The Ultimate Guide to

Sales Forecasting

INSIGHT**SQUARED**

Introduction

There are dozens of products on the market that use algorithms and machine learning to predict sales forecasts. So why isn't one dominant? Why isn't there one solution so trustworthy that sales leaders from any business can just plug in their pipeline and win rates, and get a perfectly accurate forecast every time?

Many reasons. Maybe your data set is too small. Or perhaps seasonality plays a role. Maybe win rates vary greatly by product line, geography, or vertical. But usually, the problem is us – humans. It doesn't matter how sophisticated your predictive algorithm is if it's being fed faulty or biased data.

Are sales forecasts forever doomed to be constructions of back-of-the-napkin math and best guesses? Of course not. But managing the human element of sales forecasting is crucial – you need to get it right before adding technology to the mix.

The number you get from your sales reps is one valuable data point, and the number your forecasting software spits out is another. Neither is perfect, so it's important to consider both.

This guide walks you through a blended approach to forecasting, helping you develop a process that instills trust in both the human and the machine prediction, so you can use both to make a more reliable estimate.

Priority 1: Harness the Human Element

THE CHALLENGES

People are notoriously susceptible to biases. If you've ever observed a flipped coin land on heads several times consecutively, and felt tails has to land next, then you know we aren't a particularly rational species. And our biases tend to show up when we're making sales forecasts. As a result, some of the most common forecasting problems are:

1. Some reps purposefully "sandbag" or forecast low to save deals for the future
2. Other reps forecast too high because they are reluctant to admit they don't have enough pipeline, or they are afraid to call out a low number in front of their peers
3. The team as a whole doesn't understand why forecasting is important, so your reps don't invest time to make their forecasts accurate
4. Reps' goals are on sales quota, not forecast accuracy, so they aren't incentivized to focus on predictability

THE SOLUTION

Educate your sales reps, create a culture of accountability, and develop a transparent forecasting process. Follow these steps to get everyone on the same page:

1. Educate your team
2. Develop a culture of accountability
3. Get visibility into your forecasting process

STEP 1: EDUCATE YOUR TEAM

When your reps see the bigger picture, they're more likely to engage in the "right" behaviors that result in a more accurate team forecast. Use examples, like a capacity planning model or investor presentation, to demonstrate why your forecast is vital to your business. Help them recognize the role they play as individual contributors and highlight specific actions they can take to improve forecast accuracy.
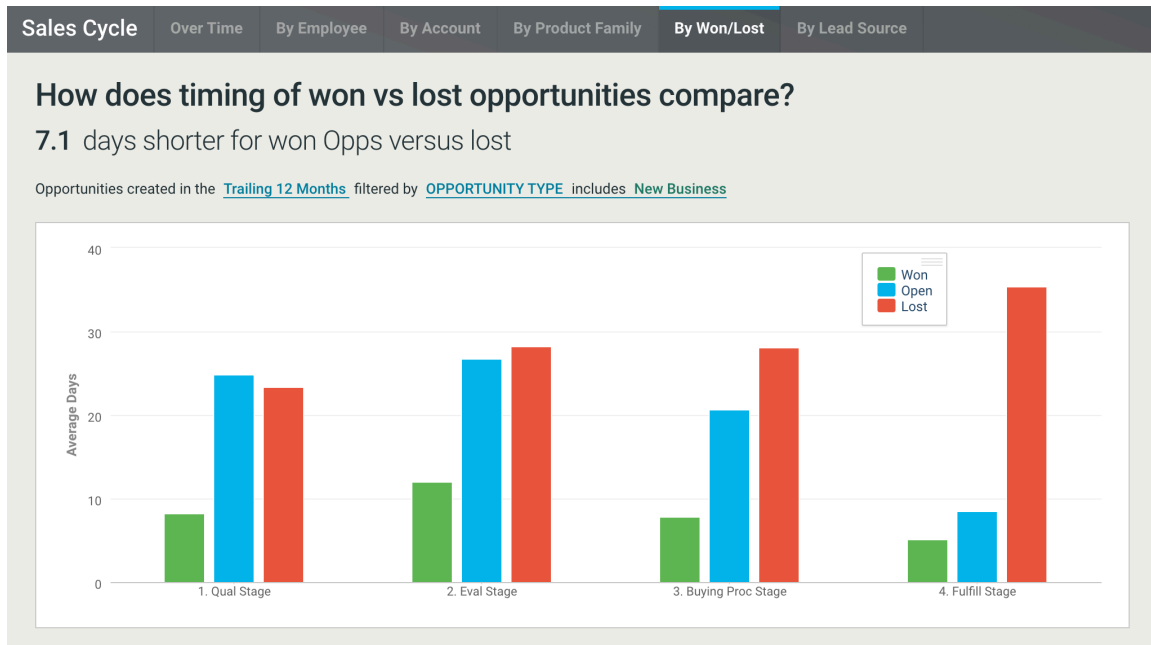
Breaking down your sales cycle by won and lost opportunities will help your team develop methods for quickly assessing how likely opportunities are to close, which will in turn improve their ability to forecast.

STEP 2: DEVELOP A CULTURE OF ACCOUNTABILITY

Set goals around forecast accuracy, and hold your team accountable to them. Make the goals visible and highlight both top performers and underperformers. Hold sessions to share best practices. Work to create a culture that praises accuracy and consistency, not just bookings.
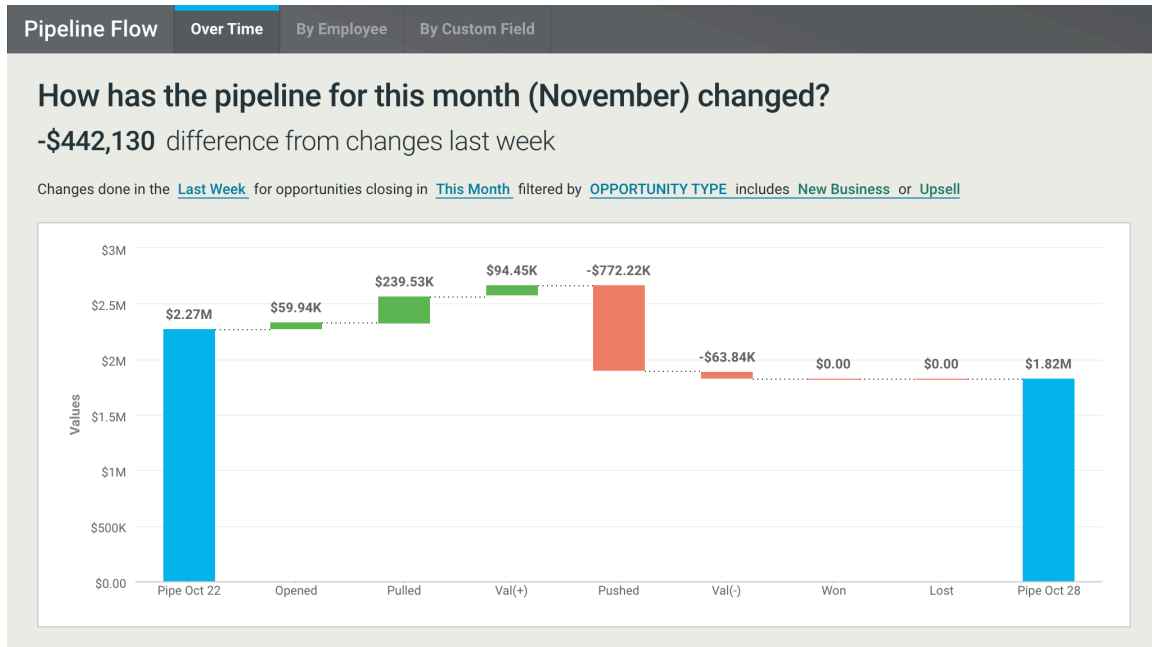
A report tracking the inflow and outflow of opportunities in your pipeline helps keep your team honest by shining a light on reps who sit on stale opportunities and flush them at the end of the month.

STEP 3: GET VISIBILITY INTO YOUR FORECASTING PROCESS

Identify the behaviors that cause variability in your forecasts, such as opportunity selection or prospecting habits, find ways to measure them effectively, and make sure you have the right data at your fingertips. Use these measurements to reinforce accountability with your reps and bring attention to both good and bad behaviors.
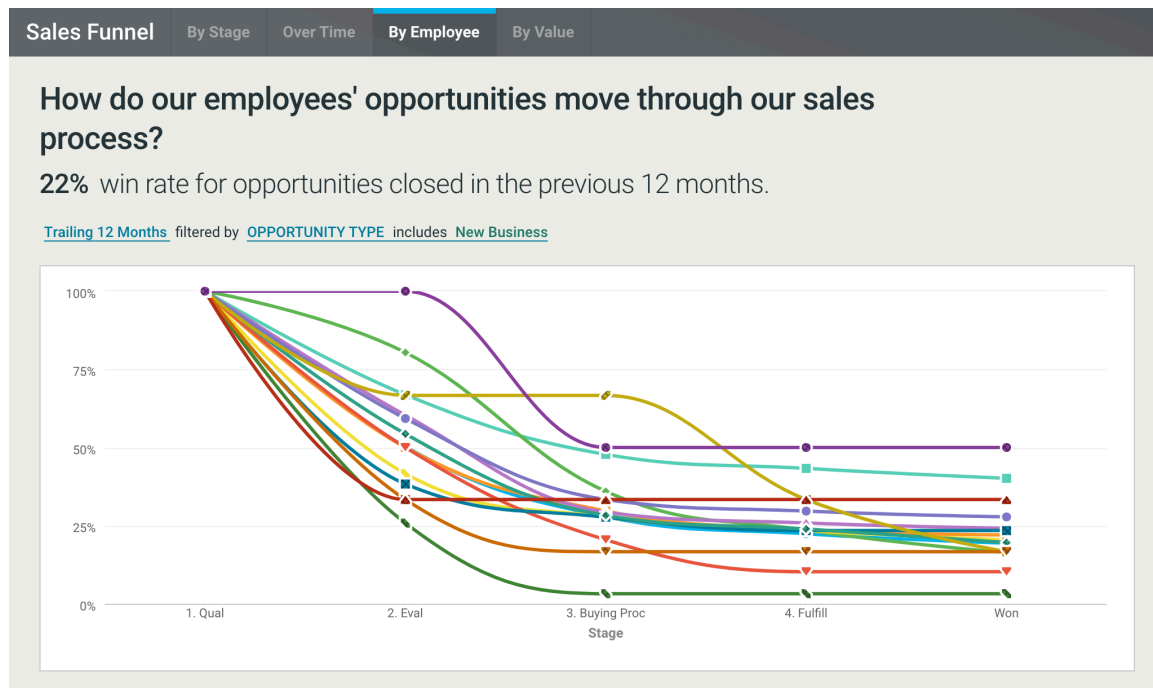
A sales funnel report can help you visualize each rep's process and pinpoint the culprits who are most likely to lose late-stage pipeline and disrupt the forecast.

CONCLUSION

Completing these steps successfully moves you to a point where you can trust the forecast numbers that reps and managers provide each month. Unfortunately, you still have to tally them up and roll them into a company-wide forecast. That can get complicated very quickly and often takes up hours you can't afford to lose at the end of each month.

The result is you have to choose between completing other revenue-producing activities like helping your reps get deals across the line or developing an accurate forecast. Most sales leaders choose the former, and most sales operations teams work double-duty to complete the forecast and get deals over the line.

The next phase to improve your forecast accuracy is to minimize the overhead involved. Your goal should be to spend as little time as possible creating your forecast, so you can spend more time on the activities that move the needle on bookings.

Priority 2: Minimize Forecasting Overhead

THE CHALLENGES

The overhead involved in maintaining a weekly or monthly forecast includes:

1. The opportunity cost of time lost constructing the forecast
2. The infrastructure to keep the forecasting process consistent over time
3. The effort of maintaining a culture that values data quality and forecasting best practices

THE SOLUTION

Centralize your inputs, simplify and streamline your forecasting workflow, and automate the calculations. This is where adding technology to your team's input boosts the accuracy and quality of your forecast. Here's how to accomplish each part of this solution:

1. Centralize input

2. Streamline workflow

3. Incorporate automation

STEP 1: CENTRALIZE INPUT

The most time-consuming factor in developing a sales forecast is organizing the roll-up of forecast calls from all your reps. If you don't strictly manage the process, you receive a storm of emails, spreadsheets, CRM reports, and word-of-mouth commitments that have to be pieced together.

Nip this problem in the bud with a comprehensive, well-documented process for entering forecast information in a single, shared system. Set a weekly or monthly deadline to get data into the system and don't accept forecast calls that come to you any other way. Be a stickler for this rule – it will save you time and improve your forecast.
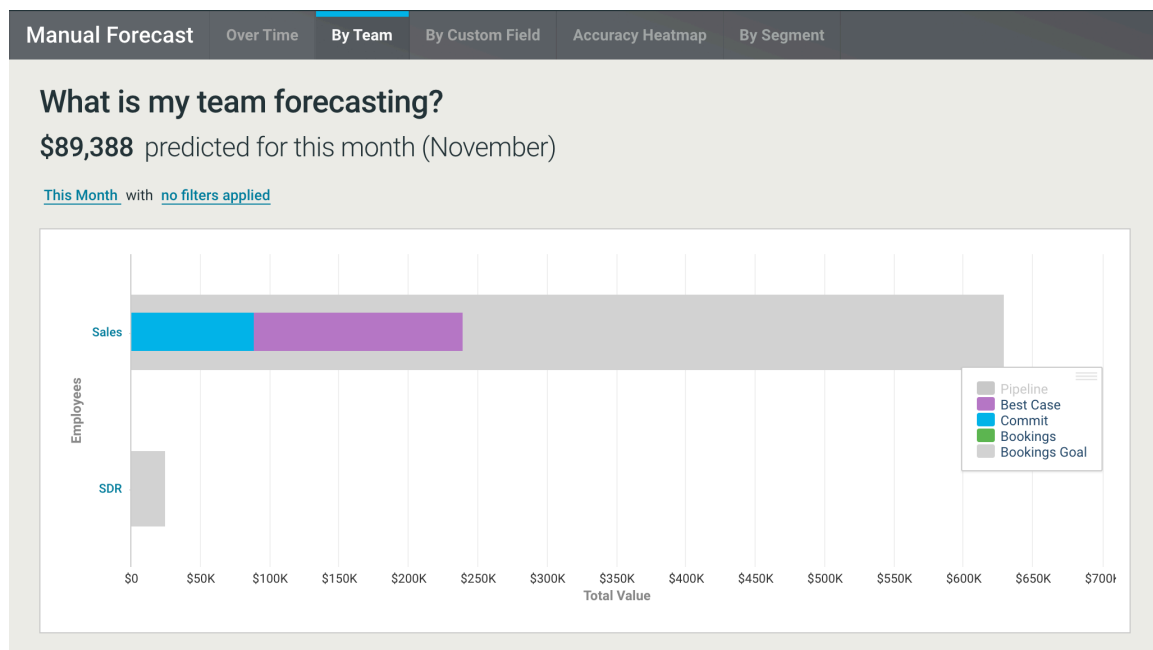
Compiling all your team forecasts in one place and including "rep confidence level" as a variable allows you to quickly spot outliers and assess who to take at their word.
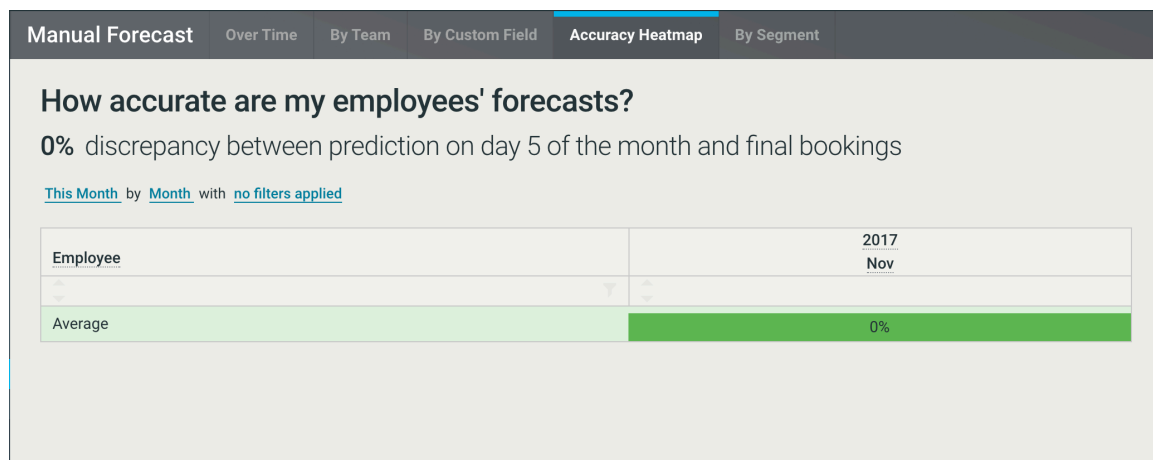
STEP 2: STREAMLINE WORKFLOW

If your team resists recording their forecast calls in a central database, it's most likely because that process has created extra work for them. Review the setup of your database system and find ways to streamline your reps' workflow. Wherever possible, integrate the data-entry aspects of their job with their selling responsibilities, so they don't have to duplicate work.

Force reps to choose a forecast category (e.g. commit and best-case) each time they create an opportunity, so they spread that task out over time and aren't scrambling at the end of each period trying to backfill data on old opportunities.

STEP 3: INCORPORATE AUTOMATION

Once you identify the best workflow for obtaining relevant forecasting data from your reps, you can start automating different pieces of that process. For example, if your process is set up in such a way that every opportunity is recorded in your CRM and marked with a forecast category, you can automate the roll-up and have your expected and best-case forecasts at your fingertips without doing any work.

Automation removes all the overhead related to crunching the numbers, allowing you to step back and focus on the big picture rather than the fine details.

Manual Forecast	Over Time	By Team	By Custom Field	Accuracy Heatmap	By Segment		

How accurate are my employees' forecasts?

0% discrepancy between prediction on day 5 of the month and final bookings

This Month by Month with no filters applied

Employee	2017 Nov
Average	0%

When assessing a roll-up forecast based on numbers from your reps, it's critical to have hard data on who misses high and who misses low. An automated heatmap of reps' forecasting history is the ideal tool for that.

CONCLUSION

Even when you have all of your reps' best guesses in one place, you're still just guessing. Until we can win 30% of a deal, forecasting won't be an exact science.

In order to truly increase forecast accuracy, you have to take the same approach as smart investors, spreading your risk across a range of predictions instead of being over-reliant on one figure or model. The final section of this guide explains how to calculate the most accurate forecast possible by considering multiple data points.

Priority 3: Read Between the Numbers

THE CHALLENGES

To get closer to a perfect forecast, there are some remaining challenges to overcome:

1. Human input is commonly biased
2. There's too little data and too small of a sample size for machine learning to be precise
3. No model can account for every market and seasonal trend that impacts your business

THE SOLUTION

Adapt a portfolio approach to forecasting and combine multiple data points that reflect different aspects of your forecast. Here is a detailed walk-through of what that looks like:

1. Broaden your data inputs

2. Make the right judgment on your forecast

STEP 1: BROADEN YOUR DATA INPUTS

No matter how confident your sales reps and managers may be about their forecast, it will always be susceptible to human bias. At the same time, unless you have years of perfectly structured data to feed into an algorithm, forecasting software will likely miss important variables every month. Rather than try to perfect one approach or another, your best bet is to consider both.

Incorporate multiple calculations based on variables like rep confidence level, your reps' historical performance, prospects' historical behaviors, as well as a single roll-up forecast that consists of the combined predictions from each of your reps. Use the roll-up forecast from your reps as the "wisdom of the crowd" and the data from a machine algorithm as the rational, unbiased benchmark. The right number is generally somewhere in the middle.
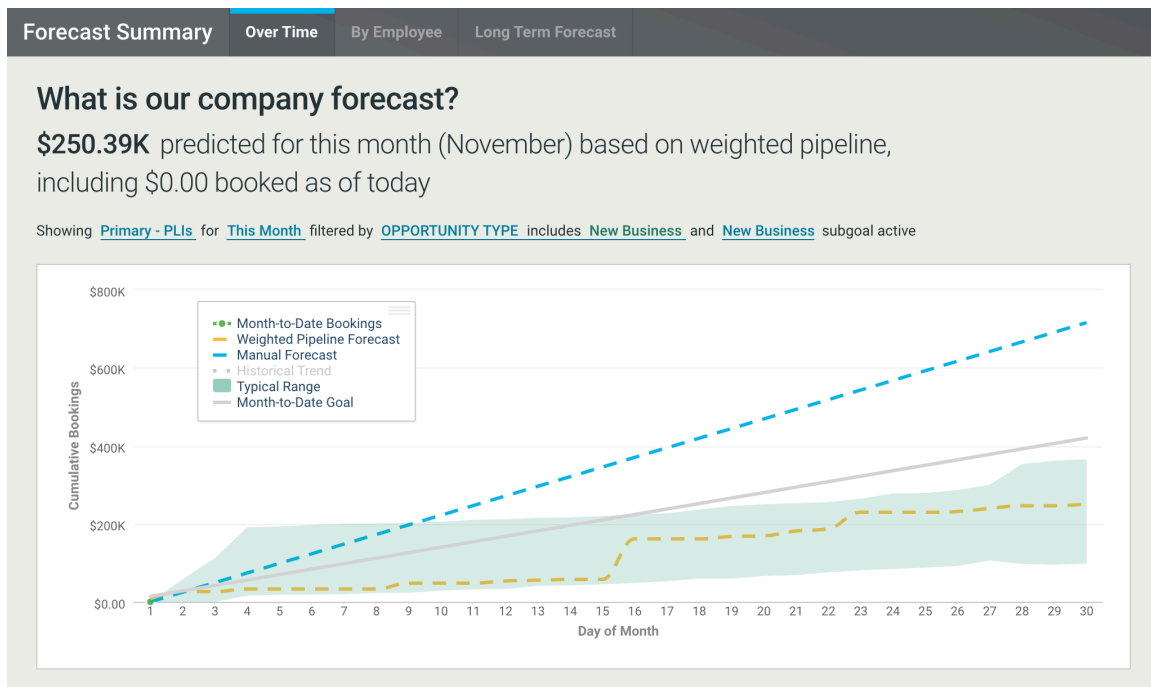

The ideal forecast visualization lets you compare all your data inputs in one place and make quick comparisons against your goal and against your historical performance.

STEP 2: MAKE THE RIGHT JUDGMENT ON YOUR FORECAST

The last variable in any forecast is you: the sales leader (in concert with sales operations). When you take the final step to commit to a forecast number, you won't be using science alone to make your decision. You have to draw from your knowledge of your company's past performance, what you know about the current situation in your pipeline, and the information you've gleaned from your roll-up and machine-generated forecasts.

If you've done your job up to this point and have confidence that the data is accurate, making a final call is the easiest, least stressful step in the process.
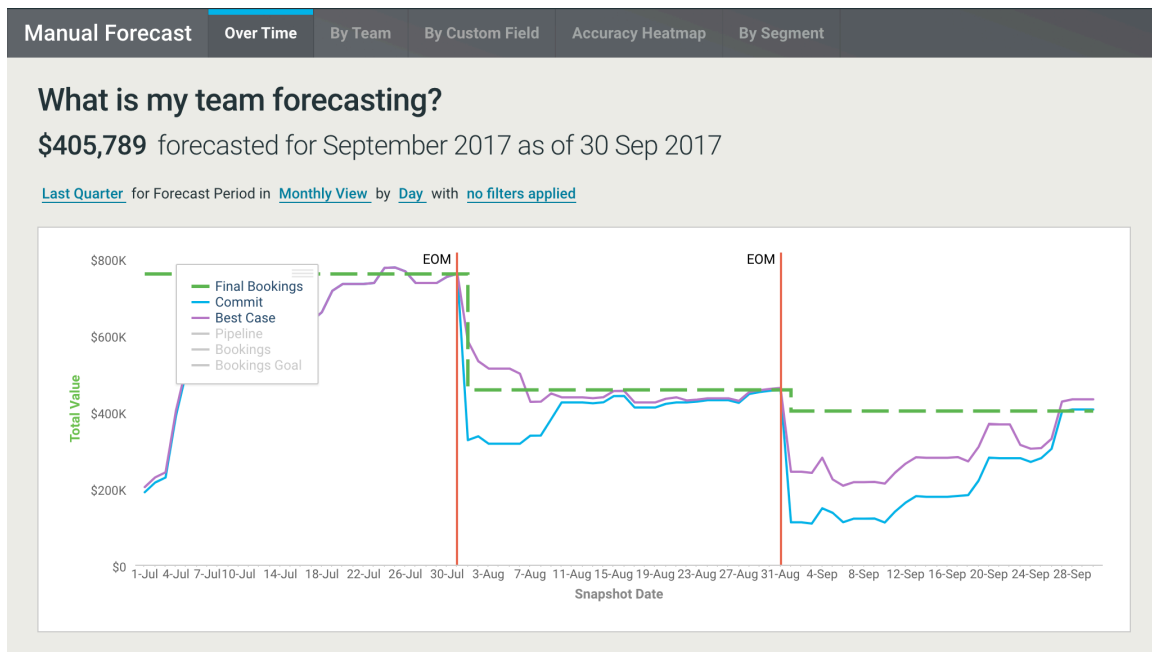
Evaluate predictions based on your current pipeline, your historical performance, and your team's trend leading to the end of the month.

Conclusion

More Accurate Forecasts: Not just accurate as in correct, but also more objective and consistent. By broadening the scope of data that goes into your forecast, you account for all the variables that might have thrown you off in the past. You won't have to worry about being blindsided by seasonal trends or the nuances of your team and product anymore.

Increased Productivity: A simplified, stricter forecasting process means that managers will have more visibility into the pipeline and can proactively help struggling reps. Additionally, reps won't waste time at the end of each month trying to put together a best-guess individual forecast. That means your sales team will be focused on closing at the end of each month and will be positioned to win more deals as a result.

Better Visibility: All your effort to analyze historical behavior and team averages helps you on a daily operational basis, as well as in monthly forecasts. You'll be able to quickly spot outliers and call out reps who are regularly either too bullish or too pessimistic. That visibility allows for more hands-on management, and improved sales performance as a result.

Long-Term Strategic Planning: When you're confident in your forecast, all the big-picture challenges of running a sales team become easier. Capacity planning, hiring, and quota-setting all become more data-driven because you can plan months in advance. No more guesswork before board meetings.

You can get away with ballparking your forecast as long as you hit your number, but the key to longevity in sales is knowing why you win or lose. Always having a grip on your open pipeline and being able to adapt when a quarter goes sideways are the hallmark traits of winning salespeople. By following the steps in this guide and refining your forecasting process, you're setting yourself up for a long, successful career in sales leadership.

About InsightSquared

InsightSquared helps sales operations professionals break the cycle of spreadsheets by equipping them with actionable, real-time reporting on virtually all sales KPIs. Fast growing technology companies like, Bazaarvoice, Gainsight, and Pendo rely on the company's solutions to forecast more accurately, better manage pipeline, tailor rep coaching based on individual performance, and conduct data-backed planning and analysis. For more information, visit www.insightsquared.com.