

Every Business with Inventory Needs Forecasting - How to Get Started

As a Shopify Entrepreneur, inventory is probably your greatest asset. But, it can turn into a liability if not managed correctly. That's where forecasting comes in. With good forecasting, a company can maximize sales, reduce markdowns and improve cash flow.

Forecasting provides a plan. Strategic adjustments can be made for what is and isn't working so that goals can be achieved.

If you currently don't have forecasting, here are some steps to get you started:

- **It is imperative to use Clean and Accurate Data.** You don't want "Garbage In, Garbage Out." It is important that all your sales and inventory records are accurate and that all your products are categorized in a meaningful hierarchy so you can analyze your assortment. Variants should be assigned to all items so that like items can be grouped together according to their selling features and analysis can be performed.
- **Determine your sales curves.** Time Series Analysis is the best method to predict future selling. It is based on sales history for a product or category – data points are indexed in time order. Each week is given a value in relation to other weeks of the year. Items with similar selling curves can be grouped together. Your company can have many different sales curves: the key is to determine what are the correct attributes to use to determine these curves. For example, it could be seasonality (winter vs. summer).
- **Determine a Starting Forecast for each SKU.** You could start with Last Year, but then make adjustments. Some factors to consider: marketing efforts (planned increase or decrease), new competition, past missed sales due to stock-outs.
- **You are then ready to begin analyzing current trends against your starting forecast.** Using recent sales history (last 4-8 weeks, for example), you can project future sales based on each item's sales curve. You may need to adjust your forecast.
- **Compare that to the inventory you have on hand and on order.** Do you have enough inventory to cover future sales? Do you have too much? Once future sales are projected, you can pull different levers to ensure profitability is maximized. For example, if you are understocked, you can place more orders or raise prices to slow demand. If you are overstocked, you can try to cancel purchase orders or add marketing and lower prices.

For more information about forecasting and the benefits it can provide to your Shopify Store, contact the industry experts at **[basic-code]™**.

We can help you take your business to the next level!

