***Forecasting revenue***

Forecasting revenue can be harder than forecasting costs, as it’s more dependent on other peoples’ decisions. But there are various approaches we can take.

**Forecasting revenue by customer**

In a business with relatively few customers (I have about 20) we can forecast sales customer by customer. This will be based on a detailed understanding of our customers’ current and future needs and situation. For example, I know that if a client is having financial difficulties, then training is one of the first budgets to be cut (whatever specific training needs have been identified).

**Forecasting by product**

This approach is based on understanding overall customer demand for our individual products. A car manufacturer, for example, will have a few different models being sold to many customers. But understanding customer requirements and trends can help predict the relative demand for small cars versus larger ones; petrol versus diesel versus electric; estates versus hatchbacks. Understanding these trends can lead to a reliable forecast of demand.

**Extrapolating historic demand**

A supermarket – with tens of thousands of product lines and customers – may find historic demand to be the best guide to the future. But this extrapolation can be strengthened by loyalty card data that gives specific customer information. And a supermarket’s POS data gives very detailed information about the daily, weekly and annual seasonality of demand for different products.

But when extrapolating historic demand, the supermarket must also take into account the impact of competition from competitor (eg Aldi & Lidl). More locally, what impact will the closure of a big employer, or the building of a large new housing development have?

**Understanding…**

Typically businesses will use all of these approaches, and more. But the common denominator with all of them is understanding. Understanding what’s happening to our customers; our product; and our local area (however large or small that may be!). without that understanding, forecasting is a best guess, or an optimistic hope.

**External factors**

It’s important to think about external factors when forecasting revenue. What impact will our competitors have on our revenue? What about the ups and downs of the world economy, or government policy? What impact will the latest big insolvency or business closure have on their suppliers and employees: our customers?

**Glass half full or half empty?**

We also need to know how reliable our revenue forecasts have been in the past. Is it usually optimistic, pessimistic or realistic? Remember that sales forecasts are usually put together by the sales team (obviously!), and sales people tend to be optimistic by nature…

**If it looks too good to be true!**

If it looks too good to be true, it probably isn’t true. Never be misled by the thought that next year will “be our best year ever”.

**Joined together thinking**

Make sure the sales forecast is linked in to other elements of the budget. If the sales forecast shows 10,000 units being sold, but the production budget only accounts for 9,000 units being manufactured, we have a problem! What are the marketing implications for selling 10,000 units, and are they reflected in the marketing budget?