How an Accurate Sales Forecast Makes You a Hero to Your Entire Company

By Chris Bucholtz

Don't make the mistake of thinking a sales forecast only affects sales. It's really a sales leader's opportunity to have an impact on how well the entire business functions.

It's easy to view your revenue organization's forecasting activities as something done by sales, for sales. Every member of the sales team contributes to the forecast, data is assembled from various systems used and managed by sales, and the final result is used to create plans, goals and benchmarks by which the sales team is measured.

But even though forecasting seems like a very sales-specific activity, the reason we develop a forecast goes well beyond the sales team. Sure, the numbers we call in the forecast help us manage sales performance, but the counsel we provide to the entire company through the forecast allows it to anticipate growth, set expectations, and take steps to make the business healthier.

That's why getting forecasts right makes a huge difference in the success of any business. And today, the contribution sales is making to predictability and agility is in question: according to Miller Heiman Group, 80 percent of organizations miss their forecast numbers by 25 percent or more - often, by much more. This creates an awkward situation: not only does it make it much harder for sales to achieve its own revenue goals, it causes difficulties across the business that can be laid at the feet of sales. It's no wonder that the average tenure of a CRO today is just 18 months.

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However, every problem is really an opportunity in disguise. If you can crack the code on forecasting for your organization, you won't merely avoid being the scapegoat - you can become a hero within your company.

We'll take a look at the four areas within your business where a leap in accuracy can have a positive impact across your entire organization, improving the revenue outlook for your company - and in the process, boosting the company's regard and respect for sales leadership.

34%
of sales leaders have intelligent forecasting

90%
but 90 percent among them say it helps them do their job more effectively.

Salesforce State of Sales Study 2020

Operations

It doesn't matter if you're in manufacturing or services, retail or B2B, or online or brick-and-mortar: your business must allocate resources for its core activities, and it needs to do so based on the expected need for those resources. The sales forecast has a huge impact on this. By setting a number for projected sales, the forecast sets in motion a string of other planning sessions across the organization.

For example, if your company is in manufacturing, a sales forecast could trigger adjustments to the amount of inventory you need to have on hand, the volume of materials you need to order, head count in the manufacturing department, and the assets committed to different logistical channels needed to get your products to customers. It has an impact across the business' entire supply chain

Even if a business has no physical footprint and produces no physical product, the same considerations are in play. At a SaaS software business, a projected uptick in sales might trigger an adjustment in the cloud computing assets needed to deliver the product and new positions in marketing to encourage engagement among new customers.

Falling short of your forecast numbers means these investments are made at the wrong time - or even needlessly. That impacts budgets across the business and hurts profit margins. Beyond that, it creates work for people across the organization that ultimately feels futile - "Why did we do all of this?" "Because sales said we'd need to." That puts sales in a position that's untenable if it's repeated year after year.

Exceeding your forecast by a significant amount is a less painful way to miss your number, but it can also cause problems - manufacturing backlogs, delayed orders, customer experience problems in support, and a rush to hire new employees, for example.

However, hitting the forecast number means these investments pay off and build confidence for investments driven by future forecasts. By delivering accurate forecasts, sales establishes itself as a source of intelligence for the entire business, building its stature and positioning sales as an ally rather than an adversary to the other departments in the business.

$3.52M An average company can save $3.52 mil. for every one-percent improvement in the under-forecasting error,

$1.43M and $1.43 mil. in improving the over-forecasting error.
- Chaman L. Jain, Editor, Journal of Business Forecasting

Support

If you look at nearly every public company annual report from the last half-decade, you're likely to see the phrase "customer experience" (or CX) on the very first page. CX has been seen as a key differentiator for a while. Back in 2014, a Gartner study found that 89 percent of companies expected to compete mostly on the basis of CX within two years. Then, in 2016, a Frost & Sullivan study indicated that by 2020 CX would overtake price and product as a key brand differentiator.

This emphasis on CX has made customer support and service more important than ever. Today when a customer calls a business it's likely that action represents a make-or-break moment in their relationship.

How does the sales forecast impact this? By forecasting a number, sales is providing the company with a quantified expectation of growth. In support, in order to maintain CX at optimal levels, that likely means an increase in headcount and resources to handle customer inquiries on the phone, over email, via instant messaging or through social media. An increase in headcount means expenses for training and, potentially, an expansion of the contact center. It could also increase the need to focus on agent attrition, a long-standing problem in support.

Miss your number and the contact center's planning may be for naught. Traditionally cost-sensitive, customer support may be forced to let new hires go, erasing its investments and damaging morale. Soar past your forecast, and the contact center may be caught flat-footed and see its KPIs (including handle time, first-call resolution, and customer satisfaction scores) drop as a result.

Delivering predictability to your support or service organization allows them to grow at the right time, utilize budget efficiently, and maintain or even improve CX. And sales will have played an important role in helping support hit its marks.

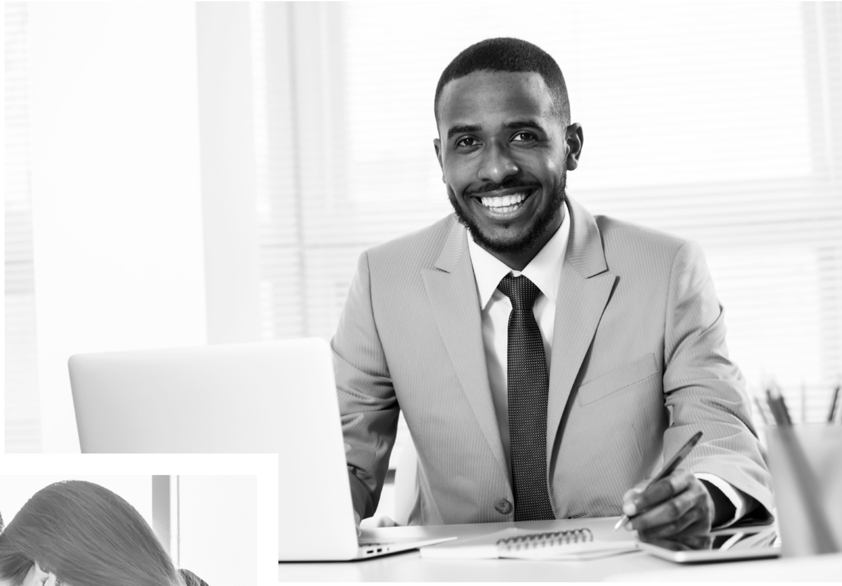
Finance

Your finance department thrives on predictability. A forecast sets the stage for their quarter and gives them the reasons they need to justify expenses, sign off on adjustments to departmental budgets, and fix the timetable for other business investments.

WHEN YOU DELIVER AN ACCURATE FORECAST, THE PLANS OF THE BUSINESS CAN PROGRESS.

When you miss your forecast, finance gets the odious task of signaling that hard decisions need to be made. Other departments have to act in response. Forcing finance to be the bearer of bad news and the assassin of business dreams ("No new software! No new headcount! No expanded office!") does not enhance finance's position in the company. It's not likely to enhance the relationship between finance and sales, either. No one wants to look like a villain within their company, and when you chronically fail to project a correct sales number, you're putting your finance organization into that position.

When you deliver an accurate forecast, however, the plans of the business can progress and finance no longer has to be the bad guy. Finance can do its job in relative anonymity, cash flow becomes predictable, and sales and finance can function with less conflict and anxiety.



Human Relations (hiring, training, ramp-up time)

A significant volume of new sales means more orders, more production capacity, and more customers to support. All of that may lead to more people to hire. Hiring more people means an investment in recruitment, training and ramp-up time, with all the costs they entail. It may even mean an increase in HR and talent management headcount, with all of their associated expenses. In short, growing a company comes at a cost, but it's a cost that's justified based on projected sales.

If you miss your numbers, you put HR in a bind. They've now sunk money into systems, services and people that, as it turns out, they didn't need. At best this is a hassle, as the HR budget is expended without need and has a negative impact on the next quarter's budget. At worst, this messes with people's lives and careers: freshly-recruited candidates may have the positions they're interviewing for suddenly closed, or new hires may find themselves laid off. Neither one of these scenarios bodes well for the HR efforts of your business, especially in the era of Glassdoor.com. That's on top of the time and effort expended by the talent team to find candidates in the first place.

If you hit your numbers, everything is different. Technologies are purchased, implemented and put in place to help employees meet the needs of customers. Talent is located, hired, and on-boarded in time to slide into slots when and where needed. Increased demands for training can be met and resources devoted where necessary. An accurate forecast helps the company grow, or at the very least helps HR thoughtfully deploy its resources each quarter.

Other areas

Forecasts have far-ranging impacts, especially when you miss them. For example, when you're a public company, they inform your guidance to Wall Street; blow your number (over or under) and every one of your investors will suffer as your stock price falls. If your business is on the verge of expanding its physical space, an overly rosy forecast may result in a lease being signed a quarter or a year too early, negatively impacting your profitability and putting your facilities team in a bind. An unreasonably optimistic forecast might inspire marketing investments - in PR, customer marketing or digital marketing - that must be curtailed after all the planning is complete, wasting the efforts of marketing staff. The ripple effects can be felt throughout the business.

A KPMG Survey of Executives

13% 6% 46% 5%

A SURVEY OF BUSINESS LEADERS FOUND THAT WHEN SALES FORECASTS ARE AS LITTLE AS 13 PERCENT OFF MARK, SHARE PRICES DROP BY 6 PERCENT. ON THE FLIP SIDE, RESPONDENTS SAW SHARE PRICES INCREASE BY UP TO 46 PERCENT WITH FORECASTING THAT'S WITHIN A 5 PERCENT ACCURACY RATE

An accurate forecast has the exact opposite effect. When your forecast is accurate and your guidance to Wall Street is on target, your results match the guidance, stock prices traditionally rise. Predictable revenue based on an accurate forecast means the company can expand its space comfortably, knowing that the expansion is justified. Marketing programs come at the right time, can be fully implemented, and pay off in new customers.

Conclusion

If you're a sales leader, you have reasons to be proud about your accurate sales forecasts. They set in motion a host of investments and improvements that can make your business more prosperous with each passing quarter. However, according to Gartner, 55 percent of sales leaders do not have high confidence in their sales forecasts, setting themselves up as the root cause of planning problems throughout their companies - and positioning themselves as an easy scapegoat. Wouldn't you rather be a hero?

To learn more about getting your forecast right, check out the 2021 Guide to Forecasting Fundamentals.

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