What’s a Sales Budget For?

Using Past Performance Data to Project For What’s Ahead
Is the Recommended Way to Keep a Business Healthy

By: Joseph Arkin, M.B.A.

A sales budget or a sales forecast, based on past experiences, present conditions, and changes which have been material in the past, is an essential element in proper sales planning for a construction company.

To bring this important aspect of selling to you, we have interviewed Irving Sherman, noted sales consultant.

ARKIN: What is a forecast?
SHERMAN: A forecast is distinguished from ordinary guesswork regarding business or sales volume by the extent to which carefully analyzed and interpreted information is made the basis for planning.

ARKIN: What are the component parts of the sales budget that determine the background for forecasting sales?
SHERMAN: The sales forecast for a wall and ceiling contractor would consist of the following:
1—Sales by product lines. This is in the form of a breakdown of each product or services so that each one of the products or species of services may be planned.
2—Sales figures, given in units rather than dollars, since bids and prices change, but units remain stable. Units also lend themselves more suitably for inventory control.
3—Sales by territories. This is for the
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purpose of controlling the sales effort if the contractor travels much and the facts also aid in determining the general business conditions in the respective areas.  
4—Sales by the month, quarter, or by some other part time period for comparison.
5—Sales according to accounts. Products and services sold at different prices to old customers, new customers, architects, general contractors in order to arrive at expected income and cash receipts. This category is also necessary for the purpose of evaluating the advisability of continuing sales efforts to each customer class.  
ARKIN: What intangible factors must be estimated before measurable data is complete for the sales forecast?  
SHERMAN: The intangibles that must be calculated are as follows:  
a—long range trend: Prosperity, depression.
b—Cyclical movements: Inflation, deflation.
c—Seasonal patterns: Spring, fall sales, etc.

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SHERMAN: The first task is to develop a seasonal index figure for each quarter of the year so as to cover all contingencies in the products or services. This figure will give us the percent of quarter sales as compared with an average quarter. For example:
To state the sale of all first quarters for a period of years, we take a percentage of the average quarterly sales for the same years and then repeat the same calculation for each quarter. Assuming that the sales periods are available for a ten year period, we then proceed:

1.—Total of sales for entire 10 years.
2.—Divide total by 40 to determine average monthly sales.
3.—Total of ten figures for First Quarter sales.
4.—Divide total of First Quarter sales by 10 to determine average First Quarter sales figure.
5.—Divide the average First Quarter figure by the average First Quarter figure to determine the First Quarter percentage based on the overall First Quarter average.

ARKIN: What is usually considered the most difficult part of any sales forecast? How can this difficulty be overcome?
SHERMAN: The most difficult part of any sales forecast in sales budgeting is arriving at a forecast of the general business condition for the budget period. At best we fall short of positive trends. In order to get around this difficulty, most who do forecasting collect all forecasts plus available statistics and with these as bases proceed to the determination of the economic future.

ARKIN: What is the analytical method of forecasting? How does this differ from forecasting generally?
SHERMAN: By the analytical method of forecasting we mean forecasting that extends beyond the bare statistics of visible trends. By this method we resort to the application of judgement or analyses, which we apply to the known facts, hoping thus to approximate the actual future.

ARKIN: What relation does sales planning bear to sales forecasting? Are they different? If so, in what respects?
SHERMAN: In forecasting sales the net effect of all possible changes must be appraised. This includes changes in product or services, in customers and territories, bidding or negotiating, change orders, prices, etc. In planning sales the chore is similar with the exception that, while the comptroller or the fiscal officers of a company are best qualified to inspect and interpret the forecast in terms of the effect on the finances of the company, the contractor is best qualified to interpret it in terms of sales policies and actual volume.

ARKIN: What part, if any, do employees’ estimates of business play in forecasting?
SHERMAN: A very big part. Estimates by employees such as estimators, salesmen, supers, of probable sales volume are very valuable additions to the statistical method of computing future sales. The forecaster charged with drawing up the sales budget summarizes these estimates and works them into the forecast, according to past experiences for the territories as given.

A word of caution: It is recommended that none of these estimates be taken at their face value. The estimates should be stripped “down to the waist” before being entered into the calculations.

ARKIN: Forecasting, as you have explained it, seems based mostly on past experiences. How sound is this? What about the potential of a business, its ability to grow? How about the future of an area just opened up? Doesn’t all this have a place in sales forecasting?
SHERMAN: Surely. These factors are important elements in the calculations. The forecast is not tied to past performances only, as was pointed out previously. A contracting company must look forward, not backward. Forecasting is a major, creative task in which not only the sales manager but all executives as well as other personnel must participate.