forecasting

Forecasting sales for any business is an art, not a science, but is a critical discipline that business owners, in collaboration with the CFO, use to create operating plans and make informed management decisions. Sales forecasts estimate future sales volumes over a specified period of time, and they are essential to tracking and managing company performance. The sales forecast is the starting point for the operating budget that drives capacity planning, production, direct materials investments, labor investments, capital budgets, and more. As Jim McKinney of FocusCFO states “Forecasts help to shape and drive the implementation of the company’s strategy. Forecasts should be monitored and compared to actual results as the company’s future strategies are planned and implemented.”

Know Thy Best Customers

The CFO begins the forecast by evaluating the company’s best customers. Using KPIs for the business, a definition of the company’s ideal customer can be created based on acquisition and maintenance costs, longevity, growth potential, overall profitability, or other factors.

Understand Your Market

The sales and marketing plan should consider the market size of these ideal customers and other targeted segments of customers, how and where to reach them, and how much can be spent on sales and marketing efforts. This information will help to create an estimate of how many new customers can be acquired in a given time frame. When considering the sales and marketing budget, assumptions will have to be made about how much it will cost to acquire each customer. For example, if it takes \$1 of marketing and sales to acquire one customer, how many customers will potentially be acquired over a period of time based on the amount of resources available? The plan and the forecasts should also

differentiate between the number of customers the business *wants*, and the customers the business will be able to *win*.

Projecting Sales

Next, the CFO will analyze the mix of products and services these customers will buy, and how much revenue will be generated from each customer from different sources:

- New Business
- Up-Selling
- Retention/Contract renewals
- Cross-Selling different products
- Referrals

By projecting the number of current customers and potential new customers who will buy products, and how much revenue each customer is expected to generate, the foundation of a sales forecast can be created.

Sales forecasts also must be based on historical trends and current initiatives, as well as external factors, such as market and industry trends. Seasonal factors that influence buying patterns need to be considered as well, in addition to the general buying behavior of customers.

Forecast Modeling

The CFO can use systems and processes that will streamline the analysis of all these factors and create a sales forecasting model specific to the business. Models can also be built to create balance sheet and cash flow projections. Effective forecasting provides key leadership insights that will drive strategic management decisions throughout the year.

About FocusCFO:

Founded in 2001, FocusCFO is a leading fractional CFO services provider, with more than 100 CFOs and Area Presidents serving clients throughout Ohio, Michigan, Pennsylvania, Kentucky, Indiana, North Carolina, Tennessee and West Virginia. FocusCFO works closely with small to medium sized businesses, helping business owners gain control over three key financial and operational areas: increasing cash flow, reducing business risk, and creating a platform for scalable growth. This allows business owners to then realize full financial control and increased value in their businesses. FocusCFO provides services on a fractional basis, meaning clients get all the advantages of a full-time, seasoned CFO under terms that are flexible, affordable and within each client's budget. What really sets Focus CFO apart is their CFOs work exclusively onsite at the client's office under a recurring schedule. Typically, engagements range from two days a month to several days per week, and many clients are in the \$2 to 6 million revenue range when they initially engage with FocusCFO.

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