How to Take the Fear Out of Making Your Number

By Haresh Patel

Under tremendous pressure to meet expectations, the CEO and CFO rely on the chief sales officer (CSO) to provide input on quarterly target numbers for guidance.

I recall my role as part of the executive team in my first CSO position. We would help the CEO prepare for the board meeting with never-ending slides on strategy, product roadmaps, business development plans, mergers and acquisitions, and business forecasts. Countless hours of work and sleepless nights before board meetings were par for the course.

With eyes glazed over, board members would struggle to absorb the mountain of information throughout the day. In the end, though, the million dollar question – the one that got everyone on their feet and engaged in spirited discussion – was the current quarter forecast, whether the company would make its quarterly goal, and what was in store for next quarter.

After every board meeting, I would ask our CEO, “How do you think the Board meeting went?” Without fail, he would say, “Well, Haresh, we get to keep our jobs for another three months.” For most executives, board meetings are wrought with the fear of making inaccurate sales projections.

> *Most companies are only beginning to look at sales forecasting…we found that most organizations are decidedly immature in this area.*[2]
>
> *Ventana Research*

Here's why. In April 2008, GE missed its target number. CEO Jeff Immelt (Jack Welch's handpicked successor) made a promise to deliver, and failed. I recall the headlines on all the major cable news networks: "Immelt should be scared if GE misses target again." The market punished GE: the company's stock fell 13% and wiped nearly $47 billion off the market cap of the company in a single day of trading. I can't imagine the life of Immelt's CSO leading up to and in the aftermath of missing the quarter.

Stories like these are proof that forecasting is the life bread of any company. Accuracy in forecasting affects customer satisfaction, profitability, stock price, and ultimately, reputation. It demonstrates to the public that a company is tuned into its market potential, its customers and the effectiveness of its sales force. An accurate forecast is the cornerstone for operational and financial execution.

Yet, to put together an accurate forecast, executives are at the mercy of collective input from independent sales people and channel partners who may be scattered across the world. Sales people inherently like to sell and view forecasting as an administrative task that they wish would disappear from their job responsibilities. Amazingly, despite the importance of forecasting, many companies are underinvested in their forecast process and tools. Even multi-billion dollar companies often cobble together forecasts from disparate Excel spreadsheets and notes. As much as 63% of all companies rely on spreadsheets for forecasting.[1] To make matters worse, the ability to predict what customers want is increasingly difficult, particularly in the high-tech industry, where technology changes at an increasingly fast pace.

Why is Forecasting So Hard?

Forecasting is challenging for companies of all shapes and sizes. According to Ventana Research, only about 35% of companies achieve 80% accuracy in forecasting. And the issues surrounding the forecasting challenge are usually the same, no matter what business you're in. They include:

- *Lack of established, consistent processes*
- *Complex, hard-to-use tools*
- *Lack of clear ownership, accountability and measurement criteria*
- *Lack of methodology*
- *Lack of training and incentives*
- *Lack of investment in resources to analyze and check raw sales data entry, and translate the data into meaningful information*
- *Missing or poor forecasts*

[1, 2] *"Sales Forecasting and Demand Planning: Setting the Agenda for Improving Core Processes," Ventana Research, May 2008.*

The problem certainly isn't a lack of time spent on the forecast. When sales are down, executives often burden the sales organization to forecast and re-forecast, hoping the process will change the outcome. Unfortunately, more time spent forecasting doesn't necessarily yield a better forecast; it does, however, prevent sales personnel from spending adequate face time with customers – the single most important activity that helps improve their ability to forecast.

Forecast Success Factors

Over years of trial and error, I've learned that there are several success factors that enable companies to forecast numbers that don't surprise executive management, the board or investors. Let's look at these success factors so we can begin to develop an understanding of how to establish a process to help your CEO set guidance and arm your sales organization with what it needs to build more accurate forecasts.

When establishing forecasting processes and tools, consider the following success factors:

1) Create a clear, straightforward forecasting process that's easy for the sales person to use.
2) Choose tools that minimize time spent forecasting and maximize time spent with the customer.
3) Make the sales forecasting job rewarding to every sales person.

Create a Clear, Straight-forward Process

Rule of thumb says put the horse before the cart. Unless you have a good process in place, investing in a forecasting and CRM tool will only automate a bad process. I learned this from my first boss, who rejected my proposal to purchase a new productivity software tool for my sales team. He made me document my process and apply it for three months before approving my budget request.

To make forecasting effective, the process has to be clear and straightforward. Ask yourself:

- *Do the sales folks know what they need to do?*
- *Do they have access to the infrastructure and resources they need to develop accurate forecasts?*
- *Do they have administrative support?*
- *Is there adequate quality control?*

Due to years of pressure to reduce sales, general and administrative expenses (SG&A) and a drive toward automation, many companies overlook the need to complement tools with good old-fashioned elbow grease – the people and resources who can provide sales teams with valuable

> “*Due to the pressure to reduce SG&A, and a common belief that tools and automation solve all problems, many companies overlook the need to complement tools with good old-fashioned elbow grease – the people and resources that can provide sales teams with valuable information that will make them more productive in building a good forecast.*
>
> *Haresh Patel, former VP Sales PMC Sierra, Agilent, WJ Communications*”

information, like industry trends, macro and micro segment economic trends, customer and technology trends and customer-specific competitive scenarios to supplement the bottoms-up forecasting. Sales people are passionate about customers and programs, but they tend to forecast in a vacuum, without first having a good understanding of all the factors that affect their customers' businesses.

Keys to Forecasting Software Adoption

- *Make it easy for sales people to use*
- *Include Sales team in selection and implementation*
- *Ensure integration with your CRM system*
- *Manage complexity and cost with a SaaS solution*

In my last company, we were in a very difficult turnaround situation and trying to save the company from going out of business. We invested in upgrading our forecasting tools and CRM to improve our forecasting accuracy, but we failed to make the incremental investment in administrative resources to provide quality control on the sales input. A single error – an incorrect unit price – buried inside a unit forecast for a single customer program caused the company to miss its forecast by 5%. This gross error in forecasting was very costly for the company's new management team in terms of rebuilding its reputation with investors. This error could have been prevented with the right resources in place.

Choose the Right Tools

Selecting the right tools designed for ease of use is the next step to accurate sales forecasting. Sales-driven forecasting requires integrating collective data by customer and by product. Sales personnel must be able to use the tools with minimal effort, and the tools must be straightforward enough to minimize confusion and error. Often, executives look for complex, feature-heavy tools because they think it will provide better results; actually, they just complicate the process for sales personnel, who are usually rushed and may not be as technology-savvy. The easier the tools are to use, the more likely it is sales people will use them, and companies can capture and roll up more complete data across global sales teams, channels and partners.

When choosing a forecasting tool, make sure it offers a simple user interface that helps minimize time spent on data entry and analysis. Simplifying forecasting will give sales staff more time with the customer, which, in turn, yields more timely and accurate data. Make sure some of your sales people that are most respected by their peers are in the selection and implementation process. They will play an important role in having a high adoption rate from day one. It will be perceived as a decision by sales, for sales, which is key to getting buy-in.

Most CRM platforms come with forecasting modules. These are useful to forecast basic revenue growth based on recently secured new business opportunities, but lack advanced features needed for detailed product-level forecasting over time. A specialized forecasting tool that integrates seamlessly with CRM software adds necessary functionality such as real-time visibility into customer data, and collaboration features to align sales, marketing, finance and manufacturing stakeholders.

Success Factors for Better Forecasting

- *Create a clear, straightforward process*
- *Choose the right tools*
- *Make the sales forecasting job rewarding*

Access to the tool as on-demand software (or SaaS, software as a service) can help minimize the IT investment and eliminate the need for additional IT support headcount. The money saved allows investment in sales and marketing resources critical to generating revenue growth.

Make it Rewarding

To make a process stick, it has to be rewarding for the user. Ask yourself, does my sales staff understand why they need to forecast? In other words, what's in it for them? Do you have an incentive plan that will reward people who hit their numbers consistently?

When people are educated on how a process can benefit them, they are much more likely to follow it. Make sure you educate your sales force on the importance of accurate forecasting and the potential impact on stock prices, which will ultimately determine their own profitability and cash flow, especially if they have stock options or restricted stock.

My first job was as a sales person at a company in which the sales forecast process was robust. We had access to tools and resources. Submitting my forecast on time and making my numbers became part of my DNA. But I found myself going through the exercise just to get it done and keep my boss off my back. The net result was a so-so forecast, because I wanted to get it done so I could get back in front of customers. It wasn't until my seventh year that I was finally educated about why forecasting was important. The company provided a course that demonstrated the beneficial impact of forecast accuracy for my customer, my pocketbook and my career path. Over the next three years at the company, I took the forecasting process much more seriously and endeavored to provide better visibility into my customers' needs.

Providing valuable incentives is also an essential part of the process. Like tools and processes, incentive programs must be easy to understand, and participation must require minimal effort. It's also important to eliminate biases that don't contribute to accuracy – for example, rewarding overachievement and punishing shortfalls, a method that can prompt sales staff to set forecasts too low. Implementing a "closest to the pin" assessment method rewards those who come closest to their number, whether the number is higher or lower than expected.

In one company, we leveraged the competitive nature of our sales force and created a contest, where three regions competed for the most accurate forecast. The winning team was rewarded with a shoe shine, provided by the losing team. The activity, although simple and inexpensive to organize, was very effective in motivating the competitive sales staff to provide more accurate forecasts.

Another effective incentive program for improving forecast accuracy involved adding a 10% bonus to the sales person's bonus compensation for meeting their forecast with plus or minus 5% accuracy. If they missed their forecast by more than 10%, their bonus compensation was reduced by 10%. This approach was also very motivating, and it drove home the importance of accurate forecasting.

After implementing the bonus plan, I found our sales team forecast accuracy continued to improve every quarter, and we gained more credibility with executive management. More importantly, our customer scorecard on delivery performance is now rated best-in-class.

Process, Tools and People – A Winning Combination

To recap, there are three essential elements of creating a winning recipe for accurate forecasting: process, tools and people. Not one of these alone is sufficient. Put in place a straightforward, rewarding process and specialized, easy-to-use tools and you'll be off to a good start. Add in some good, old-fashioned elbow grease – that is, people who can provide quality assurance and administrative support – and your forecasts are likely to be right on the money.

About the Author

Senior sales and marketing executive Haresh Patel has a demonstrated track record of driving profitable revenue growth by developing a disciplined and systematic approach to capturing strategic customers. He has experience in building world-class sales and marketing teams and managing complex sales organizations. Mr. Patel was vice president of worldwide sales at PMC Sierra Semiconductor, where he was responsible for growing revenue from $139 to $695 million in just three years. While at Agilent Technologies, Mr. Patel managed a 350+ person sales and marketing organization, increasing revenue from 1.7 billion to $2.1 billion between 2003 and 2004. Most recently at WJ Communications, Mr. Patel was senior vice president of sales and marketing. Mr. Patel received his BSEE from the University of Notre Dame and his AEA executive MBA from Stanford Business School.