Xactly

The 2021 Guide to Successful Forecasting Fundamentals

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Introduction

Sales leaders like selling. They're good at it. They mastered the skills of selling as salespeople, and now they take pride in sharing what they've learned with the sales teams they manage.

But every quarter or so, sales leaders are asked to do something that's not based on their past experience. It's not something they feel comfortable doing, and if the research is accurate, it's something they're not particularly good at: forecasting.

Think about your organization and the anxiety that forecasting season evokes: the hunt for data, the reports from sales reps that have to be viewed critically to assess how truly accurate they are, the effects of future product plans or changing market conditions, the anticipation of sales staff churn. Each of these is anxiety-producing on its own. Pack all of them - and more - into a two-week period and it's a difficult, even miserable time to be a sales leader.

Even after the forecast is in, the anxiety is still there - is the forecast accurate? Does anyone in my organization expect it to be accurate? Are we setting our sales team up for failure, or are we underselling our abilities and potentially exposing the rest of the company to problems down the line?

So, quarter after quarter, sales leaders muddle through a wrenching process they often feel they have no control over. The results are forecasts that miss the mark, erode the company's confidence in sales, and provide no real predictability into revenue.

> After all the stress, time and expense, **55 percent of sales leaders lack confidence in their organization's forecasting accuracy, according to Gartner.**

This has gone on for years, in spite of investments in new technology, new sales processes and new sales management talent. But forecasting may be turning a corner - and if you employ the right combination of tactics and technology, your forecast could become easier, more accurate, and more valuable to your entire business.

Forecasting: Old Ways, Old Perils

If you work for the typical company, your forecasts are not particularly accurate, nor have they been for a long time. **According to Miller Heiman, fewer than 20 percent of sales organizations have forecast accuracy of 75 percent or greater.** Why do we have such a dismal record? Part of it is because sales people never want to predict their own failure. (Miller Heiman's study found that more than half of the deals sales organizations forecast to win don't close.) Part of it is that managers are working with incomplete data that forces them to guess at forecasts using an incomplete accounting of the important facts about their organization and customers. And another part is that they lack visibility in their deals at any given moment, leaving them vulnerable to unforeseen business situations that play havoc with their forecasts.

Here are the top four factors that cause inaccurate forecasts. Does your organization suffer from any of these?

INTUITION BIAS

Sales used to be a much less precise profession, and nothing was less precise than forecasting. With few methods to collect objective information about the sales cycle, the sales manager was expected to be something of a psychic. He or she managed based on past experience, the history of the sales team members, and assumptions (educated though they may be) about market conditions. The state of any given deal was determined by what the rep of the deal reported, filtered through the manager's knowledge of the rep's tendencies in reporting deal progress.

- Was the rep a habitual pollyanna, overstating the value of deals and their likelihood to close?
- Or was the rep a chronic sandbagger, setting expectations low but achieving numbers at the last minute?
- Or was the rep an honest dealer, who simply didn't have a handle on his or her own numbers?
- Or was the rep a manager's dream come true - someone who had an instinctual feel for deal progress and reported them accurately?

Miller Heiman's research showed that 40 percent of sales leaders viewed seller subjectivity as the greatest challenge to forecast accuracy.

At larger companies, senior managers received forecasting data from sales managers with the same tendencies as the sales reps they managed - optimism, pessimism, and good and bad sales instincts - and weighed them against the predictions those managers provided about their team's performance. The prediction might be the culmination of layer upon layer of semi-informed guesses - and the result usually rolled up into an inaccurate sales forecast.

We've moved beyond that point, but even as we add systems that provide visibility into sales progress, sales managers still manage in part based on their assumptions and intuitions. These gut-feelings were cultivated, valued and even rewarded early in their careers, are so strong that they can cause good managers to overlook data in favor of their assumptions. This is referred to as intuition bias.

Intuition bias is dangerous to sales leaders' careers. Incorrect assumptions lead to missed numbers. Gartner found that 60 percent of B2B sales organizations plan to transition from experience and intuition-based selling to data-driven selling, an acknowledgment of how much of a threat intuition bias presents.

SILO'ED DATA

When managers want to build forecasts based on data, too often their first step is to discover where data is stored before they can pull it together and analyze it in context. The challenge here is a perpetual one for sales technology: the ebb and flow in the creation of data silos.

When CRM rose to prominence about 20 years ago, one of its selling points was its ability to break down walls between different parts of the organization: sales, marketing and service. Uniting information in one system was viewed as the key to creating a "360-degree view" of the customer, useful for both sales and marketing. But a few years later, with the arrival of Software as a Service (SaaS) and the dramatically lowered barriers to entry for new software, sales and marketing departments began adding applications to help with specific tasks. Unwittingly, these departments were re-building the silos - creating new repositories of data that were disconnected from the rest of the organization. This caused sales-marketing misalignments on an organizational level, but it also caused data silos within departments - especially in sales.

According to Gartner, only 47% of companies believe their organizations have high-quality data, and 13% report their organizations' overall data quality is poor.

Sales departments have data sequestered in a variety of places: pipeline management tools, contract management and finance systems, business intelligence tools, lead scoring systems, sales analysis applications, and so on. When these systems are not connected, the data they collect must be collected and analyzed manually - something that cuts into sales managers' time, and relies on the manager having a solid knowledge of his department's application infrastructure.

POOR VISIBILITY

Systems to track sales performance are becoming increasingly common, and it's not hard to understand why: managing without such a system is essentially managing blind, while using that system allows managers to manage in real-time.

That system needs to be chosen well, however, and it needs to be integrated into the other sales systems within the organization. Is it delivering the right kind of visibility to the sales manager? Is it flexible enough to show the metrics your particular organization needs to achieve the unique goals of your sales team?

Beyond that, any system that measures any form of sales performance also needs to be at the heart of an organization-wide commitment to the data.

Nothing kills efforts at data visibility like a lack of adoption of the tools. If the entire sales team doesn't buy in, critical data doesn't make it into the system and managers work with a faulty picture of the health of their sales team.

In turn, this can lead them to make forecasting decisions based on incomplete information, with an inevitable impact on forecast accuracy.

COPING WITH THE X FACTOR

Then there are the things you can't plan for in your forecast: a natural disaster, a pandemic, a trade dispute with a country that's critical to you, and so on. There's not much you can do to build a model that includes these events, and presenting such a forecast to your board would be a rather uncomfortable exercise if you could. That said, these unexpected forecast-breakers are much easier to deal with if you have data systems in place that make forecasting easier, because the visibility they provide also allows you to update forecasts using recent data, allowing you to show the projected impact of a major disruptive event. They also give you insight into how selling behaviors and customer behaviors have changed and allow you to do something to maximize your performance in the wake of a business disruption.

Don't Minimize the Destructive Power of an Inaccurate Forecast

Sales organizations have been missing their forecasts for so long that some take it for granted. An inaccurate forecast is simply an unfortunate fact of life, and the business will go on in spite of it. Right?

Yes - but it suffers as a result of it, too. When a sales organization calls its number and misses, it reflects badly on the entire organization, from the top down. The senior leader's competency is called into question, something no senior leader can afford these days.

CSO Insights research shows that the average tenure of a chief revenue officer is just 18 months, so leaders can ill afford a string of missed forecasts.

Sales forecasts aren't created merely to provide motivation for the sales team. They serve broader purposes in the organization around the allocation of resources to support sales and, later, support customers. A forecast that predicts significant sales growth sounds the alarm within a business that certain things may be needed: increased production capacity, additional support assets, an update of sales enablement tools, and so on. Miss your forecast number and your business may have invested unwisely, suffered cash flow problems, and ended up with surplus inventory - at your suggestion.

A quarter with revenues that are dramatically above the forecast can seem like a great thing - until you think about the repercussions of an unexpected flood of new customers. Orders may be delayed as production ramps up, new suppliers or contractors may need to be located,support may be overtaxed, and the customer experience may suffer as a result. No one would blame these issues on sales reps who did a great job; the fault lies with the manager who made a forecast that missed the mark and led to revenue unpredictability that impacted the business's effectiveness.

ACCORDING TO MILLER HEIMAN GROUP, MORE THAN 30% OF SALES MANAGERS RESPONDING TO A STUDY INDICATED THAT SALES MANAGEMENT RIGOR IS ONE OF THE MAJOR CHALLENGES TO FORECASTING.

What You Must Understand to Do it Right

Even if your organization isn't basing its forecasts on data, you know instinctively that data is the secret to delivering an accurate forecast. So how do you bridge the old, imperfect methods of forecasting to the modern, data driven methods? The first step to making improvement to your forecasting accuracy is to understand what's going on within your organization.

WHERE DOES YOUR DATA LIVE?

In order to do any forecast planning, you need to pull together the right data. Unless your company is using a unified revenue operations platform to pull this data together, some hunting for data may be needed, since this data is collected by and stored within many different systems, including:

- CRM
- Pipeline Management Tools
- Contract Management and Finance Tools
- BI Tools
- Lead Scoring Tools
- Sales Analysis Platforms

WHAT ARE YOUR RULES FOR THE SALES PROCESS?

A shocking statistic from CSO Insights revealed that 67 percent of businesses lacked a formalized set of rules for their sales processes. That means that their sales reps are using different steps and stages to characterize their activities, which then makes it very difficult to predict the likelihood of opportunities closing.

A documented, well-structured sales process - and enforced discipline around sticking to it - allows the entire organization to speak the same language by defining what an opportunity, a lead, a prospect and a closed deal means, to cite a few examples. The process should document how leads enter and exit the funnel, and what the stages of the sales funnel are. A process will allow managers to compare apples to apples to understand sales performance across their organizations.

WHAT DOES YOUR PIPELINE LOOK LIKE NOW - AND HOW ACCURATE IS IT?

An accurate sales pipeline is a massive contributor to an accurate forecast. But without discipline around reporting, sales pipelines can suffer from inaccuracy. Sales people are good at entering potential deals into CRM or pipeline management tools, but less rigorous about regularly updating all these entries. That can cause bloat at one end of the pipeline; it can also fool unwary or overly optimistic sales managers when it comes time to create a forecast.

A formalized sales process can combat this tendency for an optimistic pipeline projection; pipeline management software can apply data to the likelihood of deals closing. These two strategies can wring the bloat out of your pipeline and put your forecast in a much better position.

WHAT METRICS DO YOU LOOK AT?

In order to develop an effective forecast, managers should have visibility into a set of basic sales metrics. These include:

- How long it takes for customers to express interest
- How long it takes to close a deal
- The average deal price
- The duration of the customer on-boarding process
- Average renewal rates
- Frequency of repeat business or expansion with existing customers
- Conversion rates at each stage of the sales process

The basics are all about time and amount. These are by no means the only metrics; often, businesses uncover metrics that are telling about their unique customer bases, their markets and their sales forces.

WHAT TYPE OF FORECAST WORKS FOR YOU?

The forecast for any company is structured around its objectives. The approaches emphasize various aspects of sales data; each works best within a specific set of parameters.

LEAD-DRIVEN: this method examines leads, separates them into buckets, and assigns them a value based on historical behavior of similar leads. This requires data on leads per month for the previous forecasting period, lead conversion rates by source, and average deal price by source. This approach is vulnerable to changes in your sales and marketing processes, which can change the number of leads from various sources and thus change close rates. Factoring in any changes becomes vital to ensuring this method can adapt to changes in sales and marketing activities.

According to the 2021 Xactly Sales Excellence Study, greater accuracy in sales forecasting was the No. 1 driver of adoption of technology within sales organizations.

HISTORICAL FORECASTING: Perhaps the simplest way to generate a forecast is to take sales data from a similar time period and to apply your intuition to it to make assumptions about performance. You closed $350,000 in the second quarter of last year, and your sales team grew by 20 percent since that time, so you should close $420,000 this quarter. Right?

This method is fraught with uncertainty - markets and conditions constantly change. In the example above, are the new sales hires ramped and productive? Has a new entrant moved into your market? Has your company made investments in marketing that have inflated your lead funnel? All these variables can dramatically impede simple historical forecasting unless your selling conditions stay very stable

LENGTH OF SALES CYCLE: This method is based on the average time a lead takes to convert into a closed deal. This time is applied to deals in the pipeline to assign a probability of those deals closing. The math might look like this: average sales cycle is six months; a rep's deal has been in the works for two months; the chance of the deal closing is 33 percent.

The sales cycle need not be the same for all customers. A customer gained through inbound marketing might have a longer sales cycle than a referral, for example. Breaking the leads out by source can provide a level of granularity that can help with forecast accuracy.

Using this method is strongly dependent on rigorous accounting of when and how prospects enter the sales pipeline, so it's a good fit for companies whose sales teams are following a defined process, and whose sales and marketing organizations are well aligned, because small errors can have a huge impact on a forecast.

OPPORTUNITY STAGE: This method examines where deals are currently in your pipeline by stage and calculates the chances of those deals converting, with deals farther down the pipeline being assigned a greater chance of conversion and thus weighing more heavily in the forecast. Historical data plays a vital role in this method to establish the chance of conversion in each stage. From there, it's simply a matter of adding the value of the

According to the 2021 Xactly Sales Excellence Study, 41% of sales decision makers think AI should be an established, essential element of any high-performing sales team.

deals in each stage, multiplying them by that stage's percentage of expected conversion, and then adding up the totals in the pipeline. While this approach is driven by data, it's also limited by a lack of granularity - the individual characteristics of each deal aren't considered in the final computation. A deal that's been stuck at a late stage for six months has the same value as one that's moved down the funnel to that point in six weeks, for example.

MULTIVARIABLE ANALYSIS: there are strengths and weaknesses in all forecasting methods. This approach tries to balance them against each other by including historic rep performance, sales cycle length, opportunity stage probability, and other factors. This is the approach most mature sales organizations are using or are moving toward.

Each variable has an impact on the final percentage applied to deals in the pipeline. That means two deals of the same value at the same stage of the pipeline could have different forecast values based on the reps who are working them. Similarly, two deals of the same size at the same stage could have different forecast values based on their time at that stage.

Applying this more complete yet more complex method requires two things: one, an advanced analytics solution, ideally one designed for forecasting, and two, the participation of the sales team to enter and update complete and clean sales data. With the data, you can reduce your error rate to single percentage points. Without that data, you'll simply have a more mathematically rigorous method of creating an inaccurate forecast.

Adopting a More Modern Approach to Forecasting

Transitioning from the traditional forecasting tactics to something new can be difficult. In the Xactly 2021 Sales Excellence Study, the top answer to the question "What was the most influential factor in your decision-making around sales planning and forecasting in today's environment?" was "We do things the way they have always been done." But there's a huge payoff to be had from taking a more modern approach to forecasting - and it's easy if you break it down into simple steps.

SET A BENCHMARK

Establish your objective for the system. We set sales goals; we should also set forecasting accuracy goals. These should take into account the variability in your business - a company in a volatile market should be permissive of less accurate results vs. the forecast than a company in a very stable market.

ANALYZE PAST PERFORMANCE

Examine and document your rates of accuracy in the past. Doing so will prove helpful in illustrating the impact of new forecasting techniques and technology, and it will give you an opportunity to examine the historical data for periods when the forecast was accurate - and periods when it really, really wasn't - and identify trends.

DOCUMENT EXISTING PRACTICES

Before you make changes to your forecasting process, document your current process. Identify areas where you've acted to improve the forecasting process, and note areas where further improvements could be made if a new approach doesn't deliver the results you hope for.

SINGLE PLATFORM

> Consider adopting software tools that automate much of the forecasting process by pulling in pertinent data and executing the forecasting computations automatically and in real time.

Not only does such a system eliminate computation errors and remove the hard work of hunting down data, but it can deliver a snapshot at any given time of your sales organization's performance against the forecast, allowing managers to take action to help their sales teams hit that number.

TAKE ADVANTAGE OF AI

Not long ago, artificial intelligence (AI) was seen as a neat gimmick. Now, sales managers are coming to see it as a must-have.

> **A study by Salesforce found that high-performing sales teams are 4.9x more likely to use AI than others.**

Modern forecasting solutions use advanced AI and machine learning capabilities — grounded in strong data — to automate and systematize the sales forecasting process. AI evaluates each deal's likelihood of closing based on real-time data insights. It enables finance teams to model various scenarios for sales commission payouts ahead of time, helping to forecast sales expenses. And it provides sales leaders with an up-to-date health score for each of their team's opportunities, across every stage of the sales cycle.

AI-powered forecasting software examines and learns from data signals in emails, meetings and phone calls and analyzes how they correspond to sales outcomes. These insights are used to enhance the AI's own decision-making. AI can also make inferences from incomplete data, thus combating the classic headaches caused when sales reps' data input is incomplete.

ANTICIPATE CHANGES

There's still room in the forecasting process for your expertise and experience as a sales manager. Changes to external conditions for your business can't be anticipated by historical data - you need to factor them in based on your knowledge and assumptions about the near future. Those changes fall into five general categories:

ECONOMIC CONDITIONS: Let's state the obvious: even if you duplicate the efforts of a previous quarter exactly, fluctuations in economic conditions will have an effect on sales performance. A recession will dampen demand and cause buyers to move with more caution, extending sales cycles; an economic upturn spurs B2B buyers to look for opportunities to invest and causes the sales cycle to grow shorter.

LEGISLATIVE AND POLICY CHANGES: Regulations, policy changes and trade agreements or disputes can constrain or encourage sales. An example of this is the implementation of the GDPR data security guidelines - these caused a weakening of demand for marketing automation software but accelerated demand for software used to ensure compliance with the new law. As a manager, you must keep on top of these developments so you can include their impact in your forecasts.

MARKET CHANGES: Advances in the market position of your company - or of your competitors - will tilt the playing field. These can include investments in marketing, new market entrants, and leadership changes. These market developments should factor into your sales forecast.

PRODUCT CHANGES: Developments to your products or services can strongly influence your sales forecast. These changes range from the introduction of new features in response to customer demand to design improvements to new offerings extending the capabilities of your core product. Anything your sales team can leverage to shorten the sales cycle and close more deals should be considered as you develop your forecast.

SEASONALITY: In many industries, customers' buying patterns change over the course of the year. For B2C companies, the winter holiday buying season often comprises an enormous percentage of their annual sales; for business software companies, the fourth quarter may be stronger as their customers prepare for the next year.

In addition to external changes, you must take into consideration changes that take place within your own business. These include:

PERSONNEL CHANGES: Any churn on your sales team - through the loss of talent to other businesses or through the termination of poor performers - will have a negative impact on your revenues unless you have new sales hires ramping up to replace them. If your organization has made a significant investment in new sales talent, and they've reached a point where they're now productive sellers, your revenues are likely to grow.

COMP PLAN AND POLICY CHANGES: Every sales manager knows that alterations to the way you incentivize your sales force will change your numbers. Changes to policy - commission clawbacks, limits on discounts, incentivization of specific products over others - will, predictably, contribute to fluctuations in revenue.

TERRITORY CHANGES: Alterations to territories always mean that sellers need time to learn the lay of the land and to build their pipelines, resulting in a (hopefully) temporary dip in close rates.

DON'T FORGET TO FORECAST YOUR OWN COSTS

One of the easiest to understand sets of sales data points is the cost of sales. We track it internally, and because of that we have the historical data on hand to project future costs. A sales cost forecast is useful to managers to track how investments in people and technology are paying off. Is the cost per dollar going up or down - and what's causing that change?

FIRE & FORGET VS. THE GUIDED MISSILE

Not long ago, hitting the sales forecast was like firing a cannon at a distant target: you estimated the range, aimed the gun and fired. Once the shell left the barrel, it was beyond your control. It either hit the target or it didn't.

Today, we're still shooting for sales targets, but we now have at our disposal real-time visibility into the state of sales performance and the tools to change selling behaviors. Remember that hitting the sales forecast now is more like launching a guided missile - you have the ability to course-correct all the way to the target. Don't resign yourself to the idea that hitting your forecast is outside your abilities as a sales manager.

RESET, REVIEW AND REPEAT

After every forecast period, examine your results and your processes - and make changes to improve your next forecast. This is where the documentation in Step 3 is very useful - formalizing and documenting the process forces you to understand each step, and that understanding will help you make adjustments as needed.

Conclusion

Sales leaders no longer have to be anxious about the forecasting process. Forecasting technology, combined with sound management practices, can deliver the data sales leaders need to create accurate forecasts, technology can compute and validate forecasting numbers, and AI can further sharpen their accuracy. We're entering a golden age for sales forecasting in which the sales forecast stops being a headache and instead becomes a valuable tool that enhances sales leaders' stature within their organizations.

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Inspire Performance

ABOUT XACTLY

Xactly is leading the way in Sales Performance Management (SPM) delivering planning, execution, and optimization to ambitious and complex sales organizations. We partner with the world's leading enterprises to clear immediate sales roadblocks, enabling them to adapt with optimal sales capacity, territories, compensation plans and payment structures. Harnessing the power of AI, Xactly's scalable, cloud-based platform combines great software with the industry's most comprehensive 15-year data set to give customers the real-world insights they need to improve sales performance across the board by growing revenue, reducing risk, and containing costs.

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SOURCES

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