HOW TO IMPROVE SALES FORECASTING ACCURACY

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TABLE OF CONTENTS

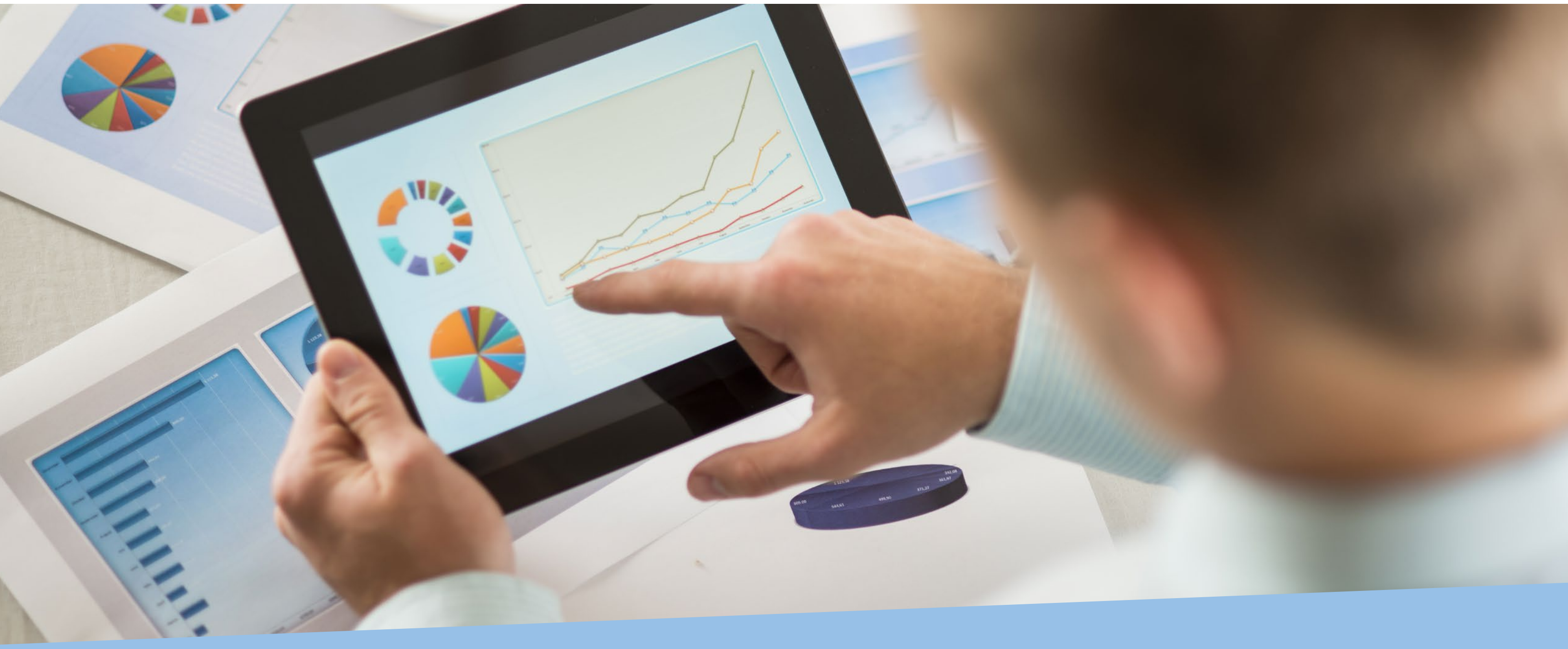
ABOUT FORECASTS

To get better forecasting, it all starts with you — or rather, you and your pipeline and forecasting meetings with your salespeople.

Sales leaders can lack confidence in their forecasts, as well as the knowledge on how to improve them. An unformalized forecasting process is likely the culprit.

SHOCKING STATISTICS ABOUT FORECASTING:

- Clari states that 93 percent of sales leaders are unable to forecast revenue within 5 percent, even with two weeks left in the quarter.
- According to McKinsey & Company, 67 percent of organizations lack a formalized approach to forecasting altogether.
- Xactly states that 80 percent of sales organization DO NOT have a forecast accuracy of greater than 75 percent.
- According to Gartner, 55 percent of sales leaders do not have high confidence in their forecasting accuracy.



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WHY ARE ACCURATE FORECASTS IMPORTANT?

A sales forecast helps every company make better decisions. It supports overall business planning, budgeting, and risk management.

Sales forecasting allows companies to effectively allocate resources for future growth and manage their cash flow appropriately.

Sales forecasts help sales teams achieve their goals by identifying early warning signals in their sales pipeline and adjusting before it's too late.

To help companies estimate their costs and revenue accurately, CEOs and owners need accurate sales forecasts to reliably predict their short-term and long-term performance.

BETTER DECISIONS

ALLOCATE RESOURCES

ACHIEVE GOALS

ESTIMATE COSTS

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KEEP THEM SEPARATE

PIPELINE VS. FORECAST

While often considered one-and-the-same, pipeline and forecast reviews are distinctive and should be handled separately.

A PIPELINE REVIEW…

Is focused on the overall health and balance of the pipeline, so salespeople know where they should focus their effort and specific steps they should take to advance opportunities.

?

WHAT'S THE SHAPE/ HEALTH OF YOUR FUNNEL?

A FORECAST REVIEW…

Is focused on understanding what deals are coming in when, so that management can plan accordingly for cash, inventory, operations, etc.

?

WHAT CAN MANAGEMENT RELY ON AT THE END OF THE MONTH/QUARTER?

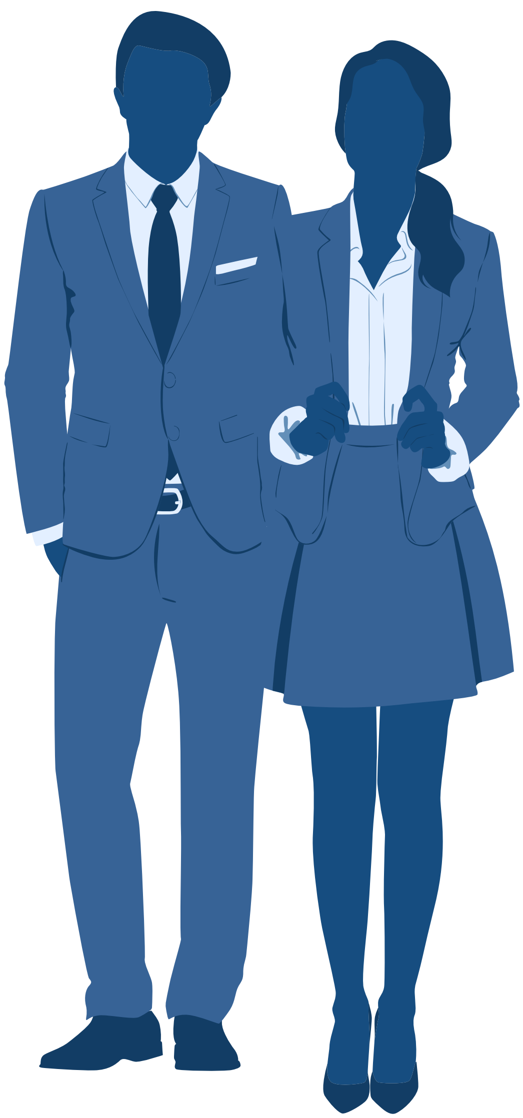
THE GOAL

SET A GOAL FOR YOUR FORECASTING MEETINGS

Forecast meetings provide time for an in-depth discussion between you, the sales leader, and each of your salespeople about the individual opportunities that make up a forecast.

The purpose of the meeting is to develop confidence around each forecasted opportunity, so that you can deliver the most accurate forecast to your leadership.

Having an effective forecast meeting will help your salespeople forecast more accurately and provide regular coaching opportunities for you to help them improve.



THE GOALS OF FORECAST MEETINGS

- The salesperson understands the importance of an accurate forecast.
- You get a clear understanding of what will come in, along with the timing.
- You can provide clear information to the CEO.
- You can spot coaching opportunities to support your salespeople.

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HOW OFTEN SHOULD MEETINGS OCCUR?

Nothing turns salespeople off more than making forecasting time-consuming or confusing. If you ask your team to forecast too frequently or make the process overly taxing, they won't give forecasting the focus or attention it deserves.

How often you meet with your salespeople to discuss their forecasts is highly dependent on the length of your sales cycle, but typically it should occur at least once a month.

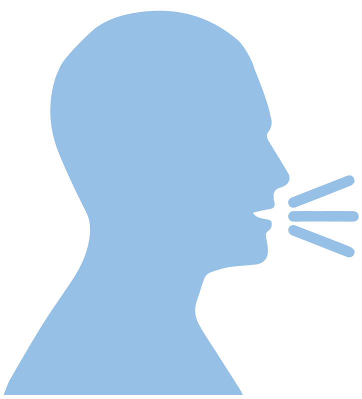
- If you are a high-volume transaction business, you'll want to look at the forecast more frequently.
- f you sell 3-4 deals per year and the sales cycle is 9-12 months, reviewing the forecast every week is probably overkill. Instead, review it monthly.

FORECAST MEETING

YOUR ROLE AS A SALES LEADER

When it comes to your forecasting meeting, it should NOT be a review of each deal. Instead, the focus should be on the changes that happened. Did something close? Move from one forecast category to the next? Go away completely? Get lost to a competitor? Again, focus on the changes and the timing.

Your role as the sales leader is to ask questions for clarity and to gain confidence about whether the deals will happen or not. Then, listen carefully for key answers.



ASK:

- How many new customers do you gain?
- How many customers did you lose, if any?
- What is the average size of the sales you make to each customer?
- Are there particular months where you acquire or lose more customers than usual?

LISTEN FOR:

- Are we on the right decision-making level?
- Has the client made specific commitments to another step or another conversation?
- Are their objections, obstacles, or barriers?
- Does the timing look achievable?

FORECAST REPORTS

Since the forecast is a subset of the pipeline report, it should be easy to quickly filter for just that salesperson's opportunities.

AT A MINIMUM, FORECAST REPORTS SHOULD INCLUDE:

Name of Opportunity

Date created/age of opportunity

(Note: Keep an eye on this, and ask about opportunities that are old and may have grown "stale.")

Close date

Stage

(If possible, also record how long it has been in that stage.)

Dollar amount

(This could be once, across several months, etc.)

Notes

GROUPING FORECAST REPORTS

This is the process of sorting the pipeline report down to only the forecastable opportunities. Looking at all of the early-stage opportunities doesn't make sense in a forecast. We recommend categorizing the forecast as follows:

1

KNOWN

These are the deals you are locked in on — you are 90% sure that they will come through. One of the following should be true:

- The deal has been signed, but the work has not started yet (also called a backlog).
- You've received a verbal confirmation.
- You have a strong feeling about it.

2

PROBABLE

These are later-stage opportunities that you feel you have a good chance of landing.

To be noted: You could have a later-stage opportunity that you don't feel good about. For example, maybe you have proposed it, but the incumbent is strong, or a competitor is bidding low.

In that case, it is a later-stage opportunity, but it might not fall into the Probable category.

3

OTHER

Don't even include these in the forecast. It will simply confuse the issue.

Too early – you don't have enough information to tell.

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WE'RE HERE TO HELP

There are many steps to getting effective forecasts, but it all starts with you. Pivotal Advisors has worked with hundreds of companies struggling to find the right approach. We are happy to help you, too.

If you have questions about this guide or how you can be even more successful as a sales leader, don't hesitate to contact us.

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