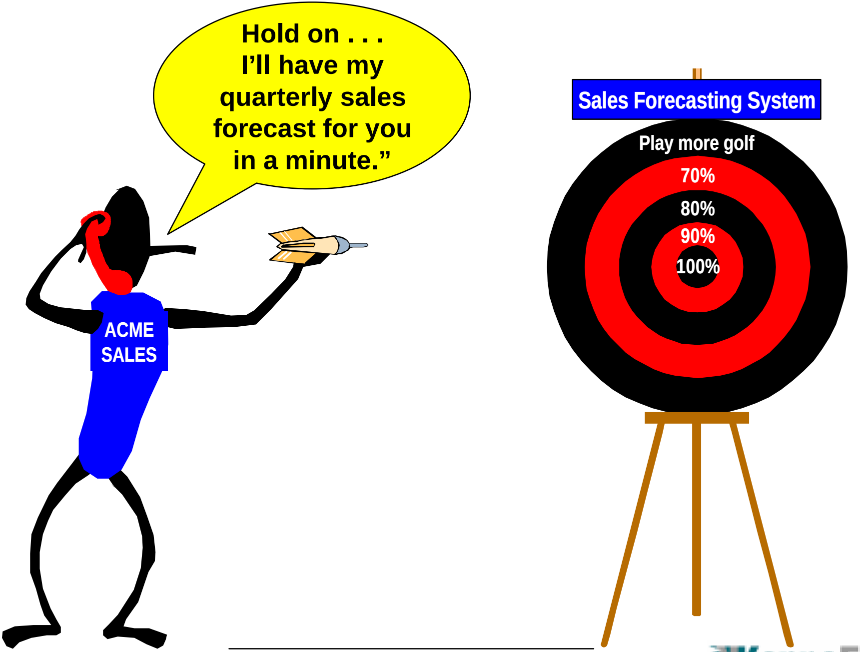
Sales Forecasting

All you really need to know

Situation

- There is increasing focus on revenue and earnings forecasts in today’s turbulent markets.
- Likewise, there is increasing scrutiny on sales forecasts for internal management decisions and as the basis for this public reporting.
- While every sales professional must do it, there is a pervasive lack of confidence in any forecasting methodology.
- Forecasting is of little interest to individual sales reps who see forecasting as a nuisance with little to no value, while to the VP Sales, forecasting is a critical, and high visibility, part of the job that depends on solid input from the reps!
- Sales forecasting typically involves lots of iterations - unproductive time spent coming up with the forecast.
- No one is satisfied with the results.

We've All Had That Feeling!



Setting the Stage

- The focus is on the internal sales forecast - the managing of public reporting is an additional complexity not covered here.

- The specific challenge that we are addressing is coming up with the quarterly sales forecast, ***the number***, on a 90, then 60, then 30-day basis in a large deal, business to business, direct sales environment.

- There is little basis for statistical forecasting methods; the past does not predict the future - no *steering by the wake.*

- Generally, most would agree that forecasting is the combination of art and science but typically we do a lousy job on the *scientific*, reporting/analytical side of the forecasting equation and then spend all our time trying to use it as a substitute for the *art* side of the job.

- Forecasting is a part of the larger area of ***sales operations*** - *managing the running of the entire sales function day to day, (from the individual sales rep to the VP)*. While any approach to forecasting therefore has sales operations implications, the attempt here is only to highlight those implications without a fuller treatment of sales operations.

- The goal is to produce more accurate forecasts and spend less time in the forecasting process ***or*** to develop forecasts that are no worse than you are already getting today but spend far less time in the forecasting process.

Sales Forecasting Dogma

Forest for the Trees - The manager's job is enabling the development and closing of business with a continually rolling 6+ month horizon. An over-emphasis on the forecast can result in subtle, yet significant, negative effects:

- Managers may get distracted into making the top priority *getting the forecast right*.
- Managers may slip into managing quarter to quarter.

Art and Science - a good forecasting process takes advantage of both:

- Art - each sales professional is responsible for developing a sales forecast number for his/her territory, the only goal being to get as close to the actual number as possible. There is no algorithmic link, or relationship, required to any other reported data.
- Science - rigorous, disciplined reporting and analysis is the cornerstone of sound forecasting - enabling, not substituting for, the art.

Vaguely right, precisely wrong - reporting/analytical systems die by there own weight, yielding to the hope that the next additional calculation, or piece of data, will provide that illusive critical insight. Simple, fundamental data consistently reported across the organization is the vaguely right answer and requires:

- Fundamental, meaningful, insightful data only
- Common, consistent definitions of all terms
- Clear, simple relationships among the terms
- Verifiable results

Closeness to the deal - the individual sales rep must be the best source of data and retain sole responsibility for entering all data on individual opportunities.

Accountability - all participants in the forecasting process are accountable for forecasting accuracy and must be provided an audit trail of their forecasting performance.

Fallibility - there are reasons for forecasts to be in error that cannot be eliminated. These errors are not reasons to spend more time, include more data, add a calculation or otherwise amend the process.

The Practical Concept

- The following two pages depict the fundamental forecasting concepts for individual sales reps and managers/executives that derive from the KappaEast Dogma.

- What results is the process of ***Triangulation*** for sales reps and ***Quadrangulation*** for managers/executives – taking three or four different numbers, each generated by a defined process, and using them to then produce a “best guess”.

- The cornerstone of the defined processes for the generation of these various numbers is the ***Funnel***:
  - All individual sales professionals maintain their own personal funnel, tracking individual sales opportunities through a series of phase lines in the sales process.
  - Each opportunity in the funnel is fundamentally defined by its expected dollar value, its current phase/location in the funnel and the expected close/decision date.
  - Each manager/executive in the sales management hierarchy has their own funnel, created by adding the funnels of their direct reports.

Triangulation: Sales Rep View

Data Point 1

The total $ value of all deals in the funnel with a “close date” in this period.

Your Forecast Number

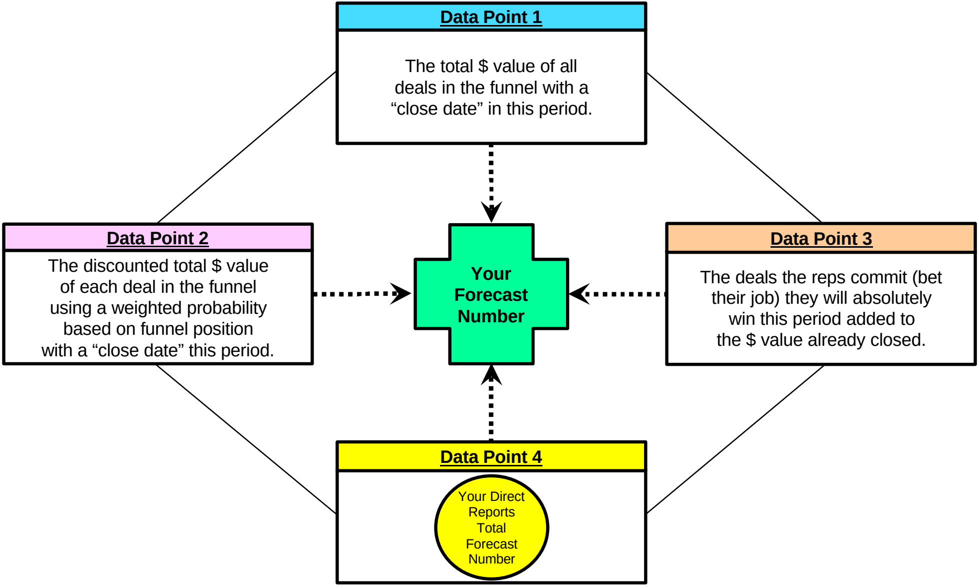
Data Point 2

The discounted total $ value of each deal in the funnel using a weighted probability based on funnel position with a “close date” this period.

Data Point 3

The deals you commit (bet your job) you will absolutely win this period added to the $ value already closed.

Quadrangulation: Manager/Executive View



How Would It Actually Work?

- Building a forecasting process consistent with Kappa's Sales Forecasting Dogma/Concept makes certain requirements of the entire sales operations framework. Since that is not our focus here, we want to go directly to a *hands-on* example.

- The Situation:
  - You are a Regional Sales Manager with three Sales Managers reporting to you.
  - There are 30 days remaining in the quarter.
  - You have previously provided a 90-day, and then a 60-day, forecast for the quarter.
  - You have just opened the forecast module of your SOMS (Sales Operations Management System) and are looking at the **Dashboard** on the following page.
  - As you can see, your Sales Managers have each received their rolled up forecasts from each of their individual sales reps in the same format, done their forecast and forwarded it to you.
  - The VP expects your forecast within the hour.

(Obviously, as a real-life, effective manager you would have a better feel for the information in this example and what is behind it. Our definitions/explanations follow the report for comparison to your own interpretations.)

The Forecasting Dashboard

Region: Northwest Date: June 4, 2001 Forecast: 30 day	Region		Sales Manager 1		Sales Manager 2		Sales Manager 3	
	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
1. Closed to date, total opportunities closed within the forecast period to date	15	560	3	80	4	200	8	280
2. Opportunities in funnel with an estimated close date within the forecast period	47	2900	18	830	12	800	17	1270
3. Opportunities in #2, discounted by a factor for their current funnel phase	47	2250	18	680	12	720	17	850
4. Opportunities in #2 and categorized as “bet your job”	13	800	4	250	5	250	4	300
5. Opportunities in #2 and categorized as “upside”	29	1700	9	750	13	500	7	450
6. Opportunities in #2 and not included in #4 or #5	5	400	2	100	1	100	2	200
Previous forecasts:								
Plan		2100		700		700		700
90 day		2210		720		800		750
60 day		2100		700		750		750
Forecast: 30 day				700		720		750
30 day forecast error to date, %		12%		13%		21%		19%

Top Ten Opportunities

Bet Your Job, #4

Prospect	Description	Deal Size	Funnel phase	Date Qualified	Estimated close date	Sales Manager
1						
10						

Upside, #5

Prospect	Description	Deal Size	Funnel phase	Date Qualified	Estimated close date	Sales Manager
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Definitions/Explanations

- **Opportunities**: individual sales deals in the funnel all of which must have a deal size.
- **Deal size**: the expected dollar amount to be closed, with a clear relationship to quota, plan and the number being forecast.
- **Closed**: the prospect commits; regarding forecasting, it must mean that the opportunity is at the stage where it now counts in what is being forecasted.
- **Phase/Phaselines**: stages of the sales process with *accomplishment*, not activity, based definitions, each signaling substantive progress from the preceding phaseline toward the closing of the opportunity.
- **Forecast period**: this report is generated for any period to be forecast. In this example, the report is for the current quarter that is 30 days from concluding.
- **Funnel**: a key sales operations concept describing the sales process by phaselines covering a sales rep's range of selling responsibilities - getting opportunities into the funnel, moving them through the sales process and getting them out the bottom.
- **Estimated close date**: every opportunity in the funnel must have an estimated close date which indicates when this prospect is expected to close with a chosen vendor.
- **Discounted by a factor.....phase**: every opportunity sits in a specific phase in the funnel based on the last phaseline accomplished. The deal sizes of all opportunities in any phase are summed and multiplied by a *factor* reflecting the expected close rate for opportunities in that phase. The totals for each phase are then summed.
- **Bet your job**: the sales rep commits to close this opportunity by the end of the quarter, *guaranteed.*
- **Upside**: the sales rep cannot commit to BYJ, but will close more than 1/2 the opportunities so classified by the end of the quarter.
- Both the **Bet your job** and **Upside** categorizations must consider that the prospect may:
  - Cancel the initiative - not buy anything from anybody
  - Delay the decision - not buy within the expected forecast period
  - Buy from a competitor - not buy from you
  - Change the scope - not buy what and/or as much as you expect
- **Forecast error**: the cumulative sum of the absolute value of the forecast minus actual over the sum of the actual for the forecast period being reported - alternatively, standard deviation.
- **Top ten**: the ten largest opportunities by deal size in each categorization.
- **Date qualified**: the date the opportunity entered the funnel - the beginning of the sales cycle.

Getting to the Number

Now that you've looked at the report, what is the optimal approach to doing your forecast ?

A. Sanity check - review the numbers to identify any possible errors or anomalies that would make a forecast suspect:

- Review each Sales Manager's column and their top ten contributions to see if your understanding of their business is consistent with the numbers - deals, progress, categorization totals, etc. Make sure the entry in #6 is consistent with the length of the sales cycle and the days left in the quarter and the entry in #3.
- From #1 to #6, review each row across to be sure you understand how your territory summary data is made up.
- Identify questions for clarification and decide if the data is good enough to proceed or if there are issues that require resolution

B. Bottom up - add the forecasts of the individual Sales Managers across, including any adjustments you think appropriate given your experience with managing these individual

C. Top line - using the territory column, add #1, #4, and 50% of #5, including any adjustments based on the data in the other rows and the quality of the rolled up numbers. These instructions would vary depending on the time left in the quarter (30, 60, 90 days) and the length of the sales cycle.

D. Political - Considering other factors, assess the value of being more optimistic or pessimistic and then use the *bottom up* and *top line* numbers to arrive at a final forecast - submit.

Now get back to work!

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Top Ten Opportunities						
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Prospect	Description	Deal Size	Funnel phase	Date Qualified	Estimated close date	Sales Manager
Upside, #5						

Keep in mind

- A strong sales operations framework is the foundation for an effective forecasting process - and a good way to increase the actuals.
- An effective sales operations framework must already include reporting/analysis of the data required for forecasting. Additional, forecasting specific, capabilities would include the ability to tie back to actuals and do the accuracy tracking.
- The concepts outlined in this presentation are independent of hardware or software - there are any number of SFA/CRM packages that would provide the core capabilities involved in implementing such a scheme. Most all would require some customization to fully implement the process.
- Every organization has a sales forecasting *culture*, with its supporting *management patterning.* Any change in forecasting process must address these *culture* issues to be successful.