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## 7 Secrets of Sales Forecasting

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WHITE PAPER

You probably picked this white paper to improve your sales forecast. You might even feel that sales forecasting is a big waste of time that produces lots of useless data because sales people who can't forecast in the first place are doing it. Sales forecasting epitomizes the garbage in, garbage out business processes that isn't worth investing in, as it will only give you bad information more quickly.

Over the last six years, Right90 has helped many companies break through this fatal inaction, and helped them deliver a trusted, actionable sales forecast. Companies that can extract the valuable and good information that is embedded in most sales forecasts are able to realize significant business benefits.

We've seen companies realize benefits such as more productive and effective sales people, higher customer satisfaction, shorter lead times, better prices, fewer inventory write-offs, less out of stock situations and higher gross margins, just to name a few.

*What can these experiences teach us?  
We wanted to share the secrets with you.*

## SECRET #1

### Sales VPs with trustworthy sales forecasts are preferred 10:1 by CEOs and Boards of Directors

Well, we can't actually quantify this (and we are not really sure that it is a secret), but we know it's a big number. And we have many examples of just how much a good forecast can help or hurt a career in sales. We can tell you that our CEO and Board are much more impressed by an accurate, forward-looking schedule of product mix, units, pricing and revenue when our VP of Sales calls it right. They're even more impressed the further in advance that he/she can make a prediction with confidence.

In many companies, the sales forecast is limited to whether or not the VP of Sales is going to make his aggregate revenue bookings target. While this is obviously important, it does not give additional insight into other important aspects of the business.

With this type of forecast, questions like the following are hard if not impossible to answer:

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1. Are our margins going to go up or down this quarter—and by how much?
  2. Are we building/inventorying the right stuff—what our customers are going to buy?
  3. Are we investing in the right new products—how are our new products doing?
  4. How much of our bookings are coming from new business—versus existing run rate business?
  5. How much revenue attrition are we expecting by product—and/or customers?
  6. How much stuff are we building right now that we are going to have to write-off?
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Happiness is the inverse of expectations. It's likely a sales person discovered this truth. CEOs and Boards

of Directors do not like surprises. A reliable and authoritative sales forecast that the management team trusts contains enough specific information to drive operational efficiency. At the same time, it provides visibility into key financial metrics. This will elevate the reputation and stature of a sales executive and make that person a key part of the management team.

## SECRET #2

### Rewarding honesty improves your forecast. Punishing honesty is not a best practice.

Most executives are conflicted. On one hand, they need and want to know what is going to happen as far in advance as possible with enough detail to understand the impact to the business. On the other hand, they want that outcome to be positive and hate to hear bad news. Some are able to differentiate between these two needs and actually reward sales people for honesty, even if that produces news they do not want to hear (“don't shoot the messenger”). These companies tend to have sales forecasts that are much more accurate and timely than other companies.

Others tell sales people that if they cannot make a forecast they want to hear, the salesperson needs to find another job. They assume that if they allow sales people to tell them anything other than the answer they want to hear, that the sales people will assume they have a license to miss their number. This is not necessarily true and often results in a dangerous situation where the sales reps are only telling management what they want to hear. In situations like these, when the sales people can't make their numbers, they say that everything is okay while they line up their next jobs and make excuses for short term performance (“that deal is just two quarters away...”). This produces a classic “house of cards” effect in the sales forecast and can be especially catastrophic when there is a dramatic turn or change in the market. Many companies experience huge forecast surprises in these situations.

### A Case in Point

Andy Pease, the former VP of Sales for QuickLogic, used a good Sales Forecasting process to see the downturn coming in April 2008 – 5 months before it actually happened. His forecast was so trusted by the company and the management team that they took action on it. They changed their plans dramatically to face the reality of the situation. Mr. Pease had so much credibility that he was promoted to President even as the downturn set in.

Contrast this with the many VPs of Sales who did not see what was coming, surprised their CEOs with poor forecasts, and who lost their jobs as a result.

For more information on QuickLogic and Mr. Pease, visit [www.right90.com](http://www.right90.com)

“Commit,” “forecast” and “target” need to be three different things. We have seen that companies who allow the forecast to “float” throughout the quarter, independent from the sales quota or target, will get the best forecasts. These companies allow and encourage sales people to tell them what they are seeing. These companies hear the good news or bad news fast enough to take action.

This concession by executives to allow the forecast to be dynamic has a flip side as well. Sales reps who game the system and make artificially low forecasts but raise them at the last minute look like heroes should not be tolerated. Companies need to track forecasts over time and watch for patterns of abuse. Some companies offer incentives for forecast accuracy (not too high or too low) as a carrot, and set quotas higher as a stick to discourage this kind of behavior.

Honesty involves both sides of the coin and the best organizations create a culture that rewards and

recognizes those who are truthful and who don't play games. These organizations develop a culture of trust and transparency over time and routinely out execute their competitors.

### SECRET #3

#### Sales forecasting can actually help sales run their business better

Increasingly, sales is becoming more sophisticated. With the advent of the Internet, customers want to be educated, not sold to. Also, companies want their sales people to think more about the consequences of their actions to the business (margin, inventory, profitability). We hear many executives talking about the need to equip their sales people to “run their part of the business as though it were their own business.” This involves getting a lot more information to the sales reps and equipping them with better processes to manage their activities.

Sales forecasting can be a tremendous tool to help organize the thought process of a sales rep. In addition to ensuring that reps think about their business; plan for how they are going to accomplish their goals; and anticipate what their customers are going to need; a good sales forecasting process can increase the frequency of conversations that the sales people have with their customers. When sales people know they are accountable to a forecast and that management is looking at the details all of the time, they are compelled to check with customers frequently to take stock of what the customers want. This often uncovers new opportunities, potential blocking problems, issues or competitive threats. It provides a convenient reason for the reps to “check in” and is a common reason why both the forecast and the results improve.

The other interesting aspect is that a good sales forecast that is kept as a history can actually help reps hold customers accountable. One quick example: we have seen companies sign volume-based pricing deals with customers and then not

track the forecasted order quantity against the required volume commit levels. The net result is that customers can promise higher volumes to get better pricing, then not deliver the required order volumes. A good forecast can spot this trend quickly and result in a productive conversation whereby the customer can be asked to up the volume or increase the price paid. In either case, the sales rep avoids leaving money on the table.

## SECRET #4

### Sales Forecasting is a secret weapon of BOTH Build-to-Order and Build-to-Stock companies

Almost every build-to-order company that we meet is being compelled to take an inventory position on their long lead-time parts. Most customers are just not willing to wait 14 to 16 weeks for components or finished goods. Similarly, almost every build-to-stock company that we talk to is trying to delay the final stages of production as much as possible until they are sure then can correctly anticipate what product mix and delivery timing will look like. The ideal company would have the no lead time availability of a build to stock company—with the product efficiencies and low inventory write off rates of a build to order company.

As a sales forecast becomes more accurate, not just with respect to booked dollars but also to product mix, it is able to look further ahead in time without sacrificing accuracy. With an accurate sales forecast, both of these types of companies are able to enjoy shorter lead times, higher mix accuracy, less stock outs and less inventory write-offs.

## SECRET #5

### Tracking the trends within a forecast can offer more insight than the actual forecast values

Many people focus on the specific numbers in a forecast not on how those numbers are changing over time. However, the trend can often tell a better story and provide context for more effective decision-making. In most companies, trend patterns in a forecast will reveal things that are not obvious on first inspection. Some examples include:

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1. Dramatic increases in forecast quantity for the same part over time without seeing pricing go down can indicate a new product is getting more traction than previously expected.
  2. Sudden declines in average selling price for a product in specific territories, accounts or regions without a corresponding drop in quantity can indicate competitive pressure, channel stuffing or market shift.
  3. Extreme volatility usually precedes market shifts. Understanding how widespread the volatility is can help forecast how big and how localized (or not) an upcoming shift will be.
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## SECRET #6

### Executives who look at the detail of their sales forecasts, get better sales forecasts

It is amazing how many management teams never look at the detail inside the aggregated sales forecast. One call from a VP of Sales or CEO to a rep questioning a specific forecast item just submitted can do wonders for the energy, time and care all reps put into their forecasts. We have found that consistent questioning of the detail, even if it is only to make the point that someone is looking, transforms the forecasting culture of a sales organization. Organizations that have high forecast accuracy do

this on a routine, frequent basis. Conversely, when the sales reps know no one is looking, they will frequently not change their forecast numbers unless there is an upcoming sales meeting, executive briefing or customer call scheduled.

Executive commitment and enforcement of the sales forecast will get better forecasting results. This is a key driver of performance across the company. If the executives don't reinforce value of the sales forecast process, the rest of the company will not buy in. The value to the executives, as evidenced by their attention to detail, leads to a much more effective process overall.

## SECRET #7

### Aggregate forecast accuracy is NOT meaningful

Some companies congratulate themselves on having high overall sales forecast accuracy and do indeed have very good sales forecasts. Other companies, have high aggregate forecast accuracy (I said I would do \$100M this quarter and I did), but get the details of the forecast wrong which causes a lot of pain. Yet other companies do not even measure forecast accuracy and do not know how well they are doing at all. Three examples of cases where total accuracy was good but the outcome was not:

1. My bookings accuracy is 100% (except we could not ship the items ordered because they were not built).
2. My pricing accuracy is 100% (except that the prices went down on the low margin items so we had a loss).
3. My unit shipment accuracy is 100% (except that I shipped my winter boots in June so they came back).

Any of these scenarios is extremely costly for companies to fix, and impacts not just the costs incurred, but customer satisfaction as well.

## BONUS SECRET:

### There's an application that helps you spend less time forecasting and gives you a better sales forecast

These secrets have shown how a sales forecast that can be really trusted is a dramatic competitive advantage that can be used to drive pricing, inventory and lead-time advantages in the market.

Today's companies still struggle to wade through a sea of static data that generally is outdated, has no context to the other parts of the business and doesn't provide the executive team with enough understanding to make an impact on the quarter. Right90 helps companies get to a trusted, actionable sales forecast. How do we do it? Four clear steps:



**Step One:** CAPTURE sales forecast data and make it easy to get everyone's perspective with applications built for sales reps.

**Step Two:** VET the forecasted data. Evaluate, scrub and judge the raw forecast data from your sales teams, and adjust for bias, accuracy and historical performance to create a trusted forecast.

**Step Three:** ANALYZE with stock chart-like analytics to understand the specific actions that can be taken to move the needle and make an impact on the quarter's results.

**Step Four:** DRIVE your business by using your trusted sales forecast to predict outcomes and drive actions across the business from marketing to ops to finance.

With this process, you'll stop spending your sales forecasting energy on capturing, rolling-up and reporting on your forecast. Instead, you will be able to analyze changes and know how to drive the business based upon those changes. These are the higher-level behaviors that separate winning companies from losing companies.

## The Right90 Solution

Right90 can give companies real-time visibility into forecast changes. Built on top of the company's patented Dynamic Multidimensional Change Engine™, Right90 delivers trusted data, trusted forecasts and trusted results.

The Right90 application is able to address the sales forecasting challenges with a robust feature set. Right90 delivers a solution that helps sales executives deliver a trusted, actionable sales forecast.

Available stand-alone or integrated with CRM, Right90 can be used across multiple departments to align sales, marketing, operations and finance around an actionable sales forecast. Right90 has pre-built integrations with salesforce.com, Oracle CRM OD, Oracle ERP and SAP.

## Trend Spotting—Right90 Change Analytics

One of the keys of successful sales forecasting is to spot the trends while at the same time seeing the details behind the trends. When you can see the big



*Our stock chart-like visualization of the data lets you see how your sales forecast compares to specific sales targets by individual, channel, product mix, regions, accounts and more. Right90 enables sales operations and sales management to catch critical forecast trends quickly and take actions that move the needle.*

picture, yet know specifically what actions you can take, you can effectively take required action.

### The Next Move is Yours

If you enjoyed our seven secrets to sales forecasting, we would enjoy helping you solve your sales forecasting problem. Sales forecasting doesn't have to be a painful, worthless exercise. With the right process, systems and commitment, a company's sales forecast can be its most valuable asset in volatile times. If you would like to have a trusted, actionable sales forecast, but don't believe you can get there, we should talk. Right90 has helped industry leading companies get what they need when they need it to significantly impact their quarters and their annual revenue. We'd like to see if we can help you, too.

Visit us at [www.right90.com](http://www.right90.com) to get more secrets of sales forecasting. If you have secrets of your own, please let us know. Send the idea(s) along with associated benefits to [salesforecastingsecrets@right90.com](mailto:salesforecastingsecrets@right90.com).

