

International Business Development by Xavier Delcourt

Sales Forecasting



Forecasting methods

1. You want to recover your costs within x years, you define your price / volume to achieve that. What if there is no market to support your cost structure? Or you will not be competitive?
2. You plan to capture % of the available market in x years, this will define your cost structure (method used in this example).

You will need good market research data!

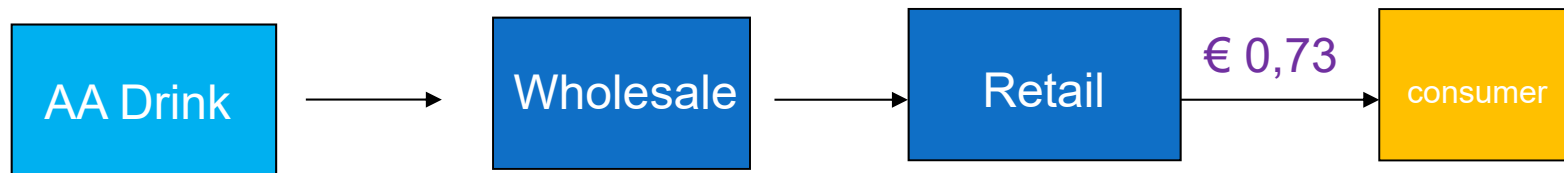
Forecasting will require you to make some assumptions!

Example: selling sports drink

- We produce and sell AA Drink to male consumers in France via Carrefour.
- A standard 4-pack AA Drink is priced € 3,55 retail.
- What is our net sales price and what is our revenue?



Calculating Retail net price



Retail price: € 3,55 (V.A.T. is 21%)
 Net revenue: $3,55 / 1,21 = € 2,93$ (4-pack)
 Net revenue per 50 cl bottle = € 0,73

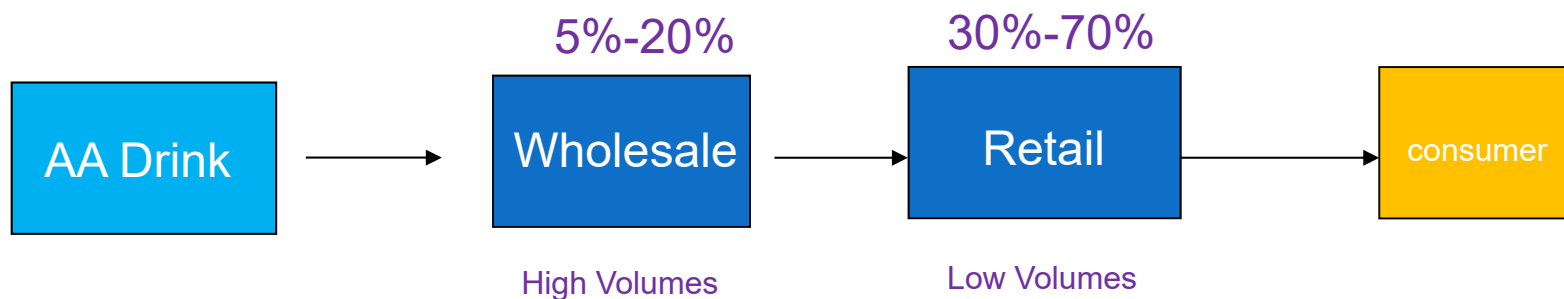


Rule of thumb: channel margins

1. The closer to the consumer the higher the margin.
2. The closer to the manufacturer the higher the volumes.
3. The more pull for a product (=more brand awareness), the less margin in retail.



How much margin in the channel?



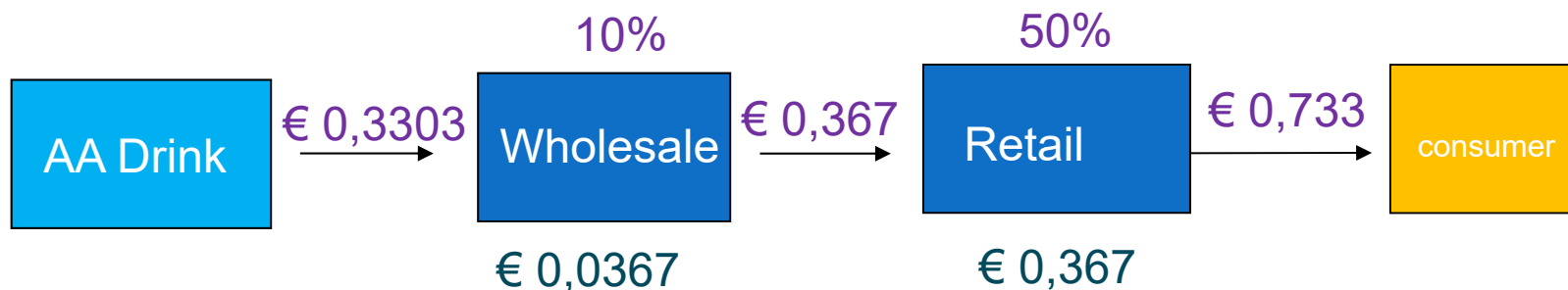
We don't take into account e-Commerce channel structures

How much value/margin in the channel for AA Drink

- We try to develop a new market in France, our brand awareness is low, we need to incentivise (=high margin) the channel to distribute our brand, or we need to generate a massive pull at the consumer level (=MarCom).
- It is difficult to force margin levels in the channel, the only price you can try to influence is the retail price.
- Let's **assume** retail will need **50%** gross margin, wholesale **10%**.



How much margin in the channel



Retail price: 3,55

Retail revenue: $3,55/1,21 = 2,93$ (4-pack)

Retail revenue per 50 cl bottle = 0,73

Wholesale sales price to retail = $0,733 * 50\% = 0,367$

Wholesale margin = 10%, so they need a purchase at $0,367 * 0,10 - 0,367 = 0,3303$

AA Drink factory sells to wholesale = 0,3303 per 50 cl bottle

(all in €)

Margin calculation

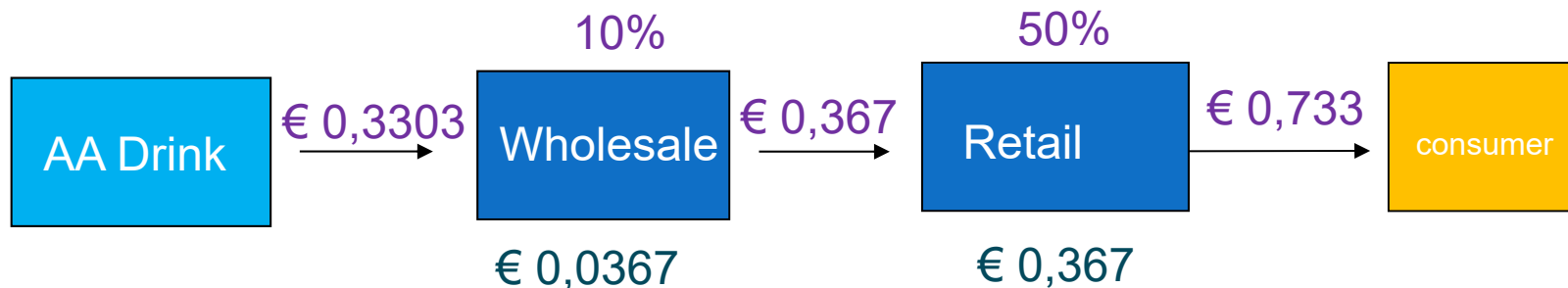
- Margin Formulas/Calculations:
 - The gross margin GM (or gross profit) is the difference between the cost (C) to make/buy a product and the net selling price (without V.A.T.) or revenue (R)
 - $GM = R - C$
 - The mark up percentage (M) is the gross margin (GM) divided by the cost (C) to make the product
 - $M = GM / C = (R - C) / C$
 - The gross margin percentage (GM%) is the gross margin (GM) divided by the selling price (without V.A.T.) or revenue (R)
 - $GM\% = GM / R = (R - C) / R$

How much revenue for AA Drink?



- France counts 30 milj. men.
- 5 milj. are in our target group: age 15 to 35 years.
- 10% of this target group is active (into sport of any kind).
- 50% is drinking 1 bottle of 50 cl per sport session (average user).
- This target group practices sports 2 times a week (lifestyle).
- Let's **assume** that we can achieve a market share of **10% in units within 3 years** (1% first year, 5% second year, 10% third year). So, 1 out of 10 males will choose AA Drink within 3 years when practicing a sport of any kind.

Revenue forecast for AA Drink



AA Drink factory generates € 0,3303 revenue per bottle of 50 cl.

Total market 50 cl bottles per year:

5 milj. * 10% * 50% * 2 * 52 = 26 milj. bottles per year total potential

Our 50 cl bottle share in this target group: Our revenue in this target group:

Year 1 = 26 milj. * 1% = 260.000

Year 1 = 260.000 * 0,3303 = 85.878 €

Year 2 = 26 milj. * 5% = 1.300.000

Year 2 = 1.300.000 * 0,3303 = 429.390 €

Year 3 = 26 milj. * 10% = 2.600.000


Year 3 = 2.600.000 * 0,3303 = 858.780 €

Forecasting

1. Watch out, street value/retail value is plus V.A.T.
2. You will need to make **basic assumptions**. Discuss these assumptions first with your management, then start calculating your forecast.
3. You will need market research data.
4. The more research data (time) and the less **basic assumptions (better preparation)** the more accurate the forecast will be.
5. At the start of your Business Development project, you will make more **assumptions** than you will rely on market research data.
6. Forecasting will need to be reviewed on a regular basis at the start of your business (monthly). After a number of years the forecast gets easier because the volumes will be higher and hopefully more stable.
7. Project (B2B) Business will be more difficult to forecast than consumer business through distribution channels or e-Commerce.
8. Having agreements with wholesale or retail can help to better forecast, offer back-end rebates and request contractual commitment.

Forecasting

Let's look at the Excel Template

	Assumptions			
	WholeSale Margin	10%	year 1 penetration	1%
	Retail Margin	50%	year 2 penetration	5%
			year 3 penetration	10%
	Market Research data			
	number of males	30000000		
	15-35 years	5000000	sport active	10%
	36-45 years	7000000	sport active	5%
	46-55 years	4000000	sport active	25%
	retail price 4-pack 50ml	€ 3,55		
	V.A.T. sports drink	21%		
	Calculations			
	net sales price retail 4-pack	€ 2,934		
	net sales price retail 50 ml	€ 0,733		
	purchase price retail	€ 0,367		
	margin retail	€ 0,367		
	purchase price wholesale	€ 0,330		
	margin wholesale	€ 0,037		

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Forecasting

