#1 Salesforce Analytics

Introduction to Sales Forecasting

Sales Forecasting Methods 101

INSIGHTSQUARED

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Introduction to Sales Forecasting

At the most basic level, sales forecasting is the process of estimating future revenue generated by your sales team for your business. In most organizations, it is the responsibility of the Sales Manager or Sales VP to project and monitor the sales forecast for each selling period. They are responsible for understanding how sales will perform in the future and informing business leaders.

While most sales leaders understand the crucial aspects of sales forecasting, very few of them achieve reliable forecasts—in fact recent industry surveys suggest that only 40% of all forecasted opportunities ever turn into deals. Other than the most obvious reasons to build an accurate sales forecast—to determine whether your team will generate enough revenue to keep the lights on at the office—there are other key reasons sales leaders should strive for a trustworthy and analytics-driven sales forecast.

> *"Salespeople despise forecasts because, in most cases, they are being asked to lie in writing... In fact, the major value of forecasting is that it has the potential to give salespeople with inadequate pipeline a wake-up call 12 times a year —that is, a message from on high that there are inadequate opportunities in their pipeline, and that they must increase business development activities.*
>
> **- Michael T. Bosworth, *Customer Centric Selling***

This eBook will teach you ways to improve your forecasting process and accuracy and help you turn your forecasts into a crucial and reliable tool in your sales process.

Why Build a Sales Forecast?

As a baseline, accurate forecasts allow you to focus on revenue-generating activities instead of dealing with frequent alarms and pipeline risks. As a sales leader, you also want precise and meaningful sales forecasts for better visibility, planning, budgeting and risk management. Accurate sales forecasting gives you the confidence to identify issues and alert your executives early on, rather than after the fact. Early detection can often be the difference between “We appreciate the alert. How can you fix this?” and “How did you miss this? You're fired.”

Many companies don't have a process for creating consistently reliable sales forecasts, often times because they use tools like Excel spreadsheets or basic Salesforce reporting when building their forecasts. These clunky solutions pose a huge challenge for sales leaders who need a simpler way to manage data and report to key business decision makers about the health of the business. Generally these processes are time-consuming, unscalable, and error-prone approaches to sales forecasting.

But why are accurate sales forecasts so essential? Knowing the “why” will help you determine how to improve your forecast so that it is a reliable tool for business planning, and a leading indicator of your business' success.

Top 5 Benefits of Reliable Sales Forecasts

1. Get a Single Unified View into Achieving Revenue Goals
2. Manage Your Team and Sales Performance
3. Provide an Accurate Indicator to Your CEO and Board
4. Plan Cash Flow
5. Plan Post-Sales Support

Get a Single Unified View into Achieving Revenue Goals

Everyone in your company needs to be on the same page: from inside sales reps dialing hundreds of prospects per day to key stakeholders who need to anticipate cash flow and growth for the organization. The more visibility you have into how you are performing against your revenue goals the better. When your organization visualizes and understands goals together, it is easier to strive towards them, anticipate issues, and make changes to the process to accommodate for successes and failures in your sales cycle.

Manage Your Team and Sales Performance

A forecast is a tool for managing your sales team. How do we look relative to our goal? What do we need to do to hit our number this month? If you are coming up short in a particular month, your forecast will alert you to this problem *before* it happens. In this case, your forecast is about helping you to execute a plan for a particular month or quarter and making early adjustments. Coming up short? Then look for low probability opportunities and try to accelerate them to improve your odds. In this case, you are using your forecast to help manage your pipeline and change the course before it is too late to make up the ground you have lost.

Provide an Accurate Indicator to Your CEO and Board

Very often, the consumer of a sales forecast will be your CEO, VP of Sales or your company's board of directors. This group is concerned about making high-level decisions for your business. They might be targeting particular segments, kicking off new expansion initiatives or trying to reinvigorate a lagging element of your business. High-level executives have made strategic business decisions and want to see the earliest predictors of how effective these decisions have been. Your sales forecast is a leading indicator that your CEO and board can use to determine the effectiveness of their decisions.

Plan Cash Flow

Your CFO cares about your sales forecast as well. She cares because she needs to plan for the cash flow of your business. She wants to know how much business is going to close so that she can plan to cover the expenses. If you are going to come up short of your plan, she wants to know early so she has enough cash on hand to make up the shortfall. Maybe she needs to open a line of credit. If you are going exceed your goals this month, maybe she will be more aggressive in negotiating up-front terms when discussing new deals with your vendors.

Plan Post-Sales Support

Aside from the financial concerns your CFO is worrying about, you may also have a services or support team waiting on the other side of the sales process to take care of your newly minted customers. The services team probably doesn't care much about the finances of your company; their primary concern is in providing great customer service. That means they need to be ready for the customers who hit them.

The VP of Services is going to care about the pure number of deals. He's asking questions like "How many new customers will we need to onboard?" "Do we have enough consultants?" and "Will we have enough staff on-hand for handling customer support inquiries on the phone next month?" Your VP of Services wants a customer-centric forecast to be ready with the right execution for helping your new customers.

These are just some of the many reasons why more accurate sales forecasts make for healthier, more balanced businesses. Now that you understand the benefits of producing reliable sales forecasts, here are several sales forecasting methods to consider.

Types of Sales Forecasting Methods

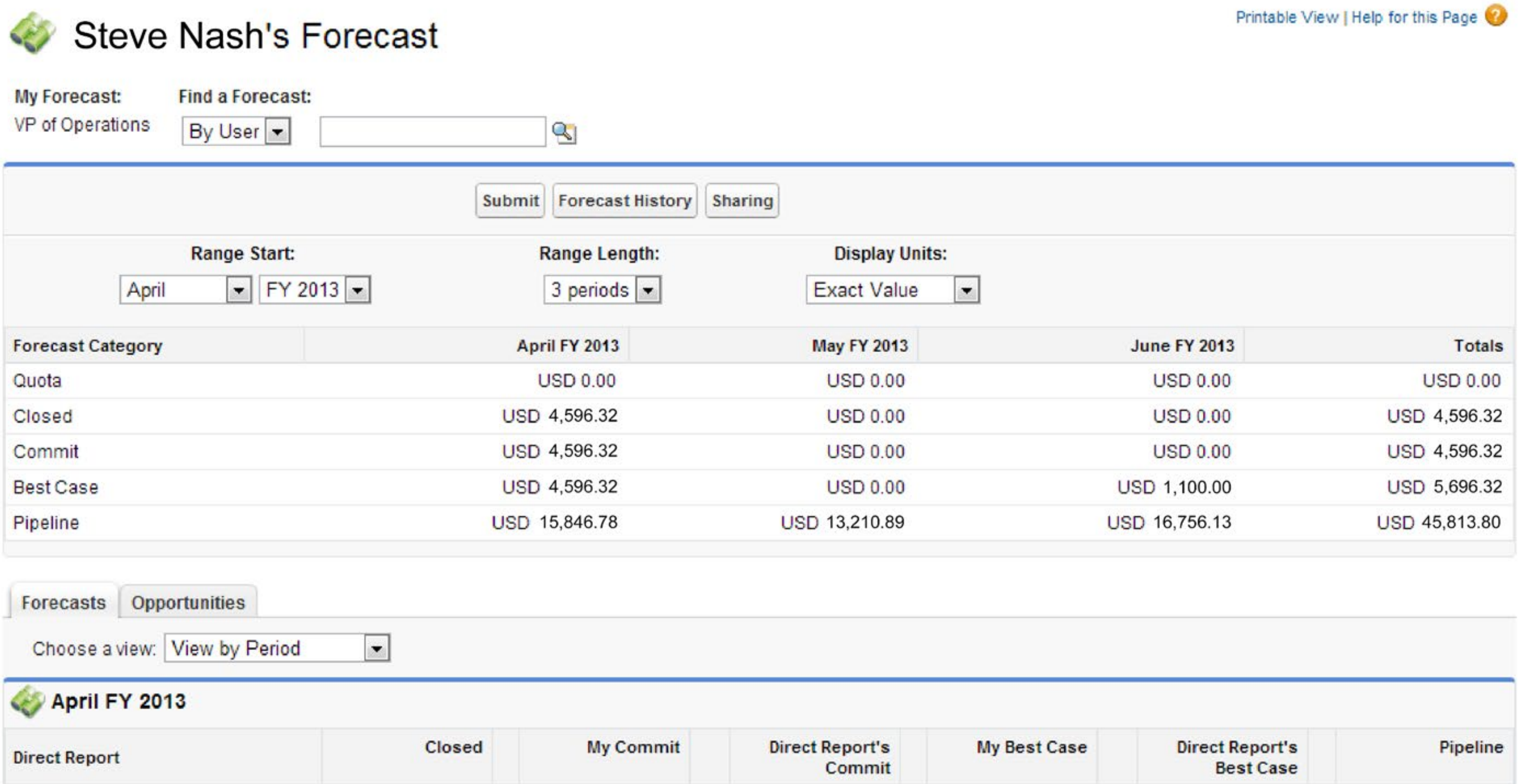
Depending on how your organization runs its sales team and forecasting processes now, there are several sales forecasting techniques that your organization can choose from when determining how to build a sales forecast.

Traditional Sales Forecasting Using Forecast Stages

Many sales organizations use traditional forecast stages to generate their sales forecast. Independent of the milestones hit by opportunities, sales reps and managers are asked to make a qualitative assessment of their opportunity. This type of forecast is based on the sales rep's intuition rather than on metrics.

Qualitative Forecast Stages are typically categorized as follows

- *Pipeline*: "I've created this opportunity."
- *Best Case or Upside*: "If things go our way, this could come in."
- *Strong Upside*: "There is a good chance this deal will land."
- *Commit*: "I am committing to bring this in."
- *Worst case*: "We will only close the committed opportunities."



Sales managers use these assessments to build out different scenarios for the consumers of their forecasts (CEOs, CFOs). The figure above demonstrates this view in a typical Salesforce.com account.

Pros of Using Forecasting Stages

- A sales rep can say, “This deal is early, but I'm putting it in Commit.” This practice is more commonly followed by sales teams with longer sales cycles and external field sales teams.
- The forecast is easy to implement and execute, and is a well-known process in most organizations.
- Sales leaders are able to capture the qualitative data their reps are gathering.

Cons of Using Forecasting Stages

- Forecast stages are entirely qualitative, making it challenging to measure accurately.
- Salespeople on the tail of a good meeting will have “happy ears” (they will only hear the good in any prospect's answer) and may project overly optimistic numbers.
- Sales reps can “sandbag” deals to pad their numbers, which greatly hurts the ability to predict bookings accurately.

Ultimately, qualitative forecasting methods ask the owner of the opportunity to also do the analysis of the opportunity. This is akin to asking a motivated dieter to guess their weight loss this week, rather than measuring it on a scale. Although this method is easy to implement, the subjective nature of this type of forecasting makes it susceptible to large margins of error.

Data-Driven Sales Forecasting Using Opportunity Stages

In CRM systems such as Salesforce.com, each of your opportunities has a status or opportunity stage. Each stage represents a milestone that you work towards to take a validated sales opportunity across the finish line. In the software world, these stages might be steps like Prospecting, Qualifying Needs, Assessment, Presentation, Negotiation and Closed-Won. Each of these stages will have a "probability of closing" associated with them: an opportunity in an early stage might have a 10% probability of closing, whereas a later stage (like "Submitting Quote") might have a 90% probability of closing.

Using this method, sales leaders can create a basic forecast by multiplying the amount associated to each opportunity by each opportunity's probability of closing, for opportunities expected to close this period (i.e. those with a close date set in the CRM to this sales period). The figure to the right is a quick example.

Opportunity Name	Stage	Probability	Pipeline	Forecasted Amount
Opportunity A	Demo	25%	$1000	$250
Opportunity B	Trial	50%	$2000	$1000
Opportunity C	Negotiations	90%	$3000	$2700
Total				$3950

Pros of Using Data-Driven Sales Forecasting

- The math here is easily understood.
- The method is highly objective. The sales rep is not asked for a self-diagnosis, meaning the emotional element is largely eliminated.
- If it is in an early stage, the probability of closing is low, no matter how good the sales rep feels about the opportunity.
- With concrete definitions associated with a stage, it's harder for sales reps to blur stages.

Cons of Using Data-Driven Sales Forecasting

- The probabilities associated with different stages are rarely tested or rigorously derived.
- A conventional pipeline forecast will not account for opportunities that will close in that period but have not yet entered the pipeline. The shorter your sales cycle, the bigger this issue becomes.
- This approach is reliant upon having accurate close dates in your CRM. Sales leaders often have to monitor reps to ensure they update their close dates with this method.

Although this method is more quantitative, some variables are not taken into account in opportunity stage forecasting including deal size, individual rep close rate, and opportunity age. Be aware of other elements that affect your forecast and look for ways to drill down further than just stage.

Addtional Forecasting Methods

There are also more complex sales forecasting methods that can be applied with proper data. One such advanced method uses the length of the sales cycle to adjust the expected value of your opportunities. By comparing the age of each opportunity to the typical length of your sales cycle for won and lost deals, you can algorithmically calculate the likelihood the opportunity will close in the period that you are forecasting.

Additionally, more sophisticated analysts can use multivariate regression models to analyze multiple elements together at once, or hazard analysis to identify multiple risks in their forecast variables. The math in these approaches can get complex quickly, which is why more advanced reporting and analytics solutions are useful. That way you, as a sales manager, can focus on your strengths and leave the elaborate formulas to the MIT Ph.Ds. behind the scenes.

Running Your Sales Forecasting Meetings

After you define how you will measure your opportunities and sales progress in your sales forecast, you will need to set a structure for keeping reps on task in their forecasting. Regular sales forecasting meetings are intended to make sure the data in your forecast is up-to-date and accurate, but the ultimate objective is to help coach and manage your reps to succeed in achieving their quota.

Your sales forecasting meetings should focus on accurately forecasting the deals that will close this month and quarter. During this meeting, you should inspect each deal to understand whether it has a good probability of landing during this sales cycle.

You should also understand

- What the total forecast is for the current period
- What has changed from before
- What strategies to use to close forecasted deals
- Where reps need to purge stalled opportunities from their forecasts

The sales forecasting meeting is not meant to help with future deals--it should only focus on helping reps succeed in the present selling period.

The following section will walk through the steps it takes to conduct your best sales forecasting meetings.

Set a Schedule for Your Meetings

Most sales teams meet weekly, typically each Monday morning, to discuss their forecasted deals for the week. Monday meetings allow the team to check-in and analyze deals that are forecasted to close in the immediate sales cycle. This way both sales managers and reps are able to address which opportunities they will be working on in the immediate term and which opportunities have changed (stalled, changed value, pushed back their close date) that may need to be purged from the forecast for the current sales cycle.

Even if your business has an atypical sales cycle or fewer opportunities, you should maintain a weekly sales forecasting meeting: this way you can monitor the nuances of these critical opportunities, and identify the changes that could drastically impact your sales outcomes.

Invite the Right Team Members

To make sure you are using your sales team's time effectively, invite the team members who will directly impact your sales forecast and who will see the direct impact of your sales forecast: your Inside Sales Reps and Sales Executives. As the sales manager, you should aim to have every member in the meeting objectively assessing and in agreement with your current forecast. Use this time to set the right expectations with your Sales Executives about what is possible for this sales cycle, based on the data. Feel free to have this be an "open invitation" meeting to all team members, but make sure it is mandatory that your reps and sales leaders are both in the room each week.

Do Your Research Ahead of Time

Know the questions you are going to ask and the objectives for each sales forecasting meeting you conduct. Do you know your typical sales cycle length? Your reps' average sales cycle length by stage? Each rep's individual win rate? Your historic sales funnel conversion rates? Make sure to have these metrics, as well as other mission-critical information readily available at your meeting to compare and analyze the probability of opportunities that are forecasted to close this sales period against your historic performances.

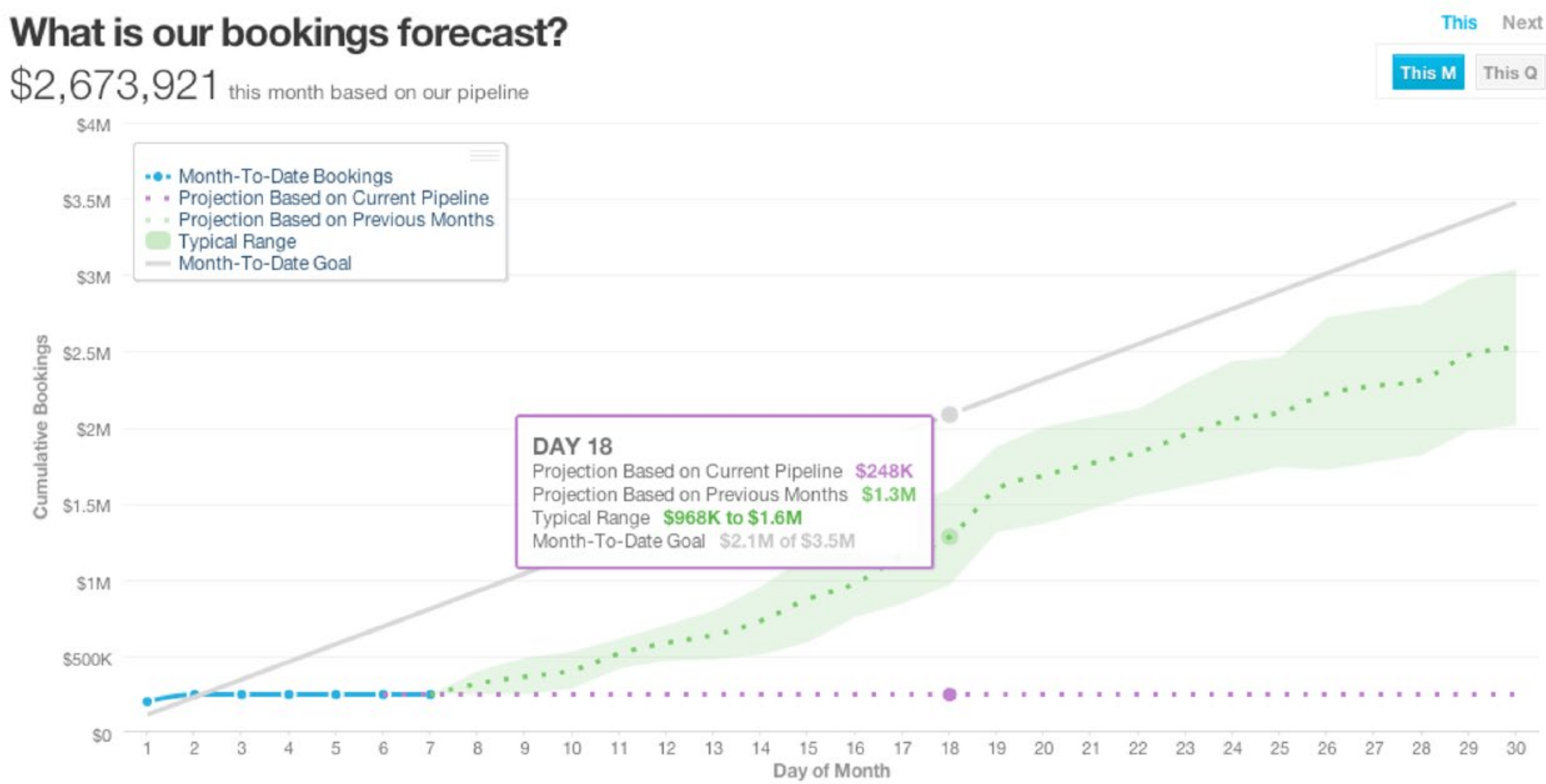
Separate Your Sales Forecasting from Your Pipeline Review Meeting

Finally, in order to be successful as a sales manager you must differentiate between your sales pipeline review meeting and sales forecasting meeting. Though both meetings are meant as a way for sales managers to monitor leading indicators and sales, they both have a distinct focus and objective.

In your pipeline review meeting, focus on top of the funnel: opportunities in the pipeline that are projected to close outside of the current period. Your reps need to build their pipeline for the future to ensure their (and your organization's) success. You need to have enough leads and opportunities that will make it down to the last few opportunity stages in your sales funnel— the very opportunities that will move down to later stages and the ones that you will ultimately end up discussing in the future period's forecasting meeting.

By separating these two meetings, you will be able to focus on the immediate task at hand in your sales forecasting meeting: identifying and coaching reps to close deals in this forecasting period that are winnable. You will also be able to analyze and purge opportunities in the forecasting period that will not close.

Your forecasting meetings are the meetings that take the pulse on the projected health of your business, and these planning steps should be added into your weekly sales forecasting meeting. You may also want to look for early warning signs in addition to these steps as you prepare for your meetings, such as struggling reps and your monthly progress versus your forecast predictions. In this way you will be able to make the most of your forecasting meetings, and prepare to look objectively at the elements of your forecast that are most likely to sabotage your most accurate sales forecast.



Guidelines for Managing Your Opportunities in the Funnel

Whether you choose to implement a Traditional Sales Forecast or a Data-Driven Sales Forecast, you need to put best practices in place.

Here are the guidelines to follow stage-by-stage when establishing your sales forecasting method of choice.

Developing Your Traditional Forecasting Stages

In the case of Traditional Forecasting, consider each stage of your sales process as a checklist that must be followed in order to pass to the next stage. In each stage, you will want to follow certain guidelines to create a consistent and repeatable process that will better align your sales forecast.

Pipeline

When a rep creates an Opportunity, it means that it is now in the Pipeline. Unless you have a transactional business model, you will generally close deals in the pipeline at least a quarter after they enter it, but it is critical to measure this carefully and see what the full Win and Loss cycles are from your top stages of the Pipeline.

Identify the following key elements before you convert a lead to a contact and simultaneously create an opportunity. This ensures that your pipeline has integrity.

- *Initial Contact*: The rep has identified the contact with authority or influence over the purchase and has engaged him or her.
- *Budget*: The contact confirms that he has the budget.
- *ROI*: The contact has indicated that there is ROI in purchasing your product and explains why.
- *Need*: There is a pain identified and the contact confirmed that your product will solve that pain.

Best Case, Upside, or Strong Upside

The sales rep usually marks the opportunity in this category if he or she feels very strongly that it will close during this selling period if everything goes right. The opportunity does not yet satisfy the requirements of the Commit stage but falls into either Best case, Upside or Strong Upside. Confirm the following key elements in any of these stages

- *Authority*: The rep has established a good rapport with the contact and has identified real decision makers and all other influencers besides his existing champion in this deal.
- *Timeline*: The contact has indicated the evaluation timeline and the rough date of purchase.
- Process: The rep understands the purchase process.
- *Written Confirmation*: The sales rep has received a written confirmation from the contact on authority, budget and pain.
- *Competition*: The rep can confirm that he is aware of which competitor he is running against and that, if there is competition, it is considered seriously as part of a formal evaluation process.
- *Winning*: The rep can describe the key reasons why he/she believes he/she is going to win this deal.
- *Compelling Reason to Act (CRA)*: The rep can confirm that he has created a compelling reason to act with the prospect.

Note that there should always be some good Best Case or Upside opportunities to backfill any potential opportunities in the Commit stage that may be missed, as with this forecasting method, this happens on occasion.

Commit

The rep expects these opportunities to close during the current selling period. Sometimes managers refer to these as “Blood Commit” or “Career Commit” to ensure that these have real integrity and will not slip under any circumstances.

- *Authority*: The rep is engaged with all influencers and the final decision maker. If this is not the case then there is a risk that his main champion could be absent when needed, putting the opportunity at risk. He/she knows who signs the purchase order and understands who may be potentially a deal detractor that may come in at the eleventh hour to veto the purchase order and has thus already engaged with this person as well.
- *Process*: The rep knows and has confirmed the purchase process in writing and doesn't leave anything to chance in the eleventh hour.
- *Catalyst*: The rep knows the exact event or a catalyst for why the prospect needs to purchase the solution during this selling period.
- *Confirmation*: The decision maker confirms in writing that your product was chosen.

Closed-Won

A deal is closed-won only when the purchase order has been received and not a minute earlier.

Developing Your Data-Driven Sales Forecasting Stages

In the case of Data-Driven Sales Forecasting, focus your attention on formally constructing your stages and defining how opportunities progress from stage-to-stage.

Construct Your Stages

Unlike Traditional Sales Forecasting, forecasting by opportunity stage should focus on defining and standardizing your own objective stages of the buying process. These stages can be named by description based on the buyer stages in your sales process, such as

- Prospecting
- Demo Scheduled
- Demo Completed
- Trial
- Negotiation
- Closed-Won

Or you can standardize by number “Stage 1”, “Stage 2”, “Stage 3” depending on your preference.

Developing sales stages makes each opportunity quantifiable. When a prospect moves into Stage 2, your rep has identified the DMU (decision making unit) who will sign the contract. This stage definition is discrete and measurable, unlike feelings-based traditional stages.

Formally Define Your Sales Process

Next, plan to thoroughly define your entire sales process and document it to make sure that your sales team clearly understands qualification rules, your sales system and the discrete stages through which an opportunity moves to Closed-Won based on the buyer's actions. It is crucial to define the transition from one stage to the next based on the buyer's actions, not steps in your selling process. For example, an opportunity should not be moved from Demo Completed to Trial until a buyer has explicitly given all of the collateral the seller needs to start the Trial process.

Creating Your Most Insightful Sales Forecast

The best sales forecasts not only provide reliable projected bookings but provide insight into the composition of winning and risk-bearing opportunities. Unfortunately for sales managers using the qualitative stages of traditional forecasts, additional data-driven insights are almost impossible to incorporate. Using the following elements in your forecasting process will provide you with additional analysis and improved accuracy above and beyond a basic sales forecast.

Use Historical Data to Better Predict Future Sales

In order to achieve insightful forecasts that account for past performance and trends, sales managers need to analyze their historic data. To further hone the accuracy of your forecast, include metrics like

- Your sales team's projected win rate against historic team win rates by stage.
- Your sales rep's win rate by stage.
- Your overall sales funnel conversion rates from Stage 1 to Closed-Won.

Although this data is not impossible to gather, most CRM systems do not provide access to legacy sales data, which can be a challenge. In the case that your CRM does not provide historic snapshots of your data, your sales team will need to diligently download and store your data weekly in order to create reports and see progress over time. Alternately, consider using a third-party tool to access and visualize this data.

Consider Other Variables that Impact Opportunity Outcomes

Other underlying elements can have a dramatic impact on the accuracy of your sales forecast. Some basic variables to consider are

• *Age*: to identify the average age of your Closed-Won and Closed-Lost opportunities.
• *Stage*: to ensure that opportunities in the forecast period are not too early in the buying process to realistically close.
• *Deal Size*: to be able to focus on the size of your opportunities to determine how likely you are to win them.
• *Lead Source*: to compare the likelihood you will win an opportunity based on data from your past efforts with this source.

Ultimately, any variable that can affect the outcome of your sales forecast should be measurable in order to identify and adjust for outliers in your forecasts. To get a more in-depth understanding of these variables, download InsightSquared's Definitive Guide to Data-Driven Sales Forecasting.

Conclusion

Like all sales managers, you need a sales forecast to manage your team, plan and budget more accurately, set more realistic expectations for your organization, and ultimately to help grow revenue.

Whether you choose to implement a traditional sales forecast, a data-driven sales forecast by opportunity stage, more advanced forecasting methods or 3rd party forecasting products like InsightSquared, the first step to creating accurate sales forecasts is getting started. From there you can measure your forecast against your monthly and quarterly bookings to assess how close you are to your most accurate and risk-free sales forecast and continue to make improvements.

Even with data-driven opportunity stage forecasting, there are some highly complex formulas and reports that are not readily accessible via Excel spreadsheets and CRM systems. In these cases, products that allow you to better visualize and analyze your data are often the best-case alternatives to accessing and analyzing your CRM data quickly, visually and accurately.

If you are interested in learning more about data-driven sales forecasting 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.

Get a FREE Trial

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> *InsightSquared is a fantastic sales management tool. We now have the visual reports of our sales and marketing in just a few seconds and we could never get these from our CRM in the past.*

Steven Carter. SVP of Operations
Visible Measures

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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