The 10 Data Sources that Every Accurate Forecast Needs

Xactly

Forecasting is by nature an uncertain practice - part art, part science. In the past, it was more of a sales leaders' art, based on experience, intuition, and assumptions. But as the need for more precise forecasts has grown, and as sales leaders have gained ever-greater access to key data, the science of forecasting has moved to the forefront.

That science, however, depends on the collection of the right kind of data delivered in a timely way, drawn from the right systems, and then unified in a way that provides context and granular detail about the sales organization. In many businesses, collecting these insights from disparate systems can be difficult and can result in blind spots. And when there are data blind spots, sales leaders revert back to using intuition—putting them at a disadvantage against the competition.

Forecasting isn't a one-size-fits-all endeavor—every company can fine-tune its forecasting process with data that's unique to that company. However, before these company-specific data can come into play, there are some vitally important data points to consider that form the basis of every forecast.

1. INDIVIDUAL SALES REP PERFORMANCE

Your reps have a responsibility to provide you with their interpretation of their pipeline: what's there, what's likely to close, and what the time-frame for those deals is likely to be. Naturally, this interpretation is influenced by each rep's personality: eager-to-please reps may dramatically overestimate the value of their pipeline, while cagey vets may underplay their pipelines' value to influence incentives in their favor.

Comparing these interpretations against historical data - especially granular data on the individual rep level - provides a reality check that can pull the overall forecast back into the world of reality. As Dr. Phil says,

PAST BEHAVIOR IS THE BEST PREDICTOR OF FUTURE BEHAVIOR,

so if a rep's personal close rate over recent quarters is 40 percent, and he tells you he's going to close 70 percent this quarter, you should view that interpretation through the right lens. Similarly, if a seller estimates a sales number for the quarter that falls significantly short of their past performance, the manager might add a few points to that rep's projected number. This data often resides in your Incentive Compensation Management system - having it available can adjust sales rep reports to better reflect reality.

2. CLOSE RATES

Perhaps the most basic metric of the effectiveness of your sales team, close rates show the percentage of opportunities that enter your lead funnel and eventually become customers. While this percentage can be applied to your existing pipeline to create a very basic forecast number, any changes can be used to understand how your sales force is growing and evolving, or how market conditions are challenging your sales team. It also provides insight into the effectiveness of your marketing team and the quality of the leads it's delivering to the sales team. Understanding what's influencing close rate allows you to factor those influences into the final forecast.

3. AVERAGE CONTRACT VALUE

Understanding the average contract value per deal is crucial in order to project the total amount of revenue your organization expects to generate in the next quarter. Knowing this number - and whether it's trending up or down - is **valuable in understanding whether your sales team is securing the types of deals you want** and if they're successful in pursuing the types of customers your organization is targeting. Most businesses want longer contracts because they have longer lifetime values; every business wants larger contracts. When businesses shift the emphasis from SMB to enterprise, average contract value should increase.

When it comes to forecasting, average contract value - and the trends around it - can be used to project revenue growth and factor it into your final sales forecasting number.

4. WIN RATES BY STAGE

One of the most basic components of understanding your pipeline - and how it will play out over any duration of time - is an educated estimate of win rate. That requires insight into your pipeline and what stages prospective customers are in now. It also requires a historical view of how often you closed deals, or lost out to competitors or to the dreaded "no decision," on a stage-by-stage basis.

5. SALES CYCLE

THERE ARE TWO REQUIREMENTS FOR HAVING THIS DATA AVAILABLE FOR YOUR FORECAST:

1. The ability to track wins and losses
2. A well-defined sales funnel that clearly delineates your sales stages.

If you have these in place and can examine the trends, you can apply that information to your current forecast. For example, if product improvements have made your company's products an easier sale, or if the sales force has gained maturity and confidence with time in their roles, win rates are likely to go up. If you project these trends to continue, this can be factored into your forecast.

Since forecasts are projections of sales over a finite period of time, understanding the duration of your sales cycle is enormously helpful in projecting a final number for your forecast.

The sales cycle represents the amount of time that elapses, on average, from your first interaction with a potential customer to close.

Comparing this time to the anticipated win rate by stage - and correlating that to the buyers you have within each stage - provides you with an estimate of how soon you can project closed deals.

This also requires you to understand changes to your sales cycle. Is it elongating as your deals get bigger or as you pursue larger customers with more stakeholders involved in each buying decision? Is it getting shorter because your sales process is better focused or because you're prioritizing prospects better? Knowledge of this will help you adjust your sales cycle-based projections to more accurately reflect your pipeline.

6. SEASONALITY

Nearly every business is affected by seasonal buying trends, and every mature sales organization understands what those trends look like for their industry. Acknowledging those seasonal trends allows you to tune the forecast to reflect reality.

Not every quarter is created equal. In retail, the fourth quarter often represents a huge percentage of annual sales; B2B companies may find the first quarter the most lucrative; companies selling to the construction trades may see higher sales in spring and summer. As a result, revenue does not flow into your company at a constant rate but instead fluctuates across the calendar. Building these fluctuations into your forecast allows you to use recent sales information to predict sales performance in your hottest and coldest months for sales.

7. UPSELLING RATES

Selling to existing customers is more lucrative, costs less than landing new customers, and is often easier. When companies increase their efforts to sell to these promising customers, it has an impact on their sales forecasting. **As an organization gains new customers, it also gains the opportunity to make additional sales to them.** Understanding the percentage of total sales that are going to existing customers is helpful and, when combined with the new customer growth numbers, a factor for increased sales to these customers can be built into the sales forecast.

Similarly, when organizations make a strategic decision to pivot strongly from new customer acquisition to selling to their existing customer base, the forecast needs to adjust accordingly.

8. RATE OF CRM ADOPTION

While you can collect forecasting data from a variety of sources, CRM provides you with the best window into data as reported by the members of your sales team. The accuracy of that data is totally dependent on how diligent your sales team is in using CRM.

CRM's biggest obstacle is adoption; many multi-million dollar implementations failed not because of the technology but because the sales team refused to use it for every deal. Sales professionals have grudgingly come to the realization that CRM plays important roles for the business in planning and forecasting - roles that are actually beneficial to them. As a result of this - and efforts by sales managers to make CRM mandatory for every deal - **adoption rates have been slowly creeping up over the last decade.**

Still, few organizations have a 100 percent adoption rate. That can leave blind spots in your sales data and hamper forecasting efforts - unless the rate of adoption can be factored into the forecast to weigh the quality of data and make allowances for sales' behaviors.

9. LIFETIME CUSTOMER VALUE

How much is each of your customers really worth - not just for this quarter but for their entire tenure as a customer? In this era of the subscription economy - and the growing realization of the value of selling to existing customers - lifetime value becomes a critical measurement for a host of things. For example, allocating professional service or customer support might be adjusted to devote the majority of these assets to customers with a promising lifetime customer value. Similarly, investments in customer retention are more effectively targeted at customers who promise to deliver the most dollars over the long term.

Establishing lifetime customer value can help you better understand the effectiveness of your sales spend and help you forecast sales expenses in the context of their value over time. It's a metric that helps with this quarter's forecast and future forecasts for years to come.

10. YOUR OWN SALES VARIABLES

What's going on within your sales organization? Did you have a period of unusual sales turnover that resulted in more junior sales reps who are still scaling the learning curve? Did you revamp your approach to sales enablement so your reps are delivering great content to every potential customer? Did you add features to your product that give you a competitive advantage?

Factors like these are unique to events in this quarter. They may be anomalies or temporary conditions, but they will impact the amount of revenue your company brings in during this forecast period. Identifying them, understanding their impact, and building them into the forecast provides a **one-time reality check that can keep your forecast on target.**

Are you leaving any of these data sources out of your forecasts?

To learn more about Xactly's unique approach to forecasting - and how it can enable your organization to focus on Intelligent Revenue - visit our Intelligent Revenue Hub.

Xactly empowers growing enterprises to effectively manage their revenue generation. Xactly's Intelligent Revenue platform carries organizations through the full revenue lifecycle by focusing on planning, territory and quota, incentives, and pipeline management and forecasting from initial strategy development through execution and prioritization of all aspects of revenue optimization. Harnessing the power of AI, Xactly's scalable, cloud-based platform combines great software with the industry's most comprehensive dataset to give customers the trusted insights they need to improve sales performance and grow revenue. Xactly's 16-year proprietary data engine is powered by insights from Salesforce, Oracle, People.ai, Gainsight and continues to expand.

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