CRM OUTSIDERS

Sales Forecasting:
Turning Data, Analysis and Process into a Realistic View of your Business's Future

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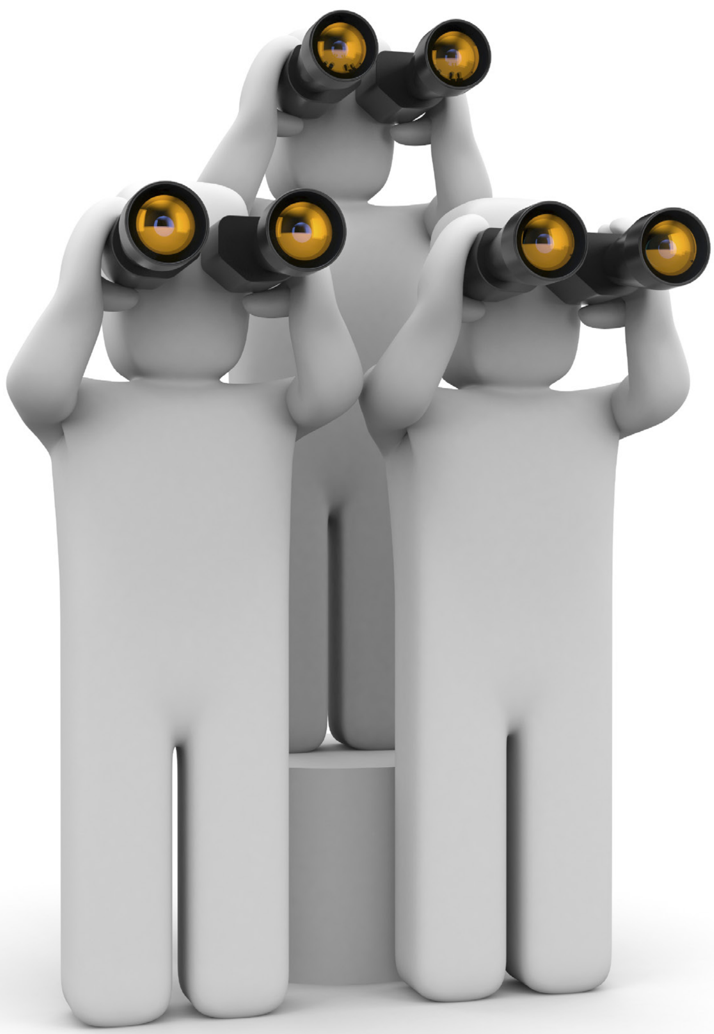

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Executive Summary

The sales forecast plays a vital role in your business—not just giving your sales team a target to shoot for but giving the rest of the organization a basis for planning their future activities. That makes getting the forecast right of paramount importance. But often, that activity is sidetracked by flawed processes or the omission of crucial data.

In order to deliver an accurate forecast, you need to do three things well: collect pertinent data, and understand where that data resides within your company; develop a process that takes that data and applies it to create numbers that make sense; and avoid the all-too-human pitfalls that can turn the forecasting process on its head and substitute facts and institutional memory for guesses and assumptions.

This white paper walks you through all three aspects you need to master to deliver accurate forecasts—and touches on how CRM can help by serving as a repository and collection tool for critical sales data that can be applied to your next sales forecast, and can make that forecast simultaneously easier to develop and more accurate.

Introduction

Sales forecasting is often looked upon as a black art. The wide variety of approaches and strategies used for forecasting does little to dispel that view; approaches vary from business to business and from division to division, and can vary from a sales manager's best guess to a process highly reliant on analytics technology. The number of people that know how to do it well is remarkably small, and yet it's a critical tool for any business.

What's the best approach? That depends on your business. But there are better ways to forecast than making an educated guess. Technology allows you to spot trends and identify patterns—seasonality, sales cycles and so on—and can help you organize your view of the immediate past and what it promises for your near future.

We'll examine two popular ways to conduct sales forecasting, and go into depth on why the customer data you store in CRM should provide the basis for your forecasts.

We'll also look at the most common sales forecasting mistakes—and, if you're making them, suggest ways to correct your processes before it's too late.

Who Needs a Sales Forecast?

There are numerous constituents within your business than need some degree of predictability in the sales process, and that predictability is delivered in the form of accurate forecasting. The most direct beneficiary of good forecasting is the sales manager, for whom a sales forecast is the verification of his own performance in managing his sales team. That forecast also feeds into the quotas he assigns to his sales staff, so individual sales reps depend on an accurate forecasts as well. An overoptimistic forecast sets everyone in the sales department up for disappointment and a frantic final few weeks of each quarter. A forecast that's too low will endanger sales resources.

But other parts of the business rely on good forecasting, too. Depending on how well integrated sales is with the rest of the business, the forecast could affect functions from finance to manufacturing to customer service. The volume of production in a manufacturing setting may be based on the forecast. So might the timing of investments or staffing levels in different parts of the organization. Being able to trust the forecast allows other in the organization to make important decisions with confidence.

That makes it a smart move to offer other departments in your organization a chance to have input in to the design of a forecasting process. The emphasis must stay on sales, but including the concerns of other departments is the best way to make the forecast pertinent to the entire organization. It also sets the stage for collaboration with other departments in adjusting forecasting methods in the future as business conditions change.

Sales forecasting needs to be managed by a single leader within your organization, ideally reporting to the VP of sales. This leader needs to be skilled at motivating sales people, because one of forecasting's classic problems is the lack of enthusiasm from the sales people who do the forecasting. Since forecasting isn't a revenue generating activity, and since time spent on forecasting is time away from selling, it can be hard to motivate them to follow through on the forecast. The answer to this is to tie forecasting to compensation; once sales people internalize the value of forecasting to their own paychecks, it shouldn't be long before they begin to understand the value of forecasting for the entire organization.

This leader should consider evangelism for CRM adoption a critical part of his mission. If sales people add sales data to CRM on a routine basis, it will dramatically lessen the effort needed to build an accurate forecast later.

Forecasting Ingredients

To build an accurate forecast, certain sets of data need to be considered. The number of factors built into a forecast will vary from company to company and will reflect the realities of the business and its unique selling processes and customer behaviors, but there are four underlying factors that should form the foundation of any set of forecasting processes.

1. The Sales Pipeline

Nearly every sales organization uses the visual metaphor of the sales pipeline to visually understand how leads move through the sales process toward conversion. This visual representation is segmented in ways that reflect the way the company or the sales manager views the selling stages that are specific to its industry or product, but in every case the likelihood of a sale closing increases as it is moved toward the final stage of the pipeline.

A well-managed and monitored pipeline provides a first layer of data for a forecast. Opportunities toward the end stage of the pipeline (for example, with an 80 percent chance of closure within a month) can be included on the forecast as a first layer of predictable sales results. The pipeline can also be used for longer-term forecasting.

The accuracy of the data provided by the pipeline will vary based on sales cycle time, complexity of the sale, and other factors. These need to be weighed and given consideration when applying pipeline numbers to the forecast. Again, the context of the individual business and its selling process must be considered in drawing forecasting conclusions from the pipeline.

2. Past data

Nothing helps build a realistic forecast better that real data. That real data comes from the past performance of your sales operation; it's a great reality check when used in conjunction with the sales pipeline. It can suggest the effects of seasonality on sales and buying behaviors so that predictions can be weighed against predictably changes in sales velocity.

Of course, sales data over time is more valuable than, say, sales data that covers the immediate past two quarters. More data is better than less. But no matter how long you've been tracking your sales performance, bringing this data to the forecasting process allows you to bring an analytical component that partly offsets the impact of sales staff's guesses and assumptions.

3. Data from the field

This information come from sales managers in the field, and it's valuable because these managers have greater visibility into the sales pipelines of their reports and can add a layer of expert analysis to what's reported in the pipeline. Field managers know their sales teams and can identify when individual sales pros are being overly optimistic or overly guarded in their assessments of individual opportunities. Managers also have visibility into deals that may not yet be reported in the pipeline as sales staff attempts to maximize its appearance of effectiveness.

4. Managers' Intuition

In effective forecasting strategies, sales managers' insight offers a set of checks and balances on the reports from subordinates and anomalies which may crop up in analytics. For example, a trend that appears seasonal might actually have been caused by coincidental events that had similar impacts on sales. Only the institutional memory of a manager can identify them and adjust the forecast accordingly. Similarly, sales managers can factor in the pending win or looming loss of a new large customer, detect duplicated opportunities in the pipeline, and estimate the impact of new members of the sales staff (or losses in sales assets). These all supplement the other three forecasting data sources; the sales manager shouldn't be the dominant source of forecasting data. If that's the case, the process devolves back to the sales manager making informed guesses, which usually make for an inaccurate forecast.

Pulling the Forecast Together

Once you have these data sources in place and understood, you can begin the process of assembling the forecast. One useful approach is to break the forecast itself into separate components. For instance, if you can break sales into segments by product, market, geography, or sales team, it can allow you to make estimates in a more granular way and help improve accuracy. Similarly, if you have specific large customers, they could be broken out and become the subject of their own forecast.

From there, use pipeline information to provide an estimate of the potential value of opportunities that could close during the forecast period. The traditional approach is to estimate the total value of a sale and multiply it by the estimated likelihood of that sale closing—in other words, if the potential sale is estimated at $10,000, but the estimated likelihood of it closing is 50 percent, then the forecast sale is $5,000.

Another useful technique is to detail the products or services each customer is likely to buy during the forecast period. Doing so increases the granularity of the forecast, and it also helps point out potential problems in inventory.

Working from these smaller categories of sales and then totaling the results of the estimates that result is much more effective and accurate that starting with an overall number and then working backward to try to justify it. This strategy is bound to result in some fudging and bending of the facts, and can leave you with a forecast that is badly off the mark.

How CRM Helps with Forecasting

CRM is usually seen by the sales staff as an assistant with traditional sales force automation (SFA) tasks—reminders for calls, lead management, contact management, and other core day-to-day functions. CRM is also seen as a detriment by sales staff because is forces them to spend time entering data into the system, and then that data is used by their bosses to mange them.

In a broader sense, CRM is also an automated extension of the organization's memory around patterns in sales and customer behavior. It captures a great deal of data that is critical for accurate forecasts. This can only occur when the entire sales team has embraced CRM as a tool that benefits them—not as an impediment to their performance. If every member of the sales team is adding data as it happens, pipelines will remain current and up-to-date. This provides managers with an accurate snapshot of how salespeople expect sales to go in the near future; it thus gives them a set of granular "mini-forecasts" that they can apply their own knowledge against to develop the final forecast. With all members of the team keeping the CRM system up to date, the data is all in one place, and managers don't have to spend undue time pulling data together from various sources.

But just having a CRM solution is not the final answer to forecasting, just as having a large library does not automatically make a person well read. Processes have to be implemented to extract the right data for forecasting from the CRM data.

During this process, it's often possible to identify members of the sales staff who are not entering data into the system properly or who are bypassing the CRM system entirely. In order for sales managers to bring all technology to bear on an accurate forecast, it's critical to make sure that the pipeline syncs up with the data included in CRM. Every deal that closes without being documented fully in CRM represents a lost opportunity to understand what works and what can be replicated in a deal, and it's a lost data point that can help refine future forecasts.

Forecasting Foibles

Chekov wrote that happy families are all alike, but unhappy families are all unhappy in their own unique ways. Sales forecasting is a little like that: successful forecasters follow a defined, disciplined process; unsuccessful forecasts stem from an assortment of process breakdowns that appear singly or in combination with other breakdowns. The sources of those breakdowns, however, are caused by discrete and specific problems.

"Forecast breakdowns are a function of two primary dynamics: sales process utilization and performance politics," says Joe Galvin, Chief Research Officer at Miller Heiman. "Our research and data clearly show a strong correlation between process maturity/utilization and forecast accuracy. Lack of a clearly-defined sales process, inconsistent application of sales stage definitions and random or mutated sales manager processes all result in erratic forecasts."

This deficiency is amplified when forecasting responsibilities are extended throughout the organization, says Galvin. "Now, apply pressure on everyone in the sales quota food chain to perform, and forecasting becomes a political posturing of commitment and credibility, not the fact-based assessment of each opportunity."

Miller Heiman's 2012 Sales Best Practice study puts numbers behind this idea. "World-class sales organizations (the top 6 percent vs. all responses in the study) consistently followed a disciplined process (85 percent vs. 43 percent) on big deals," says Galvin. "Moreover, our research and analysis showed that 81 percent of world-class sales organizations' management teams were 'highly confident' in the data projected by their CRM systems and compared to just 25 percent from all respondents."

This begs two questions, says Galvin: "If you are not confident in the data you see, is that a technology problem or a behavior issue? And, if you are not confident in the data you see, how do you make revenue, resource or investment decisions?

Conclusion

Developing a sales forecast is a lot like cooking: get the ingredients right, and stick to the recipe, and you're likely to get a good end result. However, if you omit useful data or fail to adhere to a forecasting process that has proven successful in the past and you're asking for trouble—and not just trouble for you as a sales manager or for your sales staff. The entire business depends on the predictability the sales forecast delivers—so approach it with the appropriate degree of emphasis on analytical and intuitive information.

About the Author

Chris Bucholtz is Editor-in-Chief of CRM Outsiders. Chris is a long-time journalist, blogger and CRM industry influencer. For over 17 years he's been a technology journalist for some of the industry's best print and online media. After his role at VAR Business, he became the first Editor of InsideCRM, a Focus.com brand. He then took the reigns as Editor-in-Chief of ForecastingClouds.com—an online destination delivering rich content and thought leadership views regarding CRM and ERP cloud solutions. He's also a regular columnist for CRMbuyer.com and has been writing about Social CRM for the last 4 years.

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