





BLURRED VISION

STEVE HOYLE explains the lack of clarity and accuracy involved in sales forecasting

A headline that is increasingly seen in reports about the effectiveness of the sales team is “Forecasting accuracy continues to decline”. CSO Insights, in its well-researched *2013 Sales Performance Optimization* study, made this very claim, and in talking to sales directors and VPs I have heard this anecdotally for the past couple of years.

But what does ‘forecasting accuracy’ actually mean? Is it really declining and, if it is, then is this important? What are the possible reasons for it? And what can be done about it?

It turns out that forecasting accuracy means different things to different people, and a quick poll of sales directors, first-line sales managers, salespeople and some sales operations people came up with variations along the lines of:

- Actual orders/revenue number coming in close to the forecasted number at the end of the month/quarter (and variations around the ‘quarter day one forecast’ to ‘last week forecast’)
- Deals marked as ‘committed’ in our system actually came in
- Deals marked as ‘committed’ in our system actually came in during the week that was predicted

Anatomy of a missed forecast

A recent assignment for a major global IT equipment vendor confirmed many of our observations and conclusions. The bookings performance for this European-wide organisation in the last quarter had slipped by 31% from their initial 'day one' committed forecast.

The miss was different in different countries, but not wildly so, ranging between -12% and -39%, and we concluded that different economic climates did not significantly affect the outcome, as the difficult conditions in most countries had been evident at the start of the quarter. There was also little difference between different product sets, although the more complex products showed slightly more slippage than easy-to-configure packaged solutions.

We found that the majority of the issues were to do with project timescales slipping; the business had mostly not been lost but the reported timescales suddenly went out towards the end of the quarter.

This miss of the forecast was a very serious one, but followed a trend that had been building up for over five quarters, with forecast accuracy getting worse over time (in this particular case accuracy was measured on booked orders compared with the first quarterly committed forecast).

After examining what actually happened to the pipeline during the last three weeks of the quarter, we came to the following conclusions:

Major deals had not been properly qualified to anything like the depth required. This had been a gradual erosion over the last 18 months of proper sales in-depth qualification reviews on the 'swing' deals that determine whether or not forecast or target can be met.

There was over-reliance on salesforce automation. This organisation has a well-implemented Salesforce.com system, which was largely up-to-date and complete, but in some ways this gave a false sense of security to management who often confused completeness of data with quality of information.

Little use of 'management variance' in the forecasted numbers was evident. Managers were not exercising their judgement, allowing raw forecast data from account managers to flow into the forecast with little added value from the manager.

The original forecast was flawed, in that salespeople and local sales managers had allowed themselves to be 'talked up' by senior sales management who believed at the time that they were 'stretching' the sales team, when with hindsight they were simply encouraging happy forecasting rather than realistic forecasting, and putting off the difficult discussions until the end of the quarter.

The real issue was lack of pipeline growth, leading to a classic situation of the sales team being over optimistic/wishful in its ability to close identified business in the quarter.

The macho management style of this organisation meant that salespeople and all levels of sales management were reluctant to de-commit until the very final moment when all hope is lost, when it was too late for senior management to put any other actions into place.

Armed with these conclusions we were quickly able to put in a series of steps to rectify the short-term forecasting issues, as well as addressing medium-term and long-term skills, process and behavioural issues.

◀ ■ The project was booked with all of the identical part numbers that were entered into our forecast system at the start of the campaign

■ A sophisticated measure taking into account accuracy of forecasted product mix, quantities, price, date of order, date of delivery and comparing what was in the forecast system originally, three months out, one month out and week from date of receipt of order.

Digging a little deeper into some of these responses, broadly it turns out that sales directors are mostly concerned about the accuracy of the single order and/or revenue number that they have then passed on to their boss or board. Sales managers are generally concerned with one number (pressure from their boss) and are somewhat concerned about the accuracy of particular projects being won on time, as this affects their ability to judge the number that they are committing to. Most of the other measures are of interest to sales managers and directors, but generally are only concerning to sales operations people.

Interestingly when talking with salespeople both informally and in discussion groups, they appear less

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concerned with forecast accuracy for its own sake, but are often keenly interested in managing the expectations of their manager and, of course, also managing their bookings profile to maximise performance against commission plans.

So forecasting accuracy means different things and is more or less important depending on your perspective. In discussing this area it is clear that real forecasting accuracy is actually the outcome of good qualification, although it is often clouded by salesforce automation issues and game playing in organisations. And when the discussion is moved to one of how important qualification is, then salespeople and all levels of sales management are much more united in the view that it is a critical skill that is key to effectiveness, and ultimately is the mark of quality in a salesperson – as anyone can turn up to customer meetings and issue proposals hoping that something will get ordered. Real qualification, however, is reading the whole buying process and knowing how to best conduct the campaign, focusing different activities on different people at different times. As such, it is the basis of all higher level selling activities.

There are a number of well-documented factors in the customer base that are combining to make it more difficult to do a good job of ongoing qualification of projects, including:

- Increased number of people involved in final decisions
- Increased number of people involved during the evaluation stages
- Greater use of consultants during the purchase phases
- Increased due diligence by customers, generating more purchase process cycles
- Increased complexity of technology-based solutions.

FOUND IN TRANSLATION

No article on forecasting would be complete without an update to the famous Forecast Review Translator (FRT)

To the uninitiated, a forecast review meeting often appear as a professional, considered, rational conversation. With experience, however, there are sometimes other conversations going on behind the words used. Here is a selection of common words and phrases that can cause confusion.

In addition, many sales organisations are making it more difficult for salespeople, especially those (the majority, in our experience) where salesforce automation has been implemented without the salesperson being the primary beneficiary of it. Automation has led to:

- All sales campaigns being forced into a standard definition of sales stages
- Probability predictions being system-generated and based on position in the purchase cycle, rather than a considered evaluation of actual probability of success
- Insistence of salespeople reporting progress of a deal in terms of sales stages in order to gain pre-sales resources or to fit an ideal reporting profile.

These 'system shortcomings' can be amplified by certain management practices, including:

- Failure to hold sales managers or salespeople to a forecast number that they generate and 'own'
- Confusing the words 'commit' and 'forecast'
- Managing the salesforce automation system rather than managing people or opportunities; spending effort on simply reporting business coming in, rather than actually increasing it.

To improve forecast accuracy it is essential first to be clear what you mean by the term, to apply it consistently, and to ensure that everyone involved in sales understands why it is important. There are then four groups of people who need to focus their attention in different ways:

SENIOR SALES LEADERSHIP

Ensuring that the climate, culture and communications are in place to have open discussions about the reality of the forecast, and managing any contention between sales operations and sales management, as well as holding people to account for their own forecasts

SALES MANAGERS

Getting the basics right of good qualification of accounts and opportunities, focusing on funnel growth and fostering proper debate about pipeline management

SALES OPERATIONS

Implementing systems that have the salesperson at the heart of the process, and supporting sales to manage the numbers; plus ensuring clarity and consistency in the forecasting process

SALESPEOPLE

Qualifying opportunities realistically; managing their own pipeline; being assertive where necessary with managers/operations to ensure they don't over-commit.

Contributor Steve Hoyle is a sales trainer, consultant, coach and interim manager, specialising in helping clients to grow the capability of their sales teams in complex B2B environments. He can be contacted at steve.hoyle@linksdev.net or on 07785 381563.

WHAT IS SAID:

BY SALESPEOPLE:

I'm working closely with our partners on demand creation

We are under intense competitive price pressure

There is an issue with our order processing policy and procedures

I've detected signs of a slight slippage

We need to create a compelling event

The market appears to be drying up

Their policy is not to talk to potential suppliers during the evaluation phase

There is some slight upside potential

There is some slight downside potential

BY SALES MANAGEMENT:

We may have to consider some form of financial re-engineering

It may be prudent to consider a stock re-profiling exercise

There is severe pressure from senior management

Your pipeline timescales appear a little pessimistic

Your pipeline timescales appear a little optimistic

I'm disappointed in your latest forecast revision

I'm extremely disappointed in your latest forecast revision

I'll just insert a management variance

Is that your final commit

I appreciate your honesty and openness

What is the shape of the medium-term pipeline

We have an issue with pre-sales resource allocation

We owe it to you to do a deep dive on your pipeline at the next review

This looks like a rigorously thought out pipeline analysis

WHAT IS MEANT:

I'm ambulance-chasing

I've failed miserably to sell any benefits of our solution

Why can't I book this signed napkin

No chance that we will make the sale this month

The only way to make the sale soon is to give a massive discount

I haven't done any cold calling this month

I don't have and good senior-level relationship

I've got orders in the bag, but will hang onto them until next month

Please realise that this forecast is wildly optimistic

We're going to have to cook the books

We're going to stuff the channel

My bonus/job depends on meeting this number

You are holding business over until next month

There is no way that will come in this month

Don't expect any promotion/bonus/salary review...

If I were you I'd make sure my CV is up to date

There is no way that I can put their forecast up to my boss or, they are lying again

You do realise that your future career now rests on making this number? Or, what are you hiding?

You are a complete and utter failure as a salesperson

What have you got that we can steal into this month?

You have given away free consultancy again or, none of our pre-sales people will work with you

I don't believe a word of it, but I'll give you one more chance

What have I missed?

We hope that you find this useful, and that over time you will need to do less FRTing around at your forecast review meetings.