Estimating turnover/sales – An Exercise

Many new entrepreneurs are faced with the problem of drawing up a cash flow projection for their new venture and ask the question, 'how am I supposed to see a year into the future?' A legitimate question! We provide a "Financial Projections – a 'how to guide'" from our blog if you want more details (see http://startyourownbusinessblog.wordpress.com on our 'Resources' page). This short exercise is an extract from the 'how to guide' and covers how to project your first year total sales or turnover.

This is usually the part of the process with which people have the most difficulty, so let's get it done and dusted at the start. Every business has a business cycle. You need to understand this early. Even retail have high and low months, believe it or not event the Revenue Commissioners have busy and slow months. If you do not know your business cycle, then you are at a serious disadvantage in planning your business.

To start let us assume that there are good, bad, average and closed weeks in any year. This is the first thing we need to estimate. So in year one, there are going to be four types of week, try and estimate what the total sales/turnover (this is nothing to do with overheads) will be in each type of week:

Type of week	€/£/$
Good (a G week)	
Bad (a B week)	
Average (an A week)	
Closed (a C week) (up to 4 weeks)	0

Having done the first part of the exercise we now work out the business cycle. The following is a weekly planner for your first year. Each box represents a week and remember that four months have 5 weeks in them as there are 13 weeks in a quarter. Follow the exercise below:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Week 1												
Week 2												
Week 3												
Week 4												
Week 5												

Step 1 - Now insert a letter (G, B, A, C) into each box, so that the corresponding week in the calendar is represent by the letter most appropriate, a G if you believe that this will be a good week, an A for an average week, a B for a bad week and a C for a closed week. A tip: write the letter small; don't use up the whole box.

Step 2 – Now place the figure you estimated for a good, bad, average and closed week into the corresponding boxes.

Step 3 – add up the monthly figures and put them into the following table

Month	**€**
January	
February	
March	
April	
May	
June	
July	
August	
September	
October	
November	
December	
Total	

Congratulations, you now have your first year projected sales figure, and your monthly sales figures for your cash flow projections.

Now there are usually only a few reactions to the outcomes of this exercise.

1. The sales figure is less than you had expected. If this is you, then be comforted that this is the majority reaction. Most people overestimate their turnover in the early years. This is why many people get into cash flow difficulty. You now need to look at your sales figures. Are you charging too little for your good or service? How much volume of sales do you actually need to breakeven? We will cover these questions later.
2. The sales figure is about what you expected. Usually people who have done the most market research, or have worked in the trade, have a good picture of sales. Do not get too smug, projecting and delivering are two different things. Check your figures regularly.
3. Only a seldom few find that they have underestimated their sales. Usually they have overestimated their sales figures, so go back and check your figures again.

A last word on the subject of projecting income. Many businesses might have several lines of income, for example, as a consultant I would have management consulting, business advice and training as my main lines. Each one has a different profile so I would do the exercise above for each income stream and then have each itemised as a line in my cash flow. The total income being an aggregate of the different income streams. So, do the exercise for each sub income you have and then build up the total income by adding up your different income streams.

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