

Sales Forecasting: A Guide for Distillers

Sales forecasting is one of the most important activities for any business, especially in the spirits industry. It affects operations, customers, and partnerships. Without a reliable sales forecast, your business might drift along without clear direction, missing opportunities to be efficient and successful.

While it may not be an 'operations' job and something that's in the remit of finance / sales personnel – It's an important area to understand.

Continuing from what is covered in the Distillery Operations course, this guide is intended as 'refresher' reading and is tailored to help distillery operators understand the basics of sales forecasting. We cover why it's important, and how they can get involved to improve the overall process.

What is sales forecasting?

A sales forecast is a prediction of how much you will sell over a certain period. It helps set important goals for your business and informs many operational decisions. The aim of a forecast isn't to be perfectly accurate - it's about managing the risks involved when actual sales differ from expectations.

If your forecast is too optimistic, you could end up with too much inventory, tying up resources and creating waste. On the other hand, if you're too cautious, you might run out of stock, lose customers, and miss out on potential revenue.

A balanced forecast helps operations run smoothly, ensuring that production schedules are efficient, and resources are used wisely.

Sales forecasting also provides insights into customer demand, helps prepare for potential challenges, and makes your business more resilient. For a distillery, this might mean planning ahead for a busy holiday season or a slower period after major events. With good forecasting, you can stay ahead, make informed decisions, and support sustainable growth.

Why sales forecasting matters for those in operations

Sales forecasting is essential because it impacts almost every part of your distillery operations. Here are the key areas it affects:

1. **Financial planning:** Accurate sales projections directly influence your financial planning. This impacts budgets for raw materials, production schedules, equipment maintenance, and even staff training. For example, if higher sales are expected in the next quarter, you might allocate more budget to raw materials and plan for more production shifts. If sales are expected to be lower, you can adjust spending and

reduce costs to ensure that you maintain financial stability. Cashflow management starts with forecasts of sales and adjusting from there.

2. **Production planning:** For a distillery, production is directly linked to sales forecasts. Accurate forecasts help you decide how much to produce so you don't end up overproducing and wasting resources or underproducing and failing to meet demand. It may not be possible to produce beyond a certain amount either (e.g. there is a set number of casks available).

Operations teams should ask questions like: "Are there any upcoming promotions that could affect production levels?" or "Do we have the capacity to meet the expected demand?". Accurate forecasts help set realistic production schedules, avoid frustrations and help everyone align with expected demand, ensuring efficiency and avoiding bottlenecks.

3. **Supply chain and procurement planning:** Supply planning is a big part of managing distillery operations, especially when dealing with bottles, raw ingredients, and storage space. All these factors need accurate forecasts to ensure you have enough materials and space to maintain smooth production.

Bottles, grains, botanicals, and barrels often have varying lead times (some of which very long and where volume ordered directly impacts unit costs), and planning far in advance is crucial. Operations teams need to marry up the lead time suppliers need with what the forecast is stating they need to have ready."

Accurate sales forecasts help align procurement schedules with production needs, ensuring timely deliveries, reducing the risk of supply shortages, and maintaining quality standards.

4. **Team management:** Sales forecasts affect staffing decisions in production and operations. If sales are expected to rise, the production team may need more operators on a bottling line, additional shifts, or shift storage to third part suppliers for temporary holding.

Conversely, if sales are projected to drop, the operations team needs to find ways to manage costs, such as reducing hours of temp staff. Understanding the forecast allows the operations team to work closely with HR to ensure that the right number of skilled workers are available. It also helps prevent staffing issues by preparing for key periods of increased demand or adjusting schedules to maintain efficiency during slower periods.

Steps in the sales forecasting process

1. **Build a cross-functional team:** Sales forecasting isn't just a sales activity. It involves different parts of the business, including finance, marketing, and operations.

As someone in operations, your role is to make sure that production capacity, supply planning, and workforce considerations are factored into the forecast. Each department contributes different insights that make the forecast more accurate and actionable. For example, operations can highlight production constraints or the need for maintenance, while finance can offer insights into budget limits and cost implications.

2. **Understand your market:** Operations must also understand the market context to support sales forecasting effectively. Are you focused on craft, small-batch whisky, or do you offer a variety of spirits? The trends affecting your market—whether it's an increase in demand for premium products or shifts in consumer tastes from one category to another (say from Gin to Rum) will impact production decisions.
3. **Collect relevant data:** Data collection is important for both sales and operations. For operations, past production data, material consumption rates, and supplier performance are key. If there were issues like material shortages or production delays in the past, make sure they are accounted for in the forecast. Reliable data allows you to create production plans that align well with sales expectations, reducing the risk of disruptions.
4. **Choose the right technique:** While sales teams might use market trends and customer insights, operations rely more on historical data and internal capacity. Techniques like moving averages or weighted averages can be helpful for forecasting material needs and production schedules.

For smaller distilleries, a simple approach like rolling over last month's production levels might work, but you should also consider the impact of any upcoming changes, such as new product launches or marketing events.

5. **Test and adjust:** Testing the forecast is not just about sales numbers - it's also about seeing how well the production plan aligns with actual sales. Did production meet the forecasted demand without excessive leftover stock? Were there times when supplies ran out? Testing and adjusting allows the operations team to improve efficiency and reduce waste. If something went wrong, work with sales to understand why and adjust your methods to avoid similar issues in the future.

Creating the feedback loop and embracing the iterative nature of it is as important as setting up the forecast in the first place.

Simple sales forecasting techniques

If you are looking at creating your own forecasts and are working off simple software like Excel rather than a bespoke Inventory Management Software, here are a few techniques you can investigate.

- **Rollover forecast:** Using last month's production as a guide for the next month is an easy way to start. This is particularly useful if your distillery's sales are consistent. Although this method is simple, it helps operations get a basic idea of what will be needed and when.
- **Moving averages:** Calculating the average sales of several past months helps you smooth out inconsistencies. It's a good way for operations to anticipate production needs, especially when there are slight variations in demand. This technique can help determine when to increase production capacity or stock up on raw materials too.
- **Weighted moving averages:** Assigning more importance to recent / historic sales helps make the forecast more responsive to current trends or yearly cycles. If your distillery had a recent promotional event that boosted sales, this method allows you to prepare for a similar situation by focusing more on recent trends than older data. Alternatively, it can be useful for planning for a busy Q4 as you base it on last year, and not off numbers from July and August. Equally, it's true once more for not having a forecast for January based on an average generated from October - December sales.
- **Customer and distributor input:** Input from distributors can help operations understand the broader context. If a distributor expects a big increase in demand, operations should be prepared to adjust production and ensure that supplies are available. Building strong communication channels with distributors and key customers makes it easier to anticipate their needs and adjust operations accordingly. The most common issue here is how far in advance those conversations need to happen.

Handling uncertainty in forecasting

All forecasts come with some uncertainty, and operations teams need to be ready to handle it. Think about what actions you can take if sales are higher or lower than expected. Will you have enough bottles if demand spikes? Can you manage extra stock if sales fall short?

One way to handle uncertainty is by keeping some flexibility in your supply chain. For example, you could maintain a buffer stock of key materials or establish agreements with suppliers to quickly ramp up deliveries when needed. Contingency plans for both high and low sales scenarios help prevent last-minute crises.

The importance of forecasting conversations

Sales forecasting isn't just about getting the numbers right; it's also about creating better communication between teams. When operations, sales, finance, and marketing all work together, it leads to a more cohesive plan.

Regular conversations between these teams help everyone understand each other's needs and challenges. For example, if sales anticipate a spike, production needs to know

early enough to adjust schedules, and finance might need to release additional budget for overtime or raw material purchases.

These conversations should extend to external partners too. Suppliers benefit from knowing your production plans so they can meet your needs better, and distributors appreciate being kept in the loop to prepare for any changes in stock availability. Often, they will be the ones to give you a reality check as to when they need the product to be in their supply chain. For example, a retailer's Christmas spike often means having a bolstered flow of inventory in the wholesale system by October. Just like you have delivery lead times to account for in production, there are a lot of steps once bottles leave the distillery and before they find themselves on shelves... So even if you can be reactive – the route to market realities may not be so flexible.

Encouraging open discussions helps operations stay adaptable, avoid surprises, and make informed adjustments based on the latest information.

Embrace sales forecasts (even if it's not your job)

Sales forecasting is an essential part of running a successful distillery. Whether you're making gin, whisky, or rum, having a clear idea of where your sales might be going helps you plan production, manage supplies, and keep your operations running smoothly. Even simple forecasting methods can have a big impact, allowing your business to be more efficient and responsive.

Start by understanding the basics, involve your team, get involved in the wider business conversations and work on improving your methods continuously. As you get better at forecasting, you'll be able to better handle changes, take advantage of opportunities, and reduce risks.

Remember, sales forecasting isn't just about numbers. It's about understanding the market, preparing for what's to come, and creating a collaborative approach that makes your entire business stronger.