Forecasts are used in the proforma financial statements to project revenues, expenses and cash flow.

If forecasts are unrealistic, then the proforma financial projections will be unrealistic. Consequently you want your forecasts to be as accurate as possible.

To develop an accurate forecast model you will need to understand your customers' needs and analyze your competitors' strategies. To begin you need to determine how big the market will be for the upcoming year.

In the Situation Analysis, you worked out how to determine customer demand for each market segment. The statistics boxes in last year's Courier give you the total industry unit demand for last year as well as the segment growth rate for the current year. <for Capstone>

In the Situation Analysis, you worked out how to determine customer demand for each market segment. The statistics boxes in last year's Fasttrack give you the total industry unit demand for last year as well as the segment growth rate for the current year. <for Foundation>

To calculate next years' Customer Demand, multiply last year's total demand by this year's growth rate. Suppose last year's total industry unit demand is 5 million units and the segment growth rate is ten percent. Multiply 5 million by ten percent and you get 500 thousand.

Take that number, add it to the original total unit industry demand of 5 million and you get the total segment demand for the upcoming round which will be 5.5 million units.

How much of that demand will your products capture? A common mistake is to assume that all the products are identical. If there were five products in that segment-then each product could expect one fifth of the demand or 1.1 million units. However, all the products are not the same, are they?

A more accurate forecast would be the "all things equal" method. Start with your company's sales number for last year and multiply it by this year's growth rate. Add the result to last year's sales.

This method says, "All things being equal to last year, this is what we expect to sell this year."

There are however, a few catches to this model. Did you miss out on sales last year because you under produced and stocked out? Did competitors lose sales for the same reason?

To find out what an out of stock product could have sold, go to the Market Share report. Multiply last year's segment demand by the potential sales percentage.

Can we assume that last year's products will be relatively similar to this year's products? Not at all.

Prices will adjust…product revisions will complete…the playing field will change.

Still, this number can be a good beginning as you assess your product's sales forecast for the coming year.

Now looking at the segment analysis pages, the Perceptual Map shows where all the products are placed.

Are your competitor's products better positioned?

You need to ask yourself some key questions about your product and your competitors' products. Does your product satisfy customer age demands? Is the MTBF near the top of the range?

Will pricing trends continue or will new automation allow a competitor to drop prices?

Are your awareness and accessibly percentages leading the market, keeping pace with, or falling behind the competitors?

All of these factors contribute to your product's monthly customer survey score. The customer survey score reflects how your products are perceived by customers. The higher the score, the higher customers rank the product.

The customer survey score can be a very valuable tool for building an accurate forecast. Lets explore this model in more detail.

If there are four products with the December score of 32, 28, 22, and 14, assuming that there are no stock outs, the top selling product will be the one with the score of 32.

How much of the total market will that product take? To start, normalize the numbers by taking the sum of the four scores, which is 96. The top product will then take 32 divided by 96 of all the sales…or 33 percent. How much will the product with the score of 14 take? 14 divided by 96 is roughly 15 percent.

So how well will your product sell in the upcoming year? Scores change from month to month, segments drift, products age, and products might be revised.

To help reduce the risk a worst case/best case approach can help prepare for a range of possibilities.

The worst case is a pessimistic view. For example you might say "Although we have adjusted the product's age, position, and price, we think our competitors aggressive sales and promo budgets will continue and our sales will be 90 percent of last year. "

The Best Case is your optimistic view. Here you might say "To turn a profit, competitors will have to pull back on their aggressive spending on accessibility and awareness. Or they will have to hike their prices. We think our sales will be 120 percent of last year. "

In the Marketing area, let's enter the pessimistic forecast…and in the Production area let's enter a schedule that reflects the optimistic forecast. The proformas will anticipate an inventory buildup because your production schedule is greater than your forecast. Adjust your financial entries to reflect a positive cash amount at the end of the year.

This way, if your pessimistic forecast comes true, you will not run out of cash. You are preparing for an inventory buildup.

If the optimistic forecast comes true, you will not miss sales opportunities. Your optimistic production schedule will give you enough inventory to meet demand.

<pause>
Good Luck