THE STRATEGIC CFO

GOLDILOCKS SALES METHOD

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STEP 1

Obtain sales estimate form sales department or CEO

Most financial leaders get a sales estimate from the sales department or CEO. The problem is they are the ones responsible for growing sales as much as possible. Consequently, they are aggressive in setting sales targets.

This phenomenon can be the result of several conflicting objectives.

- They want to push their sales force by setting “stretch” goals.
- They often want to impress their banker or other third parties with “bragging rights” over their sales growth.

The problem with this approach is that you can end up with unrealistic sales estimates, which undermine your income statement projections.

NOTE

You can have two sets of sales projections. One set can be for the key management team, and the other for your sales teams.

STEP 2

Compare to prior year's results for reasonableness

You now have an estimate from the sales function to start with. However, before you plug it into your projection, it needs to pass the "smell" test.

By "smell" test, I mean you need to compare the projected sales estimate to past performance. Go back 3 or 4 years and compare the trend in sales to the next year's projection.

The sales growth should be "reasonable"! For example, if sales have been growing 10% annually, then a 30% increase in sales for the upcoming year would not look reasonable.

The first thing your banker is going to do is pull out last year's financial statement and compare it to your projections.

Finally, you should take into consideration where the economy and your industry is going. If we are coming off a high growth period, you might want to be conservative.

REMEMBER

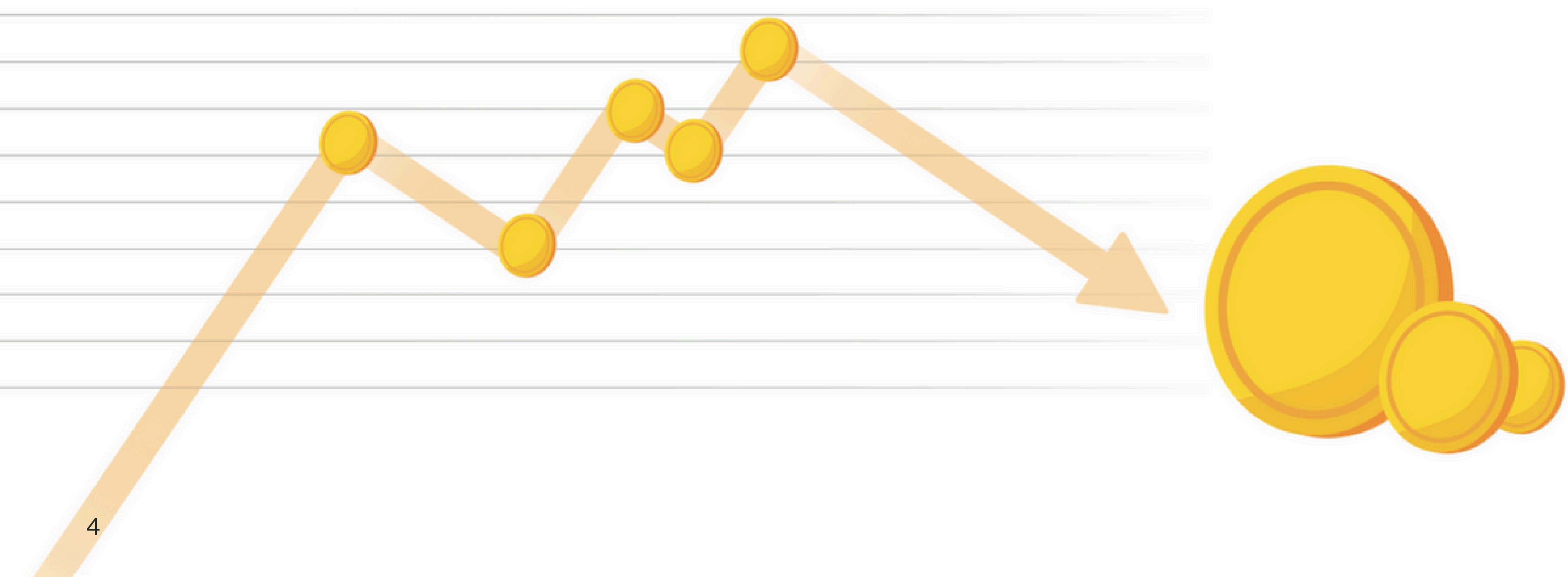
"TREES DON'T GROW TO THE SKY!"

STEP 3

Dial sales estimate into projected income statement

Next, we need to use our sales projections **in our** [Dynamic Cash Flow Projection in the SCFO Lab](). Using the projected sales volume, look at the projected net income for reasonableness. If it looks too good to be true, then it probably is.

Most sales managers (and CEOs) underestimate the stress and cost of growing too fast. Often, our profits go down as a percentage of sales the faster we grow. If we have never made that high of percentage net income in the past, then we probably won't next year.



STEP 4

Modify using the Goldilocks Sales Method

By now, you are ready to pick a sales estimate for the next year. We recommend using the Goldilocks Sales Method to arrive at a reasonable number.

Just like Goldilocks, you don't want to set your estimate too high because it won't look reasonable. You don't want to set the estimate too low or the bank won't give you access to the cash you need.

You want to pick a number that is just right! Something that puts a little pressure on the company to perform, but looks reasonable compared to past performance.

STEP 5

Build a Sales Pipeline

Enter your Goldilocks Sales Method into the Sales Genie!

Want to access the Dynamic Cash Flow Projections & Sales Genie Execution Plans plus many more resources? Join us in the SCFO Lab for only $49.70 a month! It's your ultimate CFO resource.

Become an SCFO Lab Member!

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