

## Good Sales Forecasting - A Must for Future Planning

05/22/06

I feel like I'm running blind, and it's scary. What can I do to get a better handle on my company's future sales? We generally have enough sales, and my people are out there beating the bushes for more. But I can't tell what's coming in when. One sales person over-eagerly predicts what will come in. Another just seems to be working in the moment, following up with whatever account asks for the most attention. It's hard to plan, and I'm not sure we're focused on the most profitable accounts. What can you advise.

Learning how to predict the future through sales forecasting is like creating a crystal ball for the business. It means the company has less emergencies to deal with, and more opportunities to plan out how to deliver its products or services. Having a forecast also means that different people in the company can come together to discuss how best to pursue prospective accounts, and which ones to prioritize. Finally, an accurate forecast helps companies insure they retain data any time a sales person moves on to a new position.

Let's look at the dynamics of sales forecasting. We'll start an explanation of what is a sales forecast, followed by advice on how to build the overall structure of a sales pipeline. Then we'll talk about those all important ratios – what each stage of the pipeline should be worth.

A sales forecast is a report on the activities conducted by sales people with their prospective accounts. It is a tool that can be used to help the company better manage sales. A good sales forecast can help you plan future workload as well as predict income and expenses. It needs to contain information on all prospects, from those you're just starting to shake hands with, to those you're ready to close. Don't worry that you won't close all of the accounts you're shaking hands with – that's the point of probabilities, which we'll get to in a minute.

Working with a forecast over time should help your sales people close more accounts, as it helps them to stay more on top of accounts, keeps them from losing track of prospects, and helps them to focus their efforts to move things along at a steady pace with many accounts.

You can set up your sales forecast in something as basic as excel, or use a forecasting system such as Goldmine, ACT or Salesforce.com. Make sure that the system you plan to use will let you calculate the probably value of the account, as well as the gross amount of each sale. Also be sure that your tracking system will let you keep track of the amount of time it takes to sell your product or service. This information will help you to plan peaks and valleys, and delivery workload, as you'll see shortly.

Let's look at how a hypothetical company, The Great Sales Machine, set up it's pipeline. To get started, the owner of the company, Bob, pulled everyone involved in sales into a meeting, for a discussion of what should go into their sales pipeline report.

Bob and his sales people agreed that they wanted a few basics, such as the name of the prospect account, key contacts, dates of initial and most recent contacts, and the sales person responsible for the account. Then they decided on a list of 5 major steps that each account goes through, from initial account to closure:

- initial introduction
- identify needs
- define prospect's timing and budget
- present or confirm proposal on a finalist list or in final negotiations
- close the sale

They came up with these stages by thinking what they routinely went through, steps that had to be completed, in order to get a sale. They looked at the whole sales process, not just the final steps that happen right before they got a sale.

For each step, they figured out how many accounts they needed, in order to get one sale. For example, they agreed that for every 20 accounts they meet (stage one), they may only get 1 sale. They then converted that ratio of 1 sale:20 prospects into a percentage, by dividing 1/20, for

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a probability of 5% at stage one. Stage two, identifying needs, they figured that for every 15 accounts they get to this stage, they get one sale. The ratio of 1:10 turned into 10%. Once they figured out a prospect's timing and budget, stage 3, they agreed that they usually close 1 in 3, or 33%. Since presenting a proposal was reserved for accounts with a high potential of closing, Bob's sales team estimated that proposals resulted in 1 close for every 2 proposals, or better. They decided to be conservative and use a ratio of 50%. Getting to the stage of finalist, they agreed, meant that they were probably going to close 3 times out of 4, or 75%. The final stage, close the sale, they decided to give a probability of 90%, to allow for occasional changes in volume and drop off because of unforeseen events on the client's side.

They decided to use excel to keep track of accounts and probabilities. They felt it was the simplest to set up, and the easiest way to get started. Once they had their probabilities, all Bob and his team had to do was fill rows of excel with the names of all of the accounts they were calling on. They set up 5 columns, one for each stage of probability. Then all they had to do was mark off which stage they were at with each account. By filling in where they were with each account, they could easily see how many accounts were in

each stage, and what the next stage was for each account.

They also estimated the value of each account. Each sales person wrote down what he or she believed would be the total contract value, for each individual account, once it closed. Then they set up a formula to multiply the total contract value by the probability of the stage it was at. For example, Bob was working on a proposal for the ABC company, and he estimated the account would close at \$10,000. Since he hadn't delivered the proposal, yet, he decided the account was still in stage three, with a probability of 33%. That meant the account has a current probable value of \$3,333 ( $\$10,000 \times 33\%$ ). Once Bob delivers the proposal, he will move the account to stage four, and the probable value will increase to  $\$10,000 \times 75\%$ , or \$7,500.

Bob and his team realized that by going through this exercise, they could figure out several things. First, they would have a more analytical way of looking at each account and tracking progress. Second, they could be more specific about what each account is worth, at any point in time, based on sales stages and probabilities. Third, by adding up all of the probabilities, they realized they would have a good handle on how much their sales pipeline is worth. This could help them better decide if they needed

to focus more on lead generation, or closing what they were already working on.

Bob's team agreed to meet weekly to discuss where they were with the pipeline. They realized that over time they could identify which accounts were stalled, which accounts might be slipping away, and which ones were moving along nicely. They were less likely to lose track of accounts, since they met weekly to review progress and update the report.

They stopped the leaks in their pipeline, because they tracked the progress of every account, and found out typically how long it took for an account to move from one stage to the next. This meant they stopped losing good prospects, and cut out wasting time on prospects that weren't going anywhere, with better management overall.

Bob's team also found out that different people on the team were better at different stages. One rep was really good at adding new prospects to the list. Another was good at identifying timing and budget. A third excelled at closing. At their weekly sales meetings, they talked about the different skills needed at each stage, and shared advice on how to move specific accounts from one stage to the next.

At the weekly sales meeting, each sales rep would pick 5

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accounts to target for the week, explaining what they expected to complete with that account. They would report back at the next weekly meeting, discuss what went right and what didn't. They used that discussion time to share experiences and figure out how to help each other move accounts from one stage to the next.

By using the sales forecast, they could see the mini- win's they were achieving with their sales prospects. Sometimes it took awhile to close an account, and sales people used to get discouraged or frustrated. Bob also admitted that it had been hard to measure the success of his people, as sales previously was seen as an all-or-nothing proposition – either you closed, or you didn't. Now, they could prioritize efforts and celebrate progress from one stage to the next. In some cases, they decided to have another sales person step in as support, to help move an account along to the next stage.

Bob and his team became much clearer about the relationship between activities and outcomes. They became confident they knew how many intro sales calls they had to make, and how many proposals they needed to do, in order to hit their sales numbers overall. This helped them to plan and balance activities several months ahead.

The biggest value, for Bob, was that he finally was getting an accurate estimate of what was likely to close. Based upon an account-by-account review of which stage each account was at, what had to happen next, what the account was worth, and where it fit on the priority list, his people could better tell him what was likely to happen, and when. Bob matched the forecast to his goals for the company for the month and the year.

Overall, Bob found out that he was only 5% shy of his goals for the year. Bob also realized that some months had greater probable close volume than others. He could talk with his sales team about when to slow things down, and when to put closing incentives in place, to speed things up.

Mostly, Bob could now focus on managing the sales efforts of his people, And, he could go home at night, feeling more confident that his company would meet its goals for the year.

Looking for a good book? Try Ready, Set, Sell, How To Go From Zero To Sales Hero In 90 Days by Don Mastrangelo.

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