Invest in Your Sales Forecast,

And Increased Revenues Will Follow

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EXECUTIVE SUMMARY

As a Chief Sales Officer (CSO), if you could significantly increase your revenues by fixing one problem -- would you invest the time and effort to do so?

Do we have your attention? Great, then let's take the covers off our mysterious question. The problem to be fixed is sales forecasting.

To substantiate these projected "significant" gains, let's translate sales forecast management into dollar signs. We segmented our 2009 Sales Performance Optimization (SPO) study data, gathered from 1,800+ firms, based on companies who excelled at sales forecast management, met expectations, or needed improvement. Consider the sales performance differences between these groups as shown in the following table:

The Impact of Better Sales Forecasts

Sales Forecast Management Assessment	Needs Improvement	Meets Expectations	Exceeds Expectations
Win Rate of Forecast Deals	44.1%	49.8%	55.3%
% of Reps Making Quota	55.6%	61.5%	66.6%
% of Total Plan Attained	83.1%	89.6%	92.4%

This table demonstrates that exceptional sales forecasting and significantly increased revenues go hand in hand. Companies which excel at this aspect of sales management experience 25% higher win rates, resulting in 20% more reps making their quotas, and 11% higher overall revenue attainment compared to their peers who perform this task poorly.

In addition, solid sales forecasting leads to improved guidance to the rest of the company. The impact can be felt across the company in the form of fewer stock outages, less buffer inventory requirements, improved margins and higher customer satisfaction. Companies that produce a reliable sales forecast are then in a position to deliver what the customer wants, when they want it, and with the right features and price.

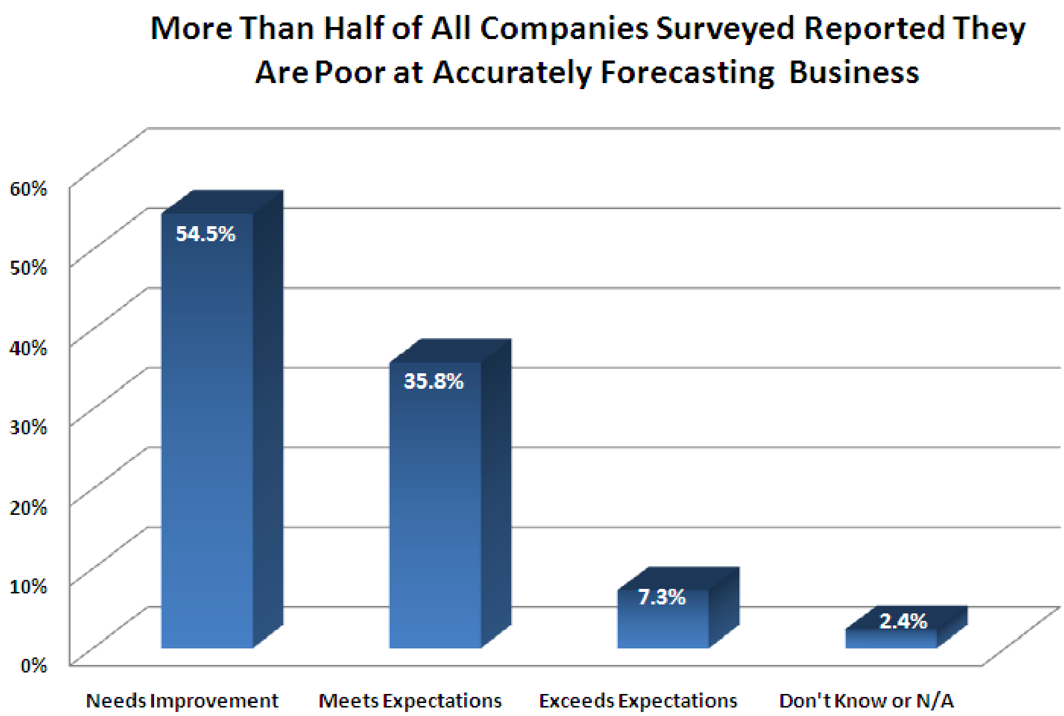
The problem, as you will see, is that far too few companies are achieving this level of performance. Sales forecast management optimization has been on the back burner for far too long. The ROI business case for this initiative is huge, and the tools and technologies to make it a reality are available.

In this white paper, we focus on the need to stop paying lip service in dealing with this challenge, and actually address it. To help make this transition, we will lay out key steps you can take toward optimizing how you manage your sales forecasts.

THE FORECAST MANAGEMENT CHALLENGE

Spend much time at all in sales management and you quickly become aware that poor sales forecast management is linked to challenges that ripple across the entire organization. In sales, it leads to lower win rates for sales reps, and poor coaching by the managers of sales teams. In addition, poor sales forecasting leads to poor decision making in other functional areas such as purchasing, staffing, manufacturing, distribution, support, finance, etc.

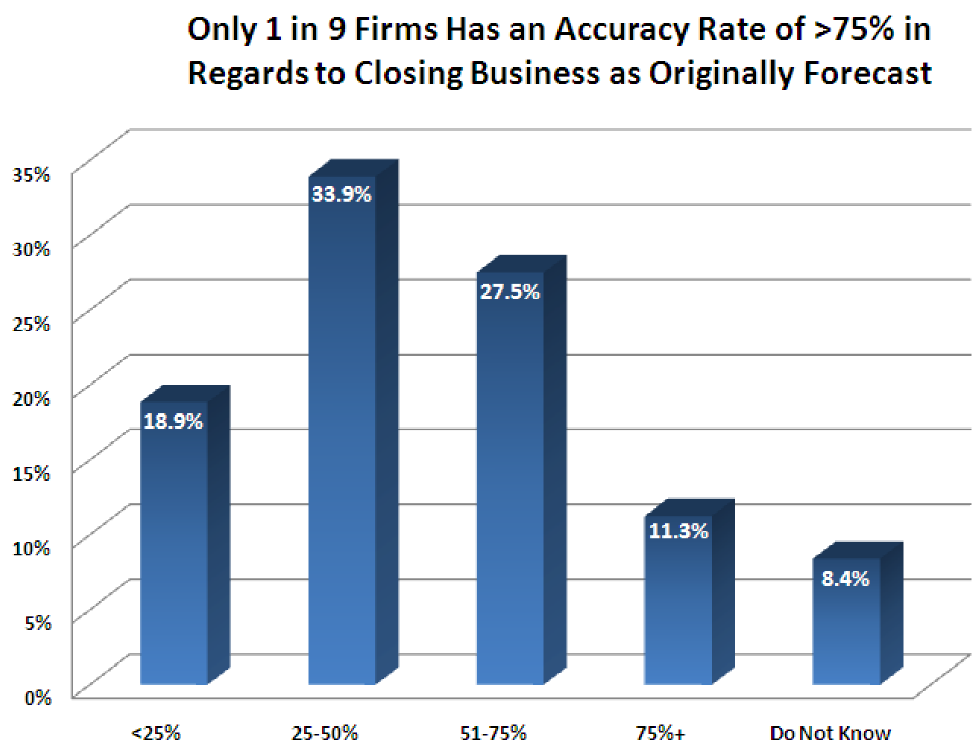
We all know sales forecasting is a challenge. We all talk about improving it. But let's be honest when we answer the following two questions; "Over the past five years, what specific actions have been taken to improve assessing if whether we'll win the business?" And, "If we do win, how do we determine exactly what a customer will need and when?" Reflecting on the first question the answer for too many organizations is "not much."



The chart above is from our 15th annual Sales Performance Optimization (SPO) study, in which we surveyed over 1,800 companies worldwide on over 100+ sales metrics. When asked to rate their ability to accurately determine which qualified business (defined as deals that are part of the sales forecast versus the pipeline) will actually close, over 54% of the firms rated their performance at this aspect of sales management as subpar.

In retrospect, these numbers have not improved over the past five years. In fact, the percentage of forecast deals won has actually *declined* over this period across all the study participants; only 47.8% of forecast business ends up in the "win" column (versus 30.4% "competitive losses" and 21.9% "no decisions").

So let's move on to the second question and explore what happens with the business we do win. Surely our ability to forecast correctly the orders we *do* win must be much better. Unfortunately, for the vast majority of companies this is not the case. The following chart reflects the answers to the question; "Of the deals you do win, what percentage close as originally forecast (what, by when, at what price, etc.)?"



Delving again into the survey data, in the above chart we see that even when we do win the business, precious few companies are able to forecast the make-up of that order with a high degree of accuracy.

What is causing poor performance here? All too often we see the following process adopted by firms with poor sales forecast accuracy: *Rollup, Tinker, Hope!* Here is what this looks like.

First, they rollup individual rep's forecasts into a manager's forecast and then rollup the sales managers' forecasts into ultimately a sales team forecast. Each step along the way the numbers are tinkered with as reps and managers apply their "gut feel" instincts to adjust these numbers up or down because they don't believe the figures as they were given to them.

Then finally, when a version of the "truth" is determined, all too often the next step is to sit back and hope these tinkered with numbers are right. This "hope" substitutes for actively monitoring these opportunities to ensure they either stay on track or that the right adjustments are getting made to get them back on track.

Sales and sales management have just spent a lot of time on a process whose output is often then ignored, whose results are unreliable, and whose overall track record is unpredictable. This is *not* producing value for you or your company.

THE REVENUE IMPACT OF SALES FORECAST OPTIMIZATION

We'll review what the right process ought to be in a moment. But first let's review why you should care about what "better" sales forecast management looks like. For too long we have simply been pointing out that sales forecast management for most companies is inaccurate and ineffective; similarly, sales teams have merely acknowledged their poor performance with a shrug of their shoulders and a look of embarrassment.

Let's again review the table we presented in the Executive Summary where we translated poor sales forecast management into dollar signs.

The Impact of Better Sales Forecasts

Sales Forecast Management Assessment	Needs Improvement	Meets Expectations	Exceeds Expectations
Win Rate of Forecast Business	44.1%	49.8%	55.3%
% of Reps Making Quota	55.6%	61.5%	66.6%
% of Total Plan Attained	83.1%	89.6%	92.4%

In today's tight economic times, when we are all looking for ways to get tenths of a percentage point improvement anywhere we can in our businesses; by comparison, the differences above are staggering. Given the choice, the decision of being the Chief Sales Officer (CSO) of a "needs improvement" versus an "exceeds expectations" sales organization requires no thought at all. We would all opt for the performance numbers that get us much closer to plan. But sales is not the only group impacted by how well or how poorly you forecast.

THE ENTERPRISE IMPACT OF SALES FORECAST OPTIMIZATION

How many times have we heard the adage; "Forecasting is an art, not a science?" Well, there is a huge problem allowing that statement to be true, because the rest of your company needs to work with science, not with art.

Consider the other functional areas in your business that requires an accurate sales forecast to make intelligent business decisions. Marketing. Operations. Production. Finance. How about you as the CSO? Look again at the above numbers. If your win rate is only 44%, then more than half of that business doesn't close as forecast. Who in your company, including yourself, is going to use the sales forecast as the sole basis for making strategic or tactical decisions about the future? Answer: Nobody.

In the absence of a trusted, actionable sales forecast, what we see happen far too often is the sales forecast being ignored. Everyone creates their own sales forecasts (yes, plural) to run the business. As noted above, sales reps' individual forecasts rollup to sales managers who apply their own level of judgment to create a sales forecast for their team, which is then rolled up through other layers of sales management and eventually to the CSO, where other sets of criteria are used to create yet another version of the sales forecast.

This in turn is shared with the rest of the enterprise, and each additional functional area uses the sales forecast as only one input into their individual "sales forecast." We have even seen companies where the CFO and the CEO had different versions of the "official" sales forecast.

In essence, what all the different areas of the company are doing is handicapping the sales forecast because it is not trusted or actionable. It goes from bad to worse. A company can't rely on demand planning and statistical forecasting models. As a result of the volatility of the past year, across the enterprise, these models that operations and production have relied on rather than the sales forecast, have broken. Many of us are making fundamentally wrong decisions as a result.

SALES FORECAST OPTIMIZATION

We need to stop paying lip service to meeting this challenge, and actually deal with it. The following are three steps common to firms who excel at sales forecast management that you can take toward optimizing how you manage your forecasts.

Step One: Set a realistic goal, *and 100% forecast accuracy is not it*. Winning business is subject to many factors in the sales ecosystem; evolving customer requirements, changes in their marketplace, competitive strategy shifts, and of course the big "E" – the Economy. So, as you start this journey you need to initially define what minimum, better and best sales forecasting looks like for your organization. This needs to go beyond just opportunity forecasting. It needs to include true bottoms-up demand forecasting for your new and existing business so that you fulfill on your customers' orders.

Step Two: Ensure that sales reps and managers are held accountable for their forecast accuracy. In this regard, let us share a couple of numbers from our 2009 Sales Compensation & Performance Management study. When we asked the 1,000+ survey participants to share with us the specific sales behaviors their compensation plans were designed to drive, we learned the following:

Compensation's Impact on Behavior	Motivating Forecast Accuracy
Sales Managers	**31.9.%**
Sales Reps	**13.1%**

This chart shows that less than one-third of the firms we surveyed feel there is any link between their management compensation and sales forecast accuracy; this number drops to about 1 in 8 when you look at sales reps. This suggests that we could be more effectively using compensation to motivate sales forecast accuracy in many companies.

While we have promoted this practice in the past, we have also added the caveat that throwing money at a problem makes no sense if you do not also ensure that the processes and metrics are in place to provide reps and managers the insights they need to develop and actively manage opportunity and demand forecasts.

Step Three: Redefine how you manage your sales forecasts. We need to replace *Rollup, Tinker, Hope* with *Consolidate, Analyze, Optimize*. Building trust in sales forecasts initially relies on understanding the bias, completeness and consistency of the underlying assumptions. Predictability in the sales forecast is different from accuracy. You get a predictable sales forecast by first consolidating the best available data from wherever the information resides.

Next, you need to focus on synthesizing and vetting the raw sales forecast and adjusting for bias. What we then need to do is evolve the review of the sales forecast from something we do based on hunches or "gut feel" to a formal analysis driven more by metrics.

Then, realizing that even this resulting sales forecast is subject to surprises that will cause you to need to review and perhaps revise your numbers over time, we must get much more proactive in consistently and constantly revalidating and optimizing the sales forecast so that we can take actions early should the numbers start to shift up or down.

SALES FORECAST MANAGEMENT OPTIMIZATION IN ACTION

Completing these tasks for many companies will require not just a redesign in processes, but also the utilization of newer technologies. An example of a firm that has made this journey is QuickLogic. In the semiconductor world in which they live and actively compete, what at times appears to be organized chaos is a reality they must deal with. The champion behind QuickLogic's sales forecasting optimization initiative was their former VP of Worldwide Sales (who has since been promoted to President), Andy Pease.

Over a two year period, QuickLogic dramatically changed their business model, restructuring their existing solution platforms, as well as entering into new markets. Solid sales forecast management became a requirement to survive and thrive through this transition. To achieve this, Andy and his team created a formal, repeatable sales process with rules for each stage in the sales cycle.

They then tied the reinforcement and enforcement of that sales process to two technology platforms; Salesforce CRM for opportunity management and Right90 for sales forecasting and revenue performance management. As a result of integrating these two systems Andy shared that: "To the user, forecasting is a seamless extension of their everyday activities. As soon as a rep finishes a call, the forecast is just a click away, and they don't feel like they have to spend extra time and effort to update it."

Andy further noted: "Crisis and chaos create opportunity, but you have to be able to see where the opportunity is in order to capitalize on it." Because their sales forecast data is being constantly updated, QuickLogic now provides sales managers with proactive, actionable insights to optimizing the performance of their teams.

OUR ADVICE

It is time to fix the problem versus turn our backs on it or simply accepting that this is the way it's always been. In doing so, companies can turn sales forecast management into a competitive edge. An example of this is a build-to-order firm we recently benchmarked. Because their operations and production groups are now able to trust the sales forecast, they are spot buying components that have highly variable prices to obtain the best price ahead of receiving an order.

By locking in the lowest available component cost, they are now able to give their sales teams better pricing and better availability terms to quote to customers, which is resulting in more wins. This is only possible because the firm now trusts the sales forecast.

As you move into 2010 and prioritize what needs to be improved now and what can wait, we encourage you to include this analysis in your decision making. Sales forecast management optimization has been on the backburner for far too long. The ROI business case for this initiative is huge, and the tools and technologies to make it a reality are available. Fix it. Now!

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