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The Definitive Guide to Data-Driven Sales Forecasting

For Sales VPs and Sales Managers

Contents

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Introduction to Data-Driven Sales Forecasting

Most companies face challenges with achieving accurate and effective forecasting. They have poor visibility into their projected sales because of the inaccurate intuition-based forecasting methods they deploy, which leads to poor performance in attaining sales quota. In recent years' industry surveys, we have seen that just a little over 40% of forecasted opportunities actually close. Even when won, it's not always the deal originally forecasted. A company can't generate predictable revenue when they miss their forecasts and when more than half of reps don't make their quota.

Sales forecasting is typically done using legacy, subjective sales forecasting methods based on sales reps' gut instincts, not historical data. Thus, many companies don't have a data-driven forecasting process, relying instead on guesswork, which makes their forecasts less accurate and does not allow sales managers to spot early signs of problems in the pipeline. Additionally many companies attempt to forecast within their CRMs or with Excel spreadsheets; unfortunately neither resource is designed to create meaningful and repeatable forecast processes. They are manual, unscalable and susceptible to errors. Sales managers end up spending too much of their time on forecasting activities and pipeline management rather than on more critical, value-add sales management tasks such as coaching, training and revenue-generating activities.

What sales managers and VPs need is a system that encompasses the **8 Best Practices of Data-Driven Sales Forecasting**, which will be covered in detail in the coming sections:

1. **Forecast by Pipeline Stages, not Forecast Stages**
2. **Separate Pipeline Management vs. Forecasting Meeting**
3. **Know The Company's 4 Averages**
4. **Know Each Rep's 4 Performance Areas**
5. **Inspect the 6 Essential Deal Metrics**
6. **Manage Your Forecast Killers**
7. **Look for Early Warning Signs**

Barriers to Effective Sales Forecasting

Accurate sales forecasts are critical to managing your business effectively. They help sales teams achieve their goals by identifying potential early warning signals and risks in the sales pipeline. Forecasting facilitates business planning and risk management, along with budgeting and goal setting for the entire company. There are many obstacles keeping organizations from successfully executing an accurate sales forecast, including:

- Using a Legacy Intuition-Based or "Finger in the Wind" Approach
- Insufficient Data, Inaccuracies and Guesswork in CRMs
- Using Manual, Unscalable and Error-Prone Spreadsheets
- Lack of Real-Time Data (Win/Loss, Sales Funnel, Sales Cycle)
- Sandbagging and "Happy Ears"
- Lack of Accountability in Relation to Individual Sales Rep Forecasts
- No Formal Coaching and Training in Sales Forecasting

However, there are many more reasons to align your sales team and processes with a data-driven approach to forecasting. Overall, reducing risk and identifying opportunity, as discussed below, are two key motivators for the bottom line of your business.

Managing Risk and Identifying Opportunity

Inaccurate sales forecasts carry tremendous risk. Without accurate forecasts, sales managers can expect a big gap between forecasted deals and actual closed-won deals.

Do you know each of your sales rep's historical forecasting error, or "$E_t = Y_t – F_t$"? Not knowing this information further complicates your ability to make your forecasts more accurate over time.

Figure 1 - Risk

The Chinese characters for "Risk" suggest that risk is equal parts danger and opportunity, which is fitting for sales forecasting. In terms of risk, for large public organizations, the danger can go as far as shareholder lawsuits if company executives make public comments using incorrectly forecasted data. For smaller organizations, incorrect forecasts can cause critical cash flow issues and a myriad of other nightmares for everyone from Inside Sales Representatives to C-level Executives. But there is an immense opportunity to improve your company's sales growth, attain sales quota more effectively, and make better business decisions from the improved visibility and planning of data-driven forecasting.

The opportunity to grow your company's revenue, coupled with the risks your business takes from performing subjective forecasts should make it clear that your business needs to start transitioning to data-driven forecasting; however, there are other more tangible reasons to implement a data-driven approach with your sales team, reviewed below.

Key Reasons to Use Data-Driven Sales Forecasting

What are the more immediate and tangible benefits of a data-driven sales forecast? Although reducing risk and identifying opportunities in your data are the ultimate returns on investment, instituting a data-driven approach to forecasting will help your company achieve the following:

- Better Accuracy
- More Effective Sales Reps
- More Objective Conversations About Performance
- Improved Conversion from Opportunities to Sales
- Faster Revenue Growth
- Better Business Decisions Based on Data
- More Executive Alignment from Better Visibility and Planning

Many sales organizations use Forecast Stages (i.e. Commit, Upside, Strong Upside, etc.) in sales forecasting. Independent of the milestone hit by the opportunities, sales reps and managers are asked to make a qualitative assessment of their opportunity. This is a “finger in the wind” approach that is based chiefly on intuition. Ultimately, data-driven forecasts trump the legacy intuition-based forecasting approach for the reasons above, discussed in more detail in the coming sections. Below are the steps you need to begin forecasting based on data or by “Opportunity Stages” rather than by qualitative and legacy “Forecast Stages”. Let’s get started.

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6 Simple Steps to a Data-Driven Sales Forecast

Now that you are familiar with what data-driven forecasts can help you achieve, it is time to address the real issue here: forecasting is hard. Really hard. It is a major test for understanding how your business (micro and macro) works and running it effectively. It requires following processes, capturing data, crunching numbers and coming to an internal agreement on what you are measuring.

If you are using a CRM like Salesforce.com, you probably have a pile of data in the form of old opportunities and custom fields. You may have even changed your sales process multiple times along the way. This can all make it tough to know where to start with respect to your Salesforce reporting, let alone your sales forecast.

There are several steps you can take to get your sales process and sales forecasts to align more accurately; however, you need to ensure that everyone on your team understands and buys into your new processes and definitions in order to be truly effective. Here are the 6 steps to creating data-driven forecasts today:

1. Standardize Your Opportunity Stages

In order to forecast more accurately, one of the first steps you should take is to define your opportunity stages based on distinct steps that your buyer actively takes in the sales process. Keep in mind, your stages should be based on opportunity stages, not forecasting stages (commit, up-side), which are notoriously subjective inputs.

First, start with a clearly defined sales process and formal definitions of each opportunity stage in the sales funnel. The stage definitions must be driven by the buying process, not the sales process—even if the rep is doing everything right, their steps do not reflect the customer's probability to buy. It is critical to define and document your entire sales process to make sure that the sales team clearly understands qualification rules, your sales system and the discrete stages through which an opportunity moves to close.

Opportunity Stage	Prospect Buying Action to Next Stage
Qualification	Agrees to a call with Sales Rep
Demo	Reviews demo and agrees to trial
Trial	Completes trial and requests quote
Negotiation	Reviews quote and responds with counter

A sales forecasting system based on opportunity stages, and the average conversions from one stage to the next, is data-driven, objective and more accurate because it is based on conversion rates from analysis of recent sales.

Opportunity stages should span the entire funnel from “New” to “Closed”. You should not have any opportunities that are not in one of the stages, and stages must be distinct enough that you do not see any two stages happening in conjunction; otherwise there is not enough differentiation between them to be meaningful. Lastly you should be able to measure a gradual drop-off in conversion as opportunities go through the funnel. Drastic drops or multiple “pass-through” stages should raise a red flag in your opportunity stages, where the stages may not be defined properly.

By using opportunity stages, you will have the chance to measure what percent of opportunities make it to Closed-Won based on historical data. Although this can be a challenge to do in Salesforce reporting or Excel spreadsheets (hint: you can do this simply using InsightSquared), using quantitative stages makes it possible for your Sales Ops team or Sales Analyst to measure your win rates objectively.

2. Know Historical Sales Stage Conversion Rates to Closed-Won

Knowing your historical sales stage conversion rates is critical in order to perform your forecasting objectively. Data-driven forecasting takes historical data into consideration. In order to use historical data to better forecast and improve win rates, you will need to be able to calculate historic win rate by stage, historic win rate by employee and the estimated value of each opportunity. Calculate the value of those opportunities and understand how the total value is changing month to month.

Figure 2 below shows a sales funnel (by opportunity stage) and displays conversions from one stage to the next. It allows the sales manager to understand nuances of the pipeline value, how it changes over time, and the stage in which the dollars sit. Top sales managers will also know their historic win rates by stage (conversion from that stage to Closed-Won), not just conversion rates from one stage to the next. For example, in Figure 2 below, only 31% of all opportunities make it from Stage 1 to “Deal”, whereas 84% of deals in Stage 4 will turn into deals for your organization. Looking at your historic sales funnel is a critical first step to understanding how your team will perform in the short- and long-term and ultimately to understanding how accurate your forecast will be.

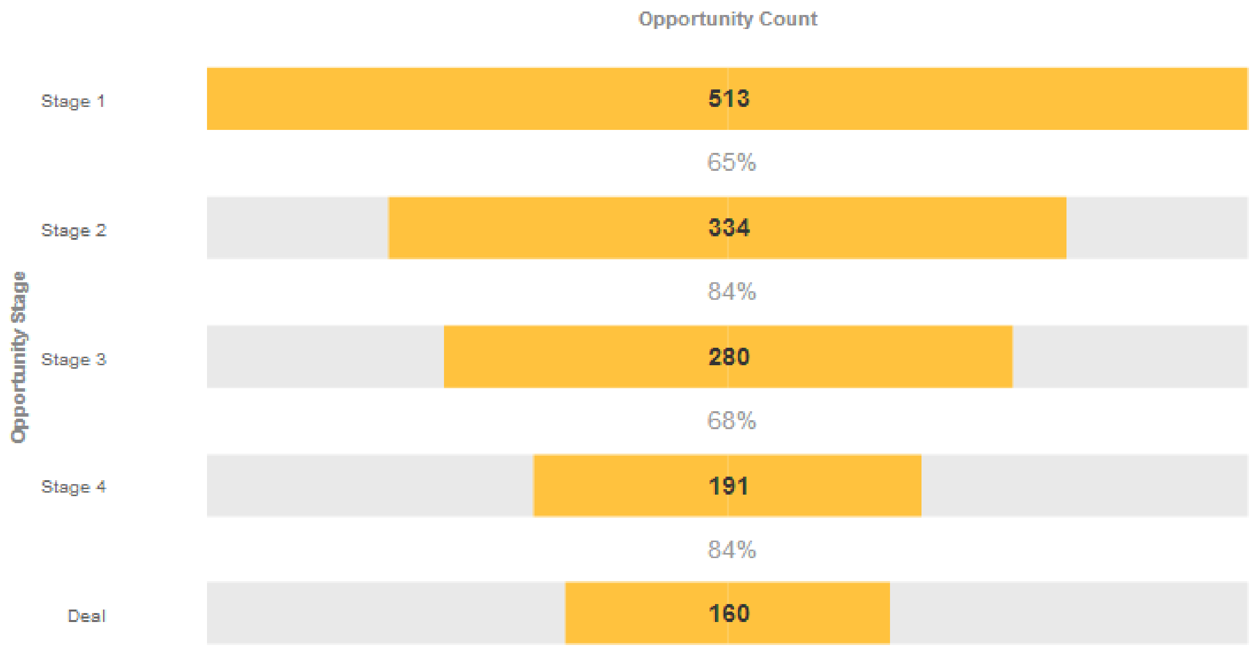


Figure 2 – Opportunity Stage Conversions

With this information, you can quickly move from estimating which opportunities will close to more accurately predicting how much each opportunity is worth based on size, rep, and stage. These historic win rates allow you to estimate the value of a deal more realistically based on what has happened in the past.

Most importantly, using these win rates will help you identify bad opportunities that are currently forecasted to close based on what you know about your stage, your rep, and the size of the deal. This way you can eliminate them from your forecast to make it more honest and accurate.

3. Define Key Metrics that Drive Your Forecast and Meetings

The data-driven forecasting method looks at the conversion rates at each stage, and simply multiplies the opportunity values by those rates. It is more mathematical, but doesn’t account for the nuances in your pipeline. Your team should also consider your conversion rate from start to finish, or Opportunity: Deal ratio, as well as the Essential Metrics for Data-Driven Forecasts, outlined shortly in this eBook.

4. Demand Accurate Close Dates and Monitor Close Date Changes

Most CRMs have a "Close Date" field which allows your reps to enter their own prediction on when a deal will close. Seek out examples where the close date doesn't match the data (current stage + sales cycle from that stage). Sit down and talk to your rep to find out what is happening. Even if your entire organization loves numbers you can't ignore all of the subjective data your sales rep gathers throughout their process. Demand accurate, up-to-date data from your reps and hold them accountable for all of their opportunities. All the forecasting tools in the world cannot help you forecast correctly if you have no data to analyze.

5. Know the Historical Accuracy of Your Team's Forecasts

Past performance is a leading indicator for future performance. By knowing the historical accuracy and performance of each of your sales reps, you will be able to guide and coach them to adjust their forecast for improved accuracy based on the profile of deals they have in their pipeline and their historical data.

6. Separate Your Pipeline Review vs. Forecasting Meeting

Successful sales managers must differentiate between sales pipeline review meetings and sales forecasting meetings. Though they are both meant as a way to monitor sales, key leading indicators, and strategy, they should each have a distinct focus and objective.

Pipeline review meetings should happen every two weeks and a sales manager should go through the top of the funnel to ensure that there are enough early stage opportunities for future success. Sales forecasting meetings should happen every week, ideally on a Monday, and during this meeting a sales manager should inspect each deal and help coach reps to the finish-line on later stage opportunities that are meant to close in the current selling period.

How to Prepare for Your Weekly Forecasting Meeting

Schedule a Weekly Meeting with Your Sales Team

It's important to have regular "Sales Forecasting" weekly meetings in order to accurately project deals that will close in the current reporting period. These meetings are intended to make sure the data that underlies your forecast is up to date and accurate. But the ultimate objective is to help coach and manage your reps to succeed with achieving their quota.

Before starting any sales forecasting meeting, make sure you know:

A) The Company's 4 Averages

1. Average Sales Cycle (Winning)
2. Average Loss Cycle
3. Average Deal Size
4. Average Conversion Rate from each Stage to Closed-Won

B) Each Rep's 4 Performance Areas

1. Pipeline: Open Pipeline, Closed-Won, Quota Gap
2. Deal Averages: Sales Cycle, Deal Size, Win/Loss Cycles for Key Stages
3. Sales Funnel: Historical Conversion Rate from Each Stage to Closed-Won
4. Deal Analysis: Historical Opportunity Diagnosis Accuracy

Essential Metrics for Data-Driven Forecasts

In order to get a complete view of your sales forecast you will need to also consider the following metrics in your analysis:

1. **Stage:** Look at what stage your opportunity is currently in. Based on what we discussed above, by now you should know which conversion rate to Closed-Won would apply at each stage and have a clear idea of what the probability of converting the opportunity to a closed deal is at this stage. Watch for negative velocity at later stages in your sales cycle, as this is an indicator that your deal could be at risk (traditionally, deals speed up as they progress through the sales cycle).
2. **Age:** You probably have a number of stale opportunities that should have been purged from your pipeline. If the opportunity is 2x or 3x longer than your typical average sales cycle, your opportunity is "at risk". Sales managers should know their sales cycle by Won/Loss and look at how long a successful opportunity stays in each stage, and then compare that to their current open opportunities. If the successful opportunities usually move through Stage 1 in only a few days and your current pipeline is averaging over a month then that's a clear sign that these stale opportunities should be purged. During your forecasting meeting you can now have this objective conversation with your sales rep.
3. **Size**: Salespeople typically want to focus on big deals and have "happy ears" (reps hear only good news, not listening objectively) but as a result, most organizations waste time on big opportunities that were never realistic in the first place. Effective managers must review their won/loss analysis and then look at win rates for the bigger opportunities. There is typically a sizeable gap between those two numbers, which is why you should discuss these bigger forecasted opportunities at forecasting meetings and ask each rep for more objective data about why they believe these will close when projected.
4. **Engagement:** Know if the opportunity has stalled in momentum by viewing activity on the opportunity for the past 2 weeks (or 10 business days)—if there is no activity and it is forecasted to close this month,

this is an indicator that the opportunity is at risk. If you have a traditionally longer sales cycle, adjust this threshold based on your historical data, but continue to monitor for drops in engagement.

5. **Effort:** Know how much effort went into the opportunity—this can be measured by tracked activities that your sales reps should be logging in your CRM. Additionally, you should apply some of the principles of “activity based costing” and measure some of your activities as more impactful and effective than others: thus a demo activity or a trial activity of your product would mean a lot more than just a cold call activity. If a lot of effort or activity was invested into the opportunity then it’s more likely to close, but it is important to monitor the “quality” or the type of activity and not just the “quantity”.
6. **Slippage:** When reviewing opportunities, if you are seeing deal slippage or the opportunity close date getting pushed out a several times then the opportunity is at risk. Another “Forecast Killer”, slippage should be a key indicator of stalling opportunities.

Overlay Your Data-Driven Forecast with Your Rep's Intuition

While we are espousing using a data-driven sales forecasting method to replace legacy forecasting methods, a successful sales manager must still make sure to overlay the data-driven forecast with the sales rep’s insights. Accurate forecasting demands that the two not be mutually exclusively, but rather that companies start with data and then overlay it with their reps’ experience, insight and intuition (after all, you pay them a lot of money to be experts at reading prospects and situations). Consider these key concerns that every inside sales manager should address:

- Does your Sales Rep Have Proof of "BANT" with the Opportunity? (Budget, Authority, Need, Timeline)
- What competing products are being evaluated?
- Why is this opportunity in stage X and what would move it to the next stage?
- Why do you believe that this opportunity will ultimately close?

These questions will help you get the accurate forecast you need and better prepare you to meet with management to address your sales forecast for the coming month or quarter.

Also, remember to look for early warning signs such as monthly progress vs. forecast projections, negative velocity, and struggling reps to fill in the entire forecasting story.

Manage Your 10 Forecast Killers

Consider these key factors that increase the risk for any forecast. Flag your opportunities as “at risk” if they fall outside of the normal profile of the following:

- **Timing:** Time kills all deals. Look at the opportunity age vs. your average sales cycle (i.e. win cycle). Also if the opportunity is sitting in first two stages longer your historical won cycles for those stages, then they are “stuck opportunities” and should be flagged as at risk.
- **Average Deal Size ($):** Review the expected opportunity size vs. your average won deal size. If your opportunity is 3x greater than your average, it should be treated differently than your regular opportunities. Larger deals have lower close rates and longer sales cycles than smaller deals, so if the sales rep is not treating the particular opportunity differently then it’s at risk. Also note if the expected deal size of a given opportunity dropped by more than 30% in later stages then it may be at risk.
- **Slippage:** Opportunities that are pushed often or slip beyond the expected close date should be flagged as at risk. If a deal’s close date has pushed more than 3x then it should be flagged as at risk.
- **Stalled Engagement:** Opportunities that are forecasted to close soon should be actively engaged with by reps. If an opportunity displays little to no rep activity over the past two weeks, it has likely stalled, diminishing the chances that this deal will close so it should be flagged as at risk.

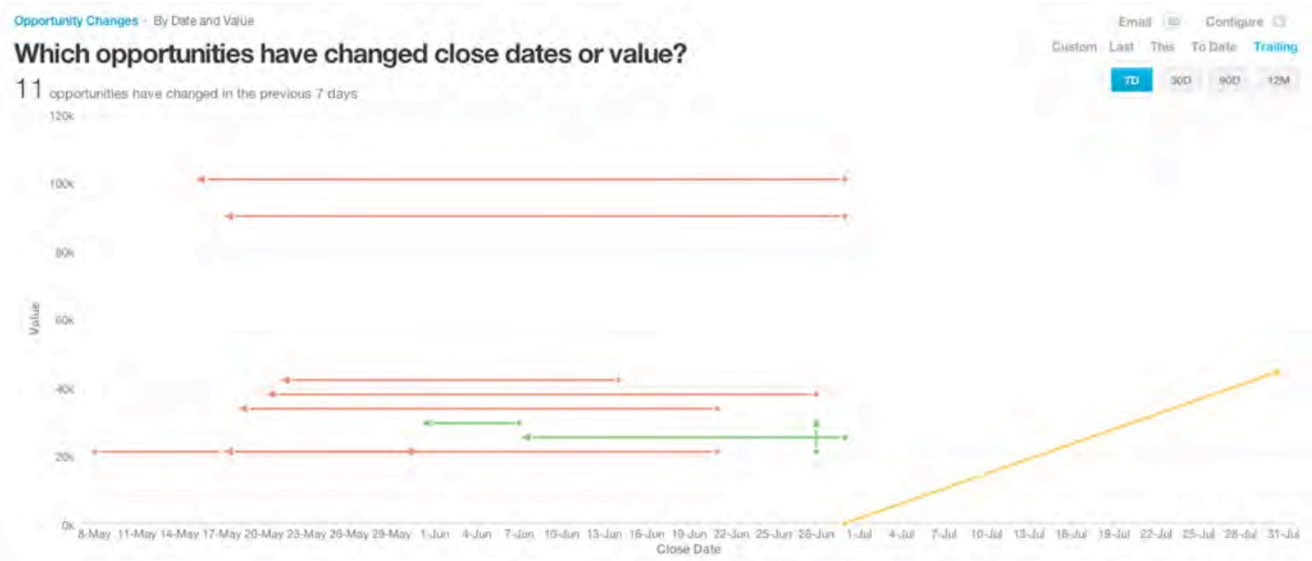


Figure 3 – Slippage and Opportunity Changes

- **Stage:** An opportunity in the first stage of the sales cycle does not belong in the sales forecast, even if the rep marked the expected close date in the current selling period. Additionally, make sure that for every opportunity (at any stage), your reps know clear next steps that the contact will take. Otherwise, the opportunity must be flagged as at risk.
- **Negative Velocity:** If there is negative velocity (or deal is stalling for a longer period of time in the last few stages) then it should also be flagged as a deal at risk.

- **Title:** By the time the opportunity reaches the late stages, your reps should be talking to a contact who has a title of your typical buyers. If your champion still has to ask for permission at this late stage from others with authority at his company then the opportunity is at risk. If the rep is not already talking to these other executive sponsors at this late stage then this opportunity must be flagged as at risk.
- **Lead Source:** Figure out what your win rates are for each lead source. If an opportunity comes from your low-probability source, it should be flagged as at risk.
- **No competitor:** Typically, customers will shop around to compare products and prices. If during late stages in the buying process, your sales rep is not aware of which competitors his contact has looked at, then that opportunity should be flagged at risk.
- **Late Random Additions:** Look closely at any large deals (that are more than 2x the average deal size) that were randomly added at the last minute. These should be flagged as at risk.

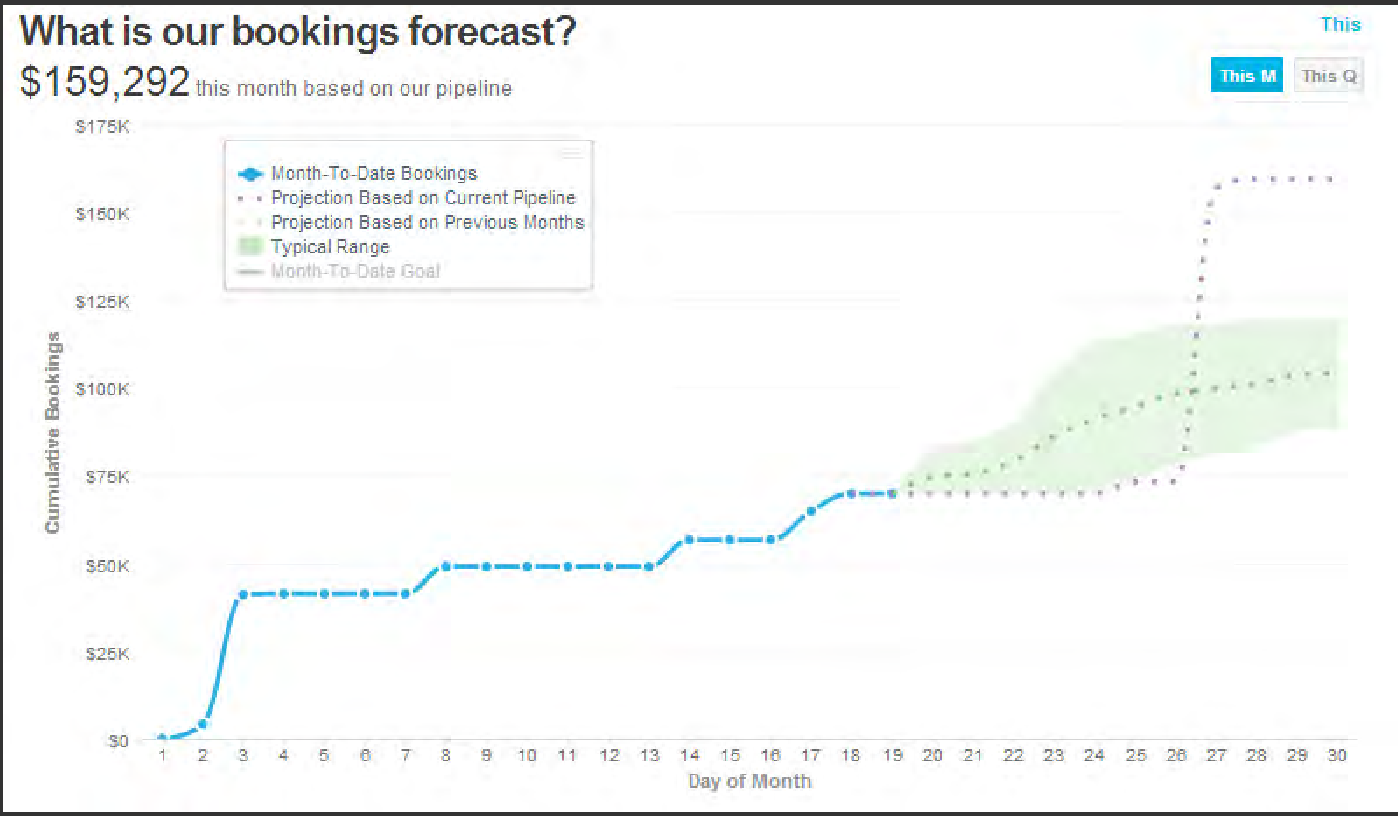
Make sure to monitor these variables when judging your projected forecasts and analyze them in your weekly meeting with your sales reps. You may find that opportunities that look like winnable deals at face value could actually be at risk and in need of immediate attention. Ultimately, by planning your sales stages, maintaining standards throughout your sales process, and measuring your projected forecasts against your historic performance you will find that sales forecasting becomes a more accurate, integral and dependable measurement of your sales performance, and that your organization will prosper from your newfound processes and the integrity of your forecasting.

Conclusion

Like all sales managers, you need better sales forecasts to manage your team, plan and budget more accurately, set more realistic expectations for your organization, and ultimately to help grow revenue. It is also likely that you've spent countless hours in your CRM or Excel spreadsheets trying to formulate an accurate, repeatable forecast that has continued to miss the mark, time and again.

This guide discussed the best practices of data-driven sales forecasting and the key reasons to use data-driven sales forecasting with "opportunity stages" rather than the legacy approach using "forecasting stages". It also provided the simple steps to get started with a data-driven sales forecast that will place you on the path to more accurate forecasts and increase your team's performance and productivity.

Below is a figure that shows a data-driven forecast —our Smart Forecast— in InsightSquared. If you are interested in using predictive analytics and automating your forecast, request a free trial of the Smart Forecast and other InsightSquared reports by reaching out via email or by clicking below.



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About InsightSquared

InsightSquared provides disruptive and breakthrough sales and marketing analytics for Salesforce. The analytics, dashboards and reports are built from the ground up for sales managers and business executives who run small and midsize companies (SMBs). Our Software-as-a-Service (SaaS) product lives in the cloud, meaning SMBs don't need to license expensive software, invest in new hardware, or employ dedicated IT and analytical staff to use it.

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