Ask Andi
Trusted Advisor to Business Owners

How Forecasting can Help the Bottom Line

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Forecasting. What is it? Do I, as a business owner need to do it? It seems impossible to accurately forecast, so why bother? How do I use forecasting to know when to keep going, when to pull the plug, and to do something radically different?

We all do forecasting on some level. We say things like, "This year should be up over last year." "Started out slow, but things are picking up." "Lost a big customer, like to slow things down for awhile." "We're gaining momentum!" We see reports out of Quickbooks, and MS Excel, showing trend lines we try to read, like tea leaves. We try to figure out where our next sale is going to come from.

What is forecasting. Why bother doing it? How can I better understand what's in my pipeline? How do I use the data to make business decisions? Let's take a brief look at these four critical questions.

What is forecasting.
A forecast is a tool to help us, as business owners, make decisions faster, and better, with greater payoff potential. Sometimes it does feel like reading tea leaves, especially when the forecast is based on historical data, and historical trends. For example, one form of forecasting predicts trends based on qualitative data, what has happened in the past, and mirroring that into the future.

The problem with a qualitative approach is that change does come along, and at the most unpredictable times. What happened in the past may not happen in the future, and blindly believing it will continue as before is unhealthy. A new competitor may come along; the economics of the market may change. This is where many of us as owners start to get glass eyed, and say, "There's no hope in getting an accurate forecast, don't even bother to try." I encourage you to stick with it; there are ways to get a reasonably accurate forecast.

Why bother doing it?
Let's take a look at why forecasting is important. With an accurate forecast, you can decide how many people to hire, how much equipment and supplies to buy, when to make a move to announce a new product or service, whether to increase or decrease your investment in marketing. The bottom line of forecasting is that you, as owner, will have a good idea of how much money your company is going to make, and how that will impact your own bottom line. And, you'll know it, before it happens, so that if you don't like what you see, you can intervene early to change the outcomes. Now that's real control!

How can I better understand what's in my pipeline?
Your sales pipeline is the key to your forecast. And you need to do some quantitative analysis – big words for saying you have to use MS Excel, to do the math. The first column you save for names of prospects and customers with future potential. The next column you use to predict the amount of sales each prospect is worth. Next group of columns are used to define the decision making stages your prospects will have to go through in order to close on the next sale, and the percent, or likelihood, of close at each stage. The final column is for a calculation, multiplying together percentage of probability of closing based on sales stage, with total potential revenue for that prospect.

Now you're ready to fill in the grid. Lay out all of your customers and prospects in rows. Use the columns in Excel for potential sales, sales stage percentages and a calculation of current value. Define which sales stage each prospect is in currently. Let the spreadsheet calculate a current value for each prospect, based on sales stage and total sales value.

By doing each of these activities, you will have the basis for an accurate forecast. By simply multiplying each individual prospect's potential sales value by the percent of probability of closing based on the stage the prospect is in currently, you will have a dollar value of sales likely to come from that prospect, at present stage of sales. Add up all the dollar values, and you will

O: 914-238-3500. • F: 914-238-2529
AskAndi@StrategyLeaders.com • www.StrategyLeaders.com
Strategy Leaders, Inc. • 5 Crossways, Chappaqua, NY 10514

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have a value for your total pipeline. This is the value of the sales currently in your pipeline. Of course, not everyone will close; of course everyone won't be worth what you predicted. But as long as you have 25 or more prospects on your list and four or more sales stages in your pipeline, I promise you, you'll have a reasonable accurate picture of what's in your pipeline.

How do I use the data to make business decisions?
Last week we looked at product life cycles. Now we have the data to see if sales volume in the pipeline is increasing or decreasing. We can add marketing dollars to try to push sales up, and we can see if it has any impact. We can add sales people to the mix, and know if they are succeeding, and how long it takes them to ramp up. We now can get a good estimate of whether we have enough sales coming through the pipeline to be able to hit the sales targets we want to hit. And that will help us to define whether its time to get moving on the next product launch, or keep going with what we have.

To make forecasting really valuable, we also have to have goals. We have to define what we need to achieve to succeed. We need to measure actual activity against goals; to be sure our forecast is panning out. And we need to be prepared to act quickly, to insure we hit our goals. All parts of a well run, predictable business, which is what we all, as owners want.

Looking for a good book? Try Sales Forecasting: A New Approach, by Thomas F. Wallace and Robert A. Stahl. Great for most of us, as they start out with all the things they've heard about why forecasting won't work, and build from there. Wallace has another good book out on the market, Sales and Operations Planning, The How-to Handbook. Happy planning!

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If you are a business owner and you have a question or would like to discuss some aspect of your business, call 1.877.238.3535 or send an email to AskAndi@StrategyLeaders.com.

O: 914-238-3500. • F: 914-238-2529
AskAndi@StrategyLeaders.com • www.StrategyLeaders.com
Strategy Leaders, Inc. • 5 Crossways, Chappaqua, NY 10514