RETAIL GUIDE

An Introduction to Forecasting

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Retail Guides

An Introduction to Forecasting

What do we mean by Forecasting?

Forecasting is the process of predicting future demand based on past and present data, combined with analysis of trends and influencing factors. In retail, these predictions are often represented visually through graphs, sometimes referred to as demand curves or demand shapes.

Effective forecasting is a critical part of managing stock levels and ensuring the right products are available at the right time. It forms the foundation for replenishment planning and helps maintain an efficient balance between availability and overstocking.

While there are many tools and systems that can assist with forecasting and replenishment, their effectiveness depends on the quality of the data that is input. A forecast is only as good as the information behind it — understanding the level of detail required and maintaining your data regularly are key to ensuring accuracy and reliability.

Why do we look back to forecast the future?

It might seem counterintuitive, but to forecast the future, we must first understand the past. Looking back at historical data helps identify patterns, trends, and behaviours that are likely to repeat under similar conditions.

Typically, retailers review data from previous seasons or years to identify recurring demand trends. The length of time you choose to review can vary depending on the product, market conditions, or data availability.

For example, if you notice unusual sales patterns in your Spring/Summer data from last year, it can be useful to extend your analysis over two or even three years. This helps you determine whether the pattern is an anomaly or part of a broader trend — and to understand what external factors (such as weather, promotions, or supply issues) might have influenced the results.

What Data Should We Review?

When building a forecast, several key data types and influencing factors should be considered:

1. Sales Data

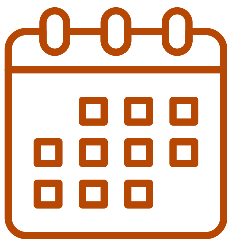
Your starting point will usually be your weekly sales figures. This gives a clear picture of how demand fluctuates over time and helps to establish your baseline performance. Reviewing sales data week-by-week also allows you to align with your trading calendar and identify key peaks and troughs.

2. Events

Events can have a significant impact on sales performance. These might include:

- Planned events: such as promotions, product launches, or seasonal campaigns.
- Unplanned events: such as competitor activity or supply chain disruptions.
- External factors: like changes in weather, public holidays, or major national events.

It's important to mark these within your data so you can separate standard trading trends from one-off influences.


Levels of Analysis

Forecasting can be performed at different levels depending on the structure of your product assortment and how consistent the trading patterns are within each group.

Department Level

When analysing at department or dissection level, demand shapes are applied to the total weekly values for the whole area. This approach works best when the categories within the department follow similar sales patterns. However, always consider any outliers that could distort the overall shape.

Category Level

If categories within a department behave differently — for example, some being highly seasonal while others are not — it's best to analyse them separately.

For instance, a department covering both summer fashion and winter accessories would show contrasting sales curves, so independent category shapes would produce a more accurate forecast.

Product Level

Occasionally, a small number of high-performing or distinct products may disproportionately influence a category's overall pattern. In this case, it may be beneficial to analyse them individually.

For example, in a Sewing Threads category, most colours might sell consistently across the year, but core shades like Black and White could show a different sales pattern. Combining them into one forecast could mask the real performance of each range, so splitting them into separate demand shapes would give a truer picture.

Department

Category

Product

Finding the Right Level for Your Assortment

In general, it's recommended to apply demand shapes at the highest suitable level for your assortment — this keeps your data management simple and efficient. However, your analysis should always reflect your business needs. If a product-level forecast will provide more accurate insights, then that's the right approach.

Modern retail forecasting tools allow you to filter, group, and review data at various levels, making it easier to test which structure produces the most useful and reliable results for your assortment.

In Summary

Retail forecasting is both an art and a science. It combines data, analysis, and experience to predict what customers will buy — and when. By understanding your historical performance, identifying key influences, and applying the right level of analysis, you can build forecasts that support effective stock management, maximise sales opportunities, and reduce waste.

Whether your forecasting is done manually, through spreadsheets, or with specialist applications, remember: accurate forecasts start with accurate data — and the more you review and refine your approach, the stronger your results will be.

Three Top Tips

1. Keep your data clean.
2. Review and refine regularly.
3. Let trends tell the story.

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