

# From Misery to Mastery: How to Build a Better Sales Forecast

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## Sales Forecast

### Executive Summary

Effective sales forecasting is critical to the success of any company, yet many organizations continue to rely on outdated processes and spreadsheet-based tools that provide little value for the intended stakeholders.

It is possible to create a sales forecasting system that provides tremendous value across an entire company by following some simple and proven steps and understanding the key components of an effective forecasting system. In order to create value and to achieve buy-in from across the company, a successful sales forecasting system must have the following key components:

- ◆ Provide real-time access to forecast information
- ◆ Enable collaboration across the company
- ◆ Deliver value to all stakeholders in sales forecasting
- ◆ Manage performance and inspire confidence
- ◆ Integrate seamlessly with CRM applications
- ◆ Create fast time-to-value

An effective sales forecasting system can greatly improve the efficiency and effectiveness of a company's decision-making, and ultimately its performance. Effective sales forecasting will improve visibility to changing sales, customer, and market information; increase organizational commitment to hitting sales targets; and drive accountability to revenue performance.

This paper offers a case-study approach to help you evaluate your existing forecasting system and select the right forecasting system for your company.

## A True Success Story

Anyone in sales understands the time-tested ritual of the Monday morning sales call. Typically, the call goes smoothly and everyone is excited about the week ahead, the progress being made at key accounts, and the promise of closing several significant deals. Then suddenly those dreaded words are spoken, "Forecasts are due this Friday!" triggering a collective sigh from attendees on the call. The energy built in the first 58 minutes of the call is quickly deflated in the final 2. While we all understand that updating forecasts is an important process on the road to hitting company revenue targets, it can be one of those exercises that most would readily admit they would rather not undertake.

Forecasting is not met with such disdain because of what it is, but because of how it is done. The painstaking process of collecting updates from reps spread out across the country or the globe; consolidating forecasts into a single report that sales executives, finance executives, and others can understand; and communicating changes and how they have an impact on the company's revenue targets is not for the faint of heart. Most often the sales forecast, once compiled, is already out of date and not very useful for the intended stakeholders.

At one company where I was tasked with developing a better approach for managing the sales forecasting process, I polled the internal stakeholders, including the sales team, regarding their concerns about our current process. The list below highlights the chief concerns I heard, many of which I suspect are common to most companies:

- ◆ Inaccuracies
- ◆ Error-filled spreadsheets
- ◆ Data is not current
- ◆ Time-consuming
- ◆ Inconsistent usage across users
- ◆ Cumbersome data entry
- ◆ Too much effort to understand/use
- ◆ Lack of useful information
- ◆ Gamesmanship
- ◆ No reports, or reports not in usable format
- ◆ Lost time with customers
- ◆ A lack of accountability

Clearly this response indicated we had a flawed process and that the forecast information controlled us as opposed to us controlling the information. Worse yet, the continued use of spreadsheets hampered our ability to gain value from our forecasts.

Fortunately, previous experience had shown me that it is possible to build an effective and efficient forecasting system, one that can have tremendous value across an entire company, providing insight into customers, market segments, product acceptance, value proposition effectiveness, confidence in the future, and the ability to make proactive business decisions based on reliable information. A truly valuable forecasting system consists of both an application used to enter, analyze, and access forecast information and the methodology required to gain full benefit from the forecast information. It is important to note that methodology does not refer just to simple processes, such as updating the forecast on Fridays, but also ways of sharing, parsing, and analyzing forecast information to gain the greatest value and to support internal business objectives.

## Sales Forecasting Vision Statement

To initiate the process of developing a true sales forecasting system, I worked with stakeholders across the organization to create a Sales Forecasting Vision Statement, defining, in general terms, what our final system would look like when completed.

*“Our sales forecasting system will provide real-time information and inspire confidence so that critical business decisions and communications can be made without hesitation. Our system will gain a 100% adoption rate by enabling collaboration and by bringing value to all stakeholders across our organization. Our system will be easy to implement and use, and will provide a fast time to value and will integrate seamlessly into our CRM platform, to meet our current and future needs.”*

## Key Components of an Effective Sales Forecasting System

Our vision statement highlighted the key components of the sales forecasting system that would address the identified issues and create the value the company required. The key components of the forecasting system included the following:

- ◆ Provide real-time access to forecast information
- ◆ Enable collaboration across the company
- ◆ Deliver value to all stakeholders in sales forecasting
- ◆ Manage performance and inspire confidence
- ◆ Integrate seamlessly with CRM applications
- ◆ Create fast time-to-value

With the key components identified it was easy to flesh out the details of what was required of a sales forecasting system. Below is a summary of these detailed requirements, based on the key components, that proved to be the foundation for the new sales forecasting system we developed. I have found over time that this framework of components and requirements is applicable to most companies looking to improve their forecasting system.

### *Real-Time Information Access*

Having real-time information is essential in a forecast system. Customer information does not remain static between forecasting cycles, and companies need a system that captures changing information quickly. This enables companies to proactively identify and address positive and negative changes quickly.

To meet the need for real-time information a forecasting application must support the following capabilities:

- ◆ Online access globally for all sales reps, channel partners, and rep firms
- ◆ Single repository that houses all forecast updates as they are made
- ◆ Reports that are updated as forecast information changes and that are easily accessible
- ◆ Alerts that can be delivered via email or instant messaging

Real-time access eliminates the surprise factor associated with static spreadsheets that are updated monthly at best. A system that captures information such as whether a key customer's project is delayed, overall softening customer demand, and losing share due to lower competitor pricing provides information a company can act on. Can we help the customer with project delays? Is the demand softening for a few customers or an entire market segment? Do we react to lower pricing from our competitors? Proactively addressing these issues can have a significant impact on customer relationships and help organizations achieve revenue targets and refine company strategy.

*Enable Collaboration and Value for All Stakeholders*

To gain 100% adoption, a forecasting system must enable collaboration and deliver real value to all stakeholders. Collaboration across functional groups within a company, as well as across an extended team of channel partners, manufacturer representatives, and distributors, is important not only for bringing value to each group but also to enable best practices for generating the actual forecast.

In determining value for each stakeholder, we found it helpful to not only determine what information each stakeholder required but also what was driving this requirement. The table below provides an example of what key stakeholders of a sales forecast need.

**Key Stakeholder Requirements**

| Stakeholder | Key Information Requirements   | Driver of Information Required   |
|-------------|--|--|
| CEO         | <ul style="list-style-type: none"> <li>Measuring overall performance vs. plan</li> <li>Tracking the business impact of new products or new initiatives</li> <li>Insights into short, medium, and long-term business trends</li> </ul>                                | <ul style="list-style-type: none"> <li>Communications with board, analysts, and investors</li> <li>Measuring the success of key company initiatives and strategies</li> <li>Supporting and improving business decision-making</li> </ul>                       |
| CFO         | <ul style="list-style-type: none"> <li>Tracking forecast performance vs. plan</li> <li>Measuring sales ramp of new products and sales decay of mature products</li> <li>Detailed sales performance analytics by region, channel, and rep over time</li> </ul>        | <ul style="list-style-type: none"> <li>Modeling the company's top-line financials</li> <li>Understanding true customer demand and impact on revenue</li> <li>Making the right business investment tradeoff decisions</li> </ul>                                |
| CSO         | <ul style="list-style-type: none"> <li>Tracking performance by geography, region, channel, and salesperson</li> <li>Measuring performance by product family, and new and mature products</li> <li>Analytics for cost of sales and revenue per salesperson</li> </ul> | <ul style="list-style-type: none"> <li>Setting sales strategy, personnel changes, and coaching or training</li> <li>Understanding true value proposition</li> <li>Making sales staffing and resource allocation decisions</li> </ul>                           |
| Sales       | <ul style="list-style-type: none"> <li>Tracking quota performance vs. plan</li> <li>Monitoring mature and new business sales opportunities and history</li> <li>Measuring trends by area, market segment, and customer</li> </ul>                                    | <ul style="list-style-type: none"> <li>Understanding how and where to make sales process improvements</li> <li>Predicting what products customers are likely to buy in the future</li> <li>Understanding where future sales are likely to come from</li> </ul> |
| Marketing   | <ul style="list-style-type: none"> <li>Tracking new and mature product-level forecasts</li> <li>Tracking market segment-level forecasts</li> <li>Tracking pricing trends</li> </ul>  | <ul style="list-style-type: none"> <li>Understanding market acceptance for new and mature products</li> <li>Understanding vertical and regional market trends</li> <li>Understanding market and competitive pricing</li> </ul>                                 |
| Operations  | <ul style="list-style-type: none"> <li>Visibility into product mix demand</li> <li>Visibility into geographical demand</li> </ul>  | <ul style="list-style-type: none"> <li>Aligning true customer demand with supply capabilities</li> <li>Aligning true customer demand with distribution capabilities</li> </ul>   |

Each stakeholder within an organization will require forecast information for different reasons. This drives the requirement for a fairly large set of forecast descriptors, such as customer, opportunity, sales geography/region/area, market segment, product family, individual product, and time. It is important to create value for all functional roles by providing the ability to view the data in ways that are meaningful to users. Marketing may value viewing data by market segment to verify training and compelling value propositions. Finance will want to monitor product margins, and operations will need volumes by product for demand planning. Understanding the details of this information is essential for driving the architecture of the required forecasting application.

To support collaboration and bring value to all stakeholders, here are some of the key capabilities a forecasting application must support:

- ◆ Online access for all stakeholders
- ◆ Support for function-specific views and forecast metrics
- ◆ Single repository for all forecast update information
- ◆ Ability to compare multiple forecast plans
- ◆ Tracking forecast versus actual performance over time

Creating customized value for all stakeholders is crucial for driving 100% user adoption and for enabling collaboration across the company. By enabling collaboration, a company can leverage knowledge throughout both internal and external organizations, creating a more accurate view of the forecast. This creates ownership by all functions as opposed to only sales. Operations, using historical trends, has significant contributions for mature business with existing customers; marketing, focusing on market segment trends and competitive landscape, has significant input to medium and long-term projections; and sales obviously is the key contributor for new and short-term projections. Collaboration transitions the forecast from a sales function to a company-wide initiative.

### *Manage Performance and Inspire Confidence*

Providing value to each stakeholder drives performance and inspires confidence. To develop confidence we need to measure forecasting performance. How accurate are we as a company, as a region, as a salesperson, as a product manager, or as a marketing organization.

To improve performance companies must have a system that enables them to learn from their experiences. We need an application that will:

- ◆ Measure forecast performance at multiple levels of detail
- ◆ Compare forecast performance to plan
- ◆ Track forecast performance over time

This information provides immediate feedback on areas that need to be addressed to improve performance and gives companies the ability to proactively address performance problem areas. The performance data may suggest that certain individuals require coaching, or that stakeholders need to develop a better understanding of a specific market segment or particular forecast area. For example, high performance for a mature business with existing customers, but poor opportunity forecasts, may suggest a flawed sales process. Tracking performance data also creates greater accountability and greatly reduces the gamesmanship that typically occurs during forecasting cycles. This also provides metrics to create incentive programs to support user adoption and reward greater accuracy.

### *Seamless CRM Integration*

CRM systems house critical data relating to new business and new opportunities, which are the main revenue growth drivers for many companies. To avoid having multiple systems with naming convention and data mismatches, it is important that any forecasting system tightly integrate with a company's CRM system, allowing automatic sharing of information. This integration also eliminates the need to enter the same data in more than one system.

Integrating into a CRM platform creates commonality and tight linkage between data sets. Recently closed and pipeline opportunities can be imported into a forecasting application upon which sales and revenue performance can be measured and managed. In such a system, sales forecast data is automatically shared with the CRM system, providing additional information linked to accounts, opportunities, sales regions, and markets. This also creates a common platform that will allow for future integration of applications.

### *Fast Time to Value*

When changing a critical business process such as forecasting, it is critical to be able to make a clean and fast transition and quickly begin gaining value from the new system.

Fast time to value is driven by a short implementation process incorporating existing data, and leveraging existing systems, such as CRM. To create fast time to value requires an application that is:

- ◆ Quickly and easily implemented
- ◆ Easy for sales reps and channel partners to adopt and use
- ◆ Simple for sales to customize for their specific business processes
- ◆ Able to import data from multiple systems

The expectation should be that the new forecasting system will be up and running in weeks as opposed to several months, and that user adoption will likewise occur in a very short time period. Implementing an on-demand sales forecasting application, much like the recent trend of implementing on-demand CRM applications, greatly reduces time to value.

### **Selecting the Right Sales Forecasting Application**

The heart of any effective sales forecasting system is the underlying application used to enter, analyze, and access the forecast information. Available options include the continuous use of spreadsheets, forecast modules for existing ERP systems, the use of CRM for forecasting, or an application built specifically around the sales forecasting process. These solutions, often termed "best of breed" for their focus on addressing the unique requirements for sales forecasting, are the only solutions that should be considered. All the other solutions mentioned will lead to significant tradeoffs and compromise the resulting forecasting system. As an example, CRM systems have a very cumbersome data entry process that requires editing each opportunity individually, does not track changes, and does not allow for easy scheduling of recurring business, which generates as many errors as spreadsheets. Simple procedures such as entering units and price and having booking value calculated is not possible. CRM systems also lack any significant analytics or the ability to maintain and compare historical forecast data to actuals, a key in understanding and driving performance. An important consideration is whether a forecasting application is incorporated in house or on-demand through a SaaS vendor. For companies utilizing an on-demand CRM system, this is an easy decision. An on-demand sales forecasting application provides seamless integration to an on-demand CRM system. In addition, the low upfront investment, no requirement for internal development and maintenance, scalability and flexibility, and ease of implementing upgrades are invaluable.

## **The Business Impact of Better Sales Forecasting**

We began our process with the belief that our spreadsheet-based forecasting system was antiquated, creating a resource-intensive exercise that brought little to no value to our company. Through a carefully planned evaluation of the requirements throughout our company, we were able to significantly enhance our forecasting system. The new system not only greatly improved efficiency, enabled internal collaboration, and greatly improved performance, but also led to improved business decisions based on more reliable and timely data. We eliminated the constant complaints regarding the impact on our sales resources and gained more time in front of our customers. We gained a sense of ownership and value across our organization, which allowed for proactive actions instead of panic attacks. We eliminated the last-minute scrambles related to preparations for board meetings, internal business reviews, and sales meetings. We achieved 100% user adoption and consistency in methodology. We became efficient, we became aligned, we became proactive — we became masters of our forecast information.

### **About the Author**

Sales and marketing executive Timothy Stahley has a demonstrated track record of improving business processes through the development and implementation of sales processes, business intelligence, customer relationship management, and analytics. Certified in Strategic Selling and Solution Selling, Mr. Stahley combines his in-depth process knowledge with today's state-of-the-art on-demand applications to develop highly efficient and value-based business systems. Mr. Stahley has more than 24 years of experience in the high technology sector, including 14 years in sales and marketing management, at companies such as Fairchild, Martin Marietta, Lattice Semiconductor, Electronic Designs Inc., and QuickLogic Corporation. Mr. Stahley received his BSEE from the Pennsylvania State University.