Sales Forecasting

How Top Performers Leverage the Past, Visualize the Present, and Improve Their Future Revenue

July 2011

Peter Ostrow

Executive Summary

Enterprise sales organizations are under increasing pressure, often both from internal and external stakeholders, to provide more accurate sales forecasts of top-line revenue in order to better predict, and improve, the long-term health of their company. To maintain a competitive position in the market, companies are turning to sales analytics solutions that provide an enterprise-wide data flow into the forecasting process, thus creating a more refined snapshot of future revenue and empowering more efficient, margin-driven sales activity as well as more pure selling time by the sales team itself.

Best-in-Class Performance

In April and May 2011, Aberdeen surveyed 304 end-user organizations to learn about their sales effectiveness. Aberdeen used the following three key performance criteria among the 237 responding companies currently deploying sales forecasting, to distinguish the selling organizations within Best-in-Class companies:

- 91% average current customer retention rate, compared to 78% for Industry Average companies and 32% for Laggards
- 17.0% average year-over-year increase in overall team attainment of sales quota, compared to a 3.1% increase for the Industry Average and a 6.9% decrease among Laggards
- 10.4% average year-over-year reduction of (improvement in) the average sales cycle, versus 0.3% for Industry Average companies and a 6.0% increase (worsening of) cycles among Laggards

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance share several common characteristics, including:

- 89% cross-functional access to the sales forecast
- 74% formal definition of progressive sales stages, used to weight sales forecasts
- 70% centralized repository of all current sales deals, identified by stage or likelihood to close

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Create and publish standardized rankings used to classify all sales opportunities/leads
- Provide training all sales reps on how to log/enter all sales stage information in company's CRM or SFA software

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

"Sales forecasting is hard work and challenging, but is the single outlook into the predictable future for the company. Therefore effort in more effective forecasting improves transparency and creates an early warning signal for the company regarding potentially dramatic changes in the business."

~ Wiel Kroonen, Managing Director, MAYFRAN International B.V.

How Does Your Performance Compare to the Best-in-Class?

- Compare your processes
- Receive a free, personal PDF scorecard
- Benefit from custom recommendations to improve your performance, based on the research

Take the Assessment
Receive Your Free Scorecard

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Table of Contents

Executive Summary 2
- Best-in-Class Performance 2
- Competitive Maturity Assessment 2
- Required Actions 2

Chapter One: Benchmarking the Best-in-Class 4
- Context 4
- Does an Accurate Sales Forecast Matter? 5
- Business Pressures Focused on Sales Forecasting 6
- Where Do We Get All this Data? 7
- The Maturity Class Framework 8
- The Best-in-Class PACE Model 9
- Best-in-Class Strategies 10

Chapter Two: Benchmarking Requirements for Success 14
- Capabilities and Enablers 15

Chapter Three: Required Actions 22
- Laggard Steps to Success 22
- Industry Average Steps to Success 22
- Best-in-Class Steps to Success 23

Appendix A: Research Methodology 25
Appendix B: Related Aberdeen Research 27

Figures

Figure 1: Trustworthy Sales Forecasts Linked to Better YOY Performance . 5
Figure 2: Barriers to Effective Sales Forecasting 6
Figure 3: Key Business Pressures Impacting Sales Forecasting 7
Figure 4: Formal Sales Forecast Weighting Input 8
Figure 5: Sales Forecast Accuracy by Best-in-Class 10
Figure 6: Best-in-Class Strategic Actions 11
Figure 7: Frequency of Sales Forecast Publication by Best-in-Class 12
Figure 8: Active Sales Forecast Contributors by Best-in-Class 17
Figure 9: Increased CRM Use Directly Impacts Business Results 20
Figure 10: Sales Rep Use of Forecasting Solution to Monitor and Improve Their Own Performance, by Best-in-Class 21
Figure11: Sales Forecasting Budgets Continue to Grow 24

Tables

Table 1: Top Performers Earn Best-in-Class Status 9
Table 2: The Best-in-Class PACE Framework 9
Table 3: The Competitive Framework 14
Table 4: Best-in-Class Timing Regarding Sales Forecast Weighting 16
Table 5: The PACE Framework Key 26
Table 6: The Competitive Framework Key 26
Table 7: The Relationship Between PACE and the Competitive Framework 26

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Chapter One:
Benchmarking the Best-in-Class

Sales teams have long deployed Customer Relationship Management (CRM) and Sales Force Automation (SFA) solutions to support a variety of chronologically-ordered questions within the organization: the past (what did the customer purchase?), present (what is in our pipeline?), and future (when is the deal likely to close, for how many dollars, and at what probability to "seal the deal?"). While an increase in overall sales volume can obviously impact top-line performance, how can the forecast itself be utilized to drive better profit margins and sustainable business growth? Plus, how do we use forecast information to capitalize on the impact of consolidation or expansion around specific geographies, business sectors or industry verticals?

Context

According to June 2010 Aberdeen research among 422 companies for *Sales Forecasting: Analytics to the Rescue!*, 81% of Best-in-Class companies (those showing the most significant yearly gains in team quota attainment and revenue per sales rep) deployed formal sales analytics solutions, compared with 55% of Industry Average and 34% of Laggard firms. Overall, users of sales analytics/forecasting tools outperformed non-users by 1.46-times in the accuracy of their sales forecasts, 1.3-times in overall team quota attainment, and 1.5-times in lead conversion rates. Layered on top of these applications were a number of best practices, such as more frequently published sales forecasts (every 18.5 days for the Best-in-Class, versus 31.2 and 41.7 days for Industry Average and Laggard respondents), and shorter timeframes to produce forecasts (1.4 hours for Best-in-Class, 2.3 hours for others).

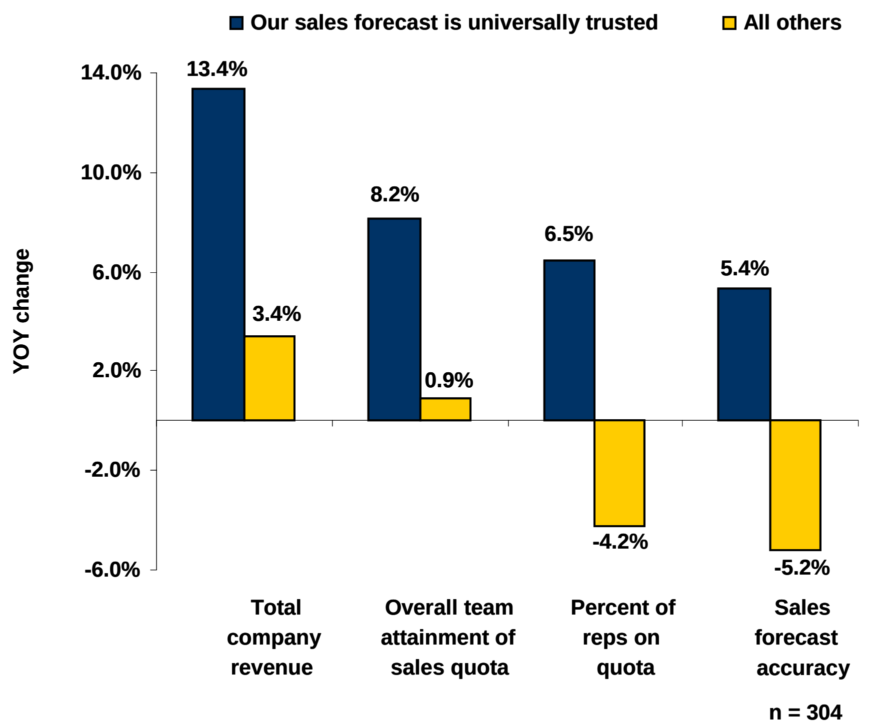
Limitations on internal visibility into predictive business results are compounded by the changing dynamics of many business environments, the deadly combination of “sand-bagging” and “happy ears” among reps, and thus affect both forecasting accuracy and, ultimately, an organization's actual revenue flow. As a result, flawed source data affects decisions on how sales execution will occur and then, in turn, the level and type of resources that will be applied to sales situations based on past successes / failures, sales cycle timeframes, and close ratios.

Sales forecasting inaccuracies are not limited to over-eager deal-closing expectations at mid-quarter; publicly-held firms are taken to task for missing their number on the plus side of estimates, as well. Hence, predictability and holistically sound forecasts remain an important goal, in all cases when an organization's ability to leverage opportunities that might be missed when over- or under-performance trends are not visible to senior management, or detected in enough time to respond.

Does an Accurate Sales Forecast Matter?

As we begin to analyze the data collected from end-user businesses and organizations, a reality-check of sorts might be in order, to ensure that there is even a rationale for contemporary sales organizations to strive for accurate, believable forecasts of their upcoming business performance. If we look at the year-over-year performance of two distinct segments of the survey respondent pool – those indicating strong, company-wide trust in the accuracy of published sales forecasts, compared to organizations indicating a lack of trust in the data – the results, as seen in Figure 1, provide credible support for efforts to increase accuracy. Revenue growth, arguably the most important metric to any enterprise, is but one of many Key Performance Indicators (KPIs) in which organizations that have deployed the processes and technologies required to publish trusted sales forecasts are significantly out-performing other companies. The stark contrast between "plus" and "minus" year-over-year performance in terms of how many sales reps achieve quota is, perhaps not coincidentally, nearly matched by the net annual changes in the actual forecast accuracy itself.

Figure 1: Trustworthy Sales Forecasts Linked to Better YOY Performance



Source: Aberdeen Group, June 2011

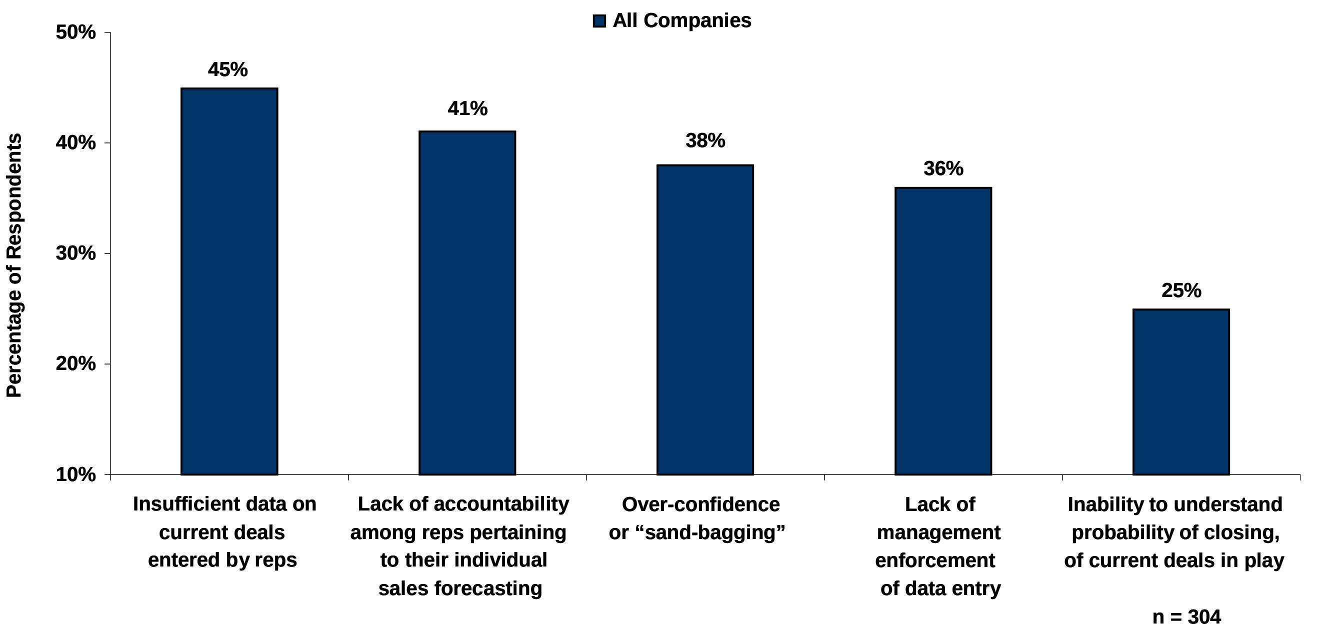
"I recommend building forecasts around sales funnels that are based on the customer's buying process. You can then predict opportunities more accurately and not base the forecast decision on irrelevant past sales performance data."

~ Don Gray, President, Sales Engineering Group

Why, then, do some sales leaders and their operational support systems fail to create this level of sales forecast accuracy? In Figure 2 we understand the most commonly cited barriers to effective sales forecasting, all of which focus on, not surprisingly, the core data that populates the forecast itself –

and in the top three spots, we see a consistent theme revolving around the front-line sales reps themselves. Starting with "insufficient data on current deals entered by reps," the most significant obstacle to strong, reliable sales forecasts sits squarely with the direct source of information regarding opportunities in the sales pipeline. Given that accountability – any kind of formal reward or punishment for forecast accuracy – emotions, and underwhelming managerial oversight are added to the predictive recipe, it is all the more likely that overcoming these obstacles becomes a business imperative.

Figure 2: Barriers to Effective Sales Forecasting



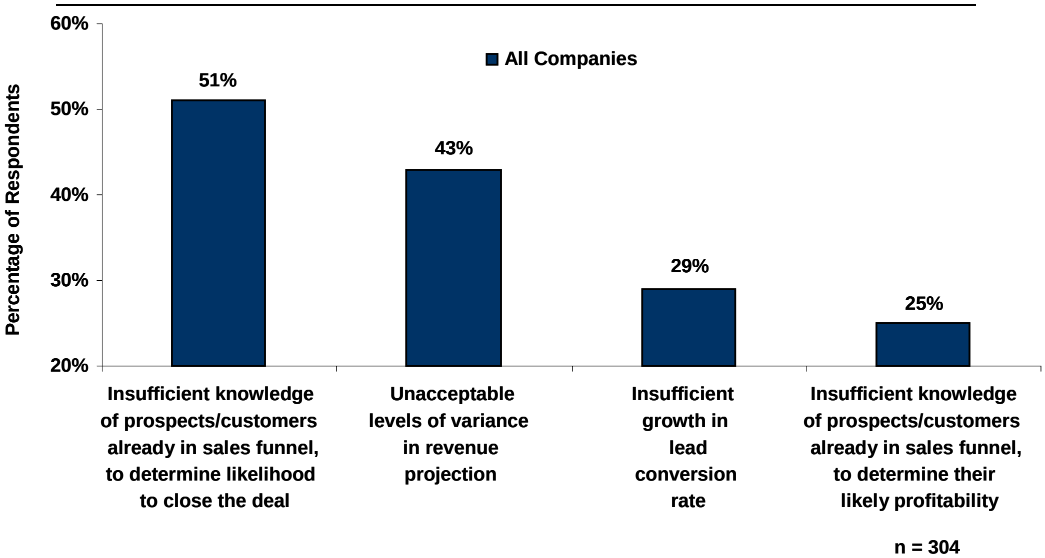
Source: Aberdeen Group, June 2011

Business Pressures Focused on Sales Forecasting

Moving from the employee-oriented variables such as "happy ears" or withholding information about current sales deals, let us now look at the issues around better forecasting practices from an organizational perspective. Survey respondents indicate (Figure 3) that the leading pressure they face in this environment is all about visibility. They lack detailed understanding of all the current deals, opportunities and projects that are formally entered into their sales pipeline process, that would more effectively allow them to estimate if, when, and under what circumstances (e.g. price, terms and conditions, payment terms) any given opportunity will actually close. Recent Aberdeen research published in *The Extended Sales Enterprise: Channeling Better Results* (April, 2011) showed that fully 85% of all companies indicated that "it is important for our company to maintain strong visibility into channel partners' activity, so we can accurately forecast overall company sales or revenue;" it logically follows that any sales organization, whether internal, channel-based or a hybrid of both models, will benefit from overcoming this leading, visibility-oriented pressure.

Also of note, from Figure 3, is the second most-nominated business pressure, which pertains to the visibility not into disparate sales opportunities, but into an overly wide and fluctuating window of how much or little business revenue will be sold, closed or recognized in a given corporate reporting timeframe. While further analysis will compare top-performing sales teams' sales forecast accuracy with that of other companies, the average accuracy is only 68% within two months of close-of-cycle, 75% at the T-minus-30-day mark, and still only 86% just before the selling period ends. This last-minute 14% inaccuracy ostensibly means, for example, that a sales organization predicting $25 million in quarterly bookings will typically produce anywhere from $21.5 to 28.5 million when the books close. This is not only a problem for accountants; it can impact such widespread decisions as hiring, product development, marketing spend, cash flow changes and even merger-and-acquisition strategies, not to mention external stakeholders' profit/loss results, from venture capital investors to public shareholders.

Figure 3: Key Business Pressures Impacting Sales Forecasting



Source: Aberdeen Group, June 2011

Where Do We Get All this Data?

The accurate sales forecast itself – essentially a prediction of the future that may never be entirely perfect but, as we've seen, carries significant weight in optimizing business performance – is actually a complex mix of many variables that are blended by manual or automated processes to produce the estimate of sales activity that lies ahead. On average, 74% of survey respondents use at least one of the elements in Figure 4 to collect, refine and publish their sales forecast at various stages prior to the end of the typical selling period.

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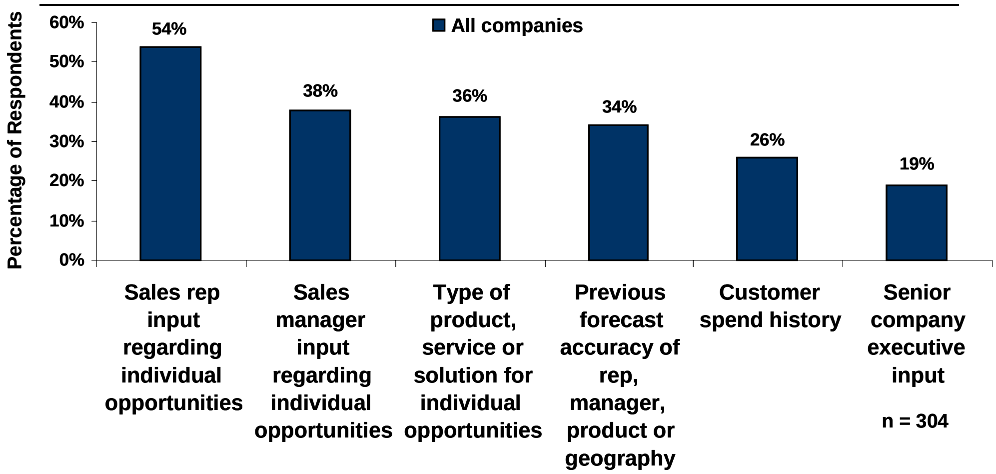
It is noteworthy that the predominant barriers to accurate forecasts seen in Figure 2 – the frailties and incumbent flaws associated with human emotion or performance – have the most impact on the core data that populates the overall estimate itself. While companies use more factual content to help weight their forecasts, such as identifiable product SKUs or previous customer dollars spent, it is essentially a negative and self-fulfilling prophecy – ironic, considering the nature of this business process – that companies rely the most on sources they should be trusting the least. What lies ahead, then, is to determine how top-performing sales teams overcome this roadblock to achieve optimal business results.

Figure 4: Formal Sales Forecast Weighting Input



Source: Aberdeen Group, June 2011

"The process needs to be fast and not burden the sales reps with a lot of additional steps."

~ Tony Bromwell, Director, TASS Americas

The Maturity Class Framework

Of the 304 organizations that participated in this study, 80% indicated that their organizations currently deploy sales forecasting; it was these 237 companies that were used to calculate the maturity classes. Aberdeen used three key performance criteria among responding sales organizations around partner-based selling, to distinguish the Best-in-Class from Industry Average and Laggard organizations:

- Current customer retention rate
- Year-over-year change in overall team attainment of sales quota
- Year-over-year change in average sales cycle (improvement = decrease)

Organizations with top performance based on these criteria earned Best-in-Class status, as described in Table 1. For additional details on the Aberdeen Maturity Class Framework, see Table 6, The Competitive Framework Key, in Appendix A.

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Table 1: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	▪ 91% current customer retention rate ▪ 17.0% average year-over-year increase in overall team attainment of sales quota; 96% showed improvement ▪ 10.4% average year-over-year reduction of (improvement in) the average sales cycle; 66% showed improvement
Industry Average: Middle 50% of aggregate performance scorers	▪ 78% current customer retention rate ▪ 3.1% average year-over-year increase in overall team attainment of sales quota; 41% showed improvement ▪ 0.3% average year-over-year reduction of (improvement in) the average sales cycle; 20% showed improvement
Laggard: Bottom 30% of aggregate performance scorers	▪ 32% current customer retention rate ▪ 6.9% average year-over-year **decrease** in overall team attainment of sales quota; 10% showed improvement ▪ 6.0% average year-over-year **increase** in (worsening of) the average sales cycle; 9% showed improvement

Source: Aberdeen Group, June 2011

Now, let's take a deeper look at how the best sales performers manage their people, processes and technology to consistently out-perform the competition around these metrics.

The Best-in-Class PACE Model

Using sales forecasting to achieve corporate goals also requires a combination of strategic actions, organizational capabilities, and enabling technologies and services that are summarized in Table 2.

Table 2: The Best-in-Class PACE Framework

Pressures	Actions	Capabilities	Enablers
▪ We have insufficient knowledge of prospects/customers that are already in our new business sales funnel, to determine their likelihood to close the deal ▪ Our lead conversion rate (closing deals) is either dropping or not adequately improving	▪ Create a unified view of current sales activity and predicted future performance ▪ Replace intuition-based sales resource allocation (support for selected deals, reps, regions or product lines) with fact-based predictive sales analytics	▪ Regular forecast reviews among sales reps and line managers ▪ Cross-functional access to the sales forecast ▪ Single view of the customer/prospect ▪ Formal definition of progressive sales stages, used to weight sales forecasts ▪ Centralized repository of all current sales deals, identified by stage or likelihood to close ▪ Training provided to all sales reps on how to log/enter all sales stage information in company's CRM or SFA software	▪ Internal sales collaboration tools (wikis, discussion forums, social media platform) ▪ CRM/SFA dashboard integrated with goal vs. actual sales forecast data ▪ Partner relationship or channel management software ▪ Sales pipeline modeling and simulation ▪ Sales stage analysis that identifies problems with deal velocity

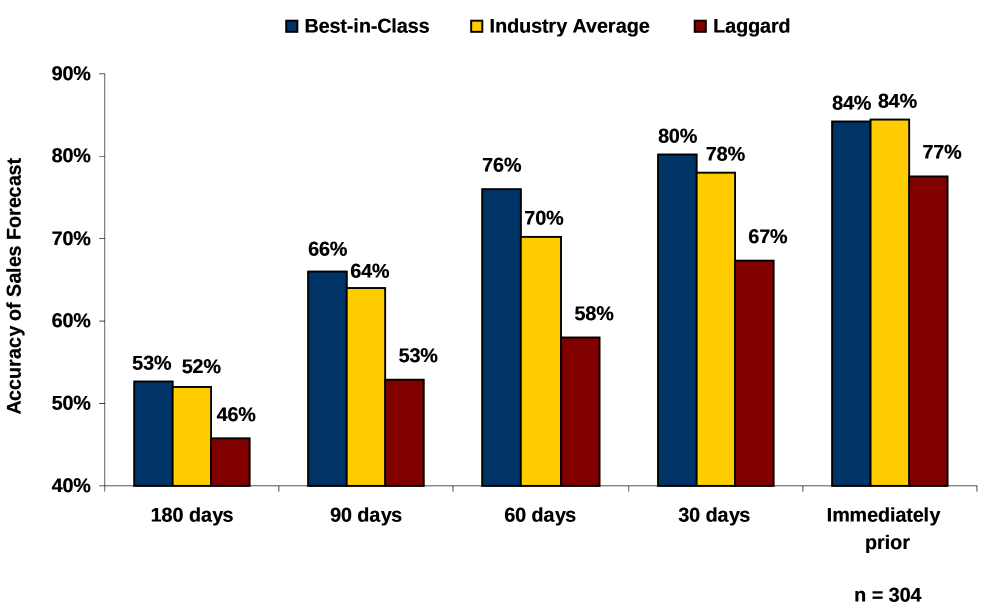
Source: Aberdeen Group, June 2011

Best-in-Class Strategies

The actionable approaches that organizations are taking, in response to the top industry pressures associated with sales forecasting activities, reveal how the Best-in-Class are focusing their attention beyond creating an accurate sales forecast, and then using that intelligence to achieve better business results.

Having now defined the Best-in-Class within the current research data, we now see in Figure 5 irrefutable evidence that a better sales forecast is associated with improved business performance. End-users with better results around customer retention, quota attainment and sales cycle reduction are consistently more accurate in their sales forecasts, with the Laggards trailing the Best-in-Class by roughly 60 days' worth of similar accuracy levels as the timeframe until the end-of-selling-period narrows. While imperfection becomes an acceptable norm in this area – even the Best-in-Class average 84% accuracy just before the books close – achieving the highest possible level of predictive skills allows all relevant stakeholders to make their decisions based on a more trustworthy estimate of the final truth. Now, let's take a closer look at how the Best-in-Class accomplish this.

Figure 5: Sales Forecast Accuracy by Best-in-Class



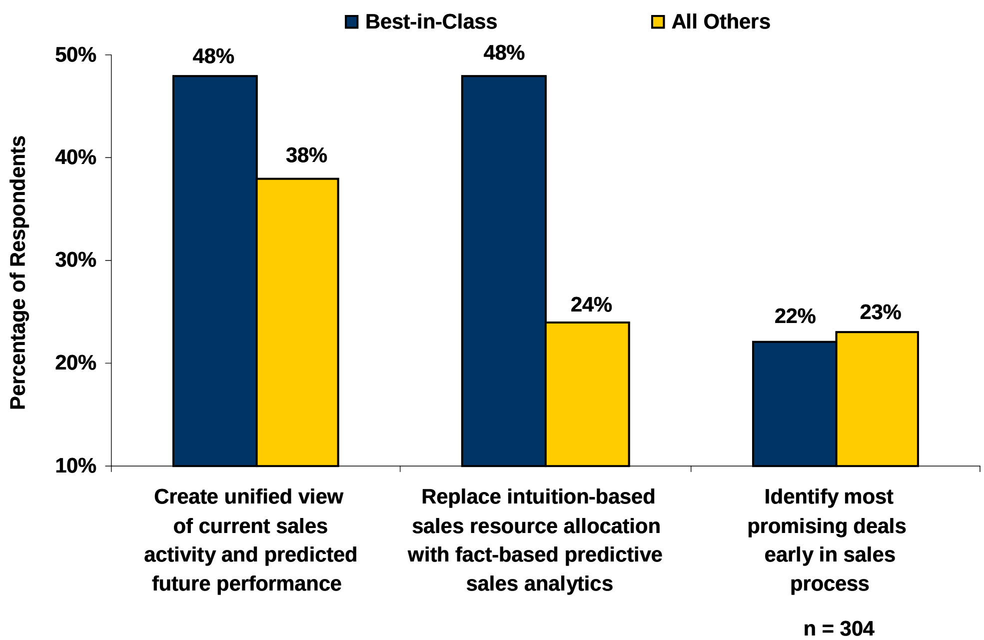
Source: Aberdeen Group, June 2011

"It's not only about the tool. You need to consider process, and more importantly culture. A forecast is not something to beat the teams up on...but a tool used to manage the business."

~ Clive Ryan, General Manager, eircom

Figure 6 showcases the strategic actions that organizations are taking in response to the business pressures identified above, and the differentials between the current Best-in-Class and other sales teams in adopting them. The value in creating a **unified view of the customer** to yield better business results was validated by Aberdeen research for *Providing a 360° View of the Customer - Better Service - Higher Sales* (March 2010). Best-in-Class companies in this study (those with the best performance around customer retention, satisfaction and growth in spend) aggressively deployed an integrated CRM and Enterprise Resource Planning (ERP) environment, along with performance dashboards, to maximize their "share of the customer's wallet" along with increasing opportunities to up-sell and cross-sell into established accounts.

Figure 6: Best-in-Class Strategic Actions



Source: Aberdeen Group, June 2011

Using better sales forecasting or analytical methodologies to the organization's advantage can similarly help unify management's view of both current and anticipated sales activity: the size of deals/projects currently pursued, their anticipated profit margin and timeline, and their likelihood to close. In analyzing past and current activities, accomplishments and barriers by rep, team, product or business unit, executives can best address the pressures of insufficient data, accountability and oversight. This kind of analysis can also minimize the impact of sales rep "sand-bagging," as well as of negative deal velocity, by identifying the formally defined sales stages or "choke points" where specific types of sales opportunities tend to progress more slowly than expected.

By a two-times factor compared to other survey respondents (48% vs. 24%), Best-in-Class companies have taken the strategic action of **replacing "gut" feelings with predictive analytics** that take the guesswork and emotion out of determining which opportunities deserve the support of critical sales resource allocation. As any given selling period draws to a close, there are inevitably more sales rep-proclaimed cases of deals that are "right at the goal line" than are likely to close and, in reality, no one can blame commissioned professionals for clamoring loudly for last-minute

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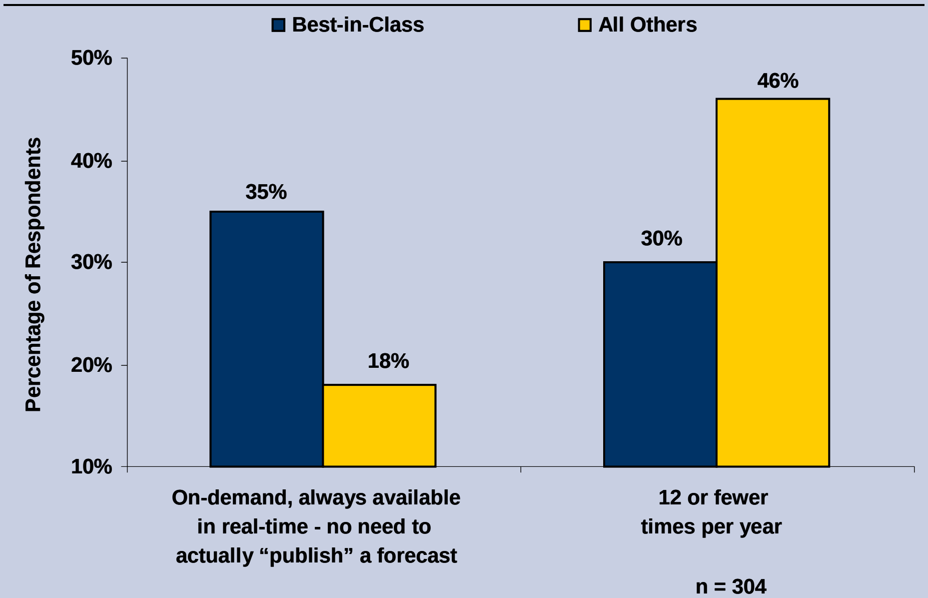
executive support. Which request, however, should senior sales or C-level leadership personnel grant, by providing extra incentives such as price reductions, executive-level involvement, or more forgiving customer payment terms – all in the interest of sealing the deal? By using analytical processes, and technology solutions discussed below, the Best-in-Class organizations are more likely to hit their numbers by more intelligently allocating extraordinary resources to the most appropriate opportunities, and thus removing emotion from the calculus of sales forecasting.

Strategy Insight: How Often Should We Check the Crystal Ball?

The growing accessibility of on-demand reporting within the business enterprise, as well as end-users' expectations for real-time information regarding every conceivable commercial or personal data point, points to the fact that many organizations still physically publish a sales forecast and use precious sales operations resources to calculate and distribute the data. Whether the forecast is updated within the CRM system for all stakeholders to view, emailed as a spreadsheet, or even posted on the company kitchen wall with giant "sticky notes," the frequency of distributing this vital check on the company's health emerges from the data as a starkly different story when comparing the Best-in-Class sales organizations with other firms.

Figure 7: Frequency of Sales Forecast Publication by Best-in-Class



Source: Aberdeen Group, June 2011

As Figure 7 shows, the very concept of a published forecast has diminished among more than a third of the Best-in-Class survey respondents, who have created a true, real-time environment in which sales analytics tools continually gather information from all the sources and weighted factors, described above, and reveals a universally consistent and up-to-the-minute view of the forecast.

continued

Strategy Insight: How Often Should We Check the Crystal Ball?

This rate almost doubles that of the combined Industry Average and Laggard companies, almost half of whom publish a forecast only monthly, or even less seldom, compared to only 30% of the Best-in-Class. The strategy insight learned here is that carrying through the most popular strategic actions - a unified forecast view, reduced input from emotions, and streamlining the ability to identify the strongest opportunities worthy of extra corporate support – is enhanced by the deployment of a true 24/7 forecast availability environment.

Case Study — Emerson

Emerson is a large international manufacturing and technology company based in the US. It has been using sales forecasting and analytics processes and tools for more than five years as an integral part of its business. "Since we need to have clear insights into resource requirements to successfully grow our business around the globe, sales forecasting is critical in enabling us to predict our business growth and allocate resources to manage that growth," says Marc Macaluso, Program Manager at Emerson.

The building block of Emerson's sales forecasting and analytics initiatives is building and nurturing a data-driven culture, according to Macaluso. "The quality of our sales forecast output is only as good as the data input. We strive to continuously improve the accuracy of data provided from sales reps through frequent training on how to enter prospect/customer information, including sales stages for each opportunity, within our CRM system." The company requires sales reps to enter the probability of close for each sales opportunity, and utilizes this information to build forecasts by using pre-determined weights for each sales stage.

Use of the CRM system is a crucial component to successfully collecting and publishing sales forecasts. In order to improve adoption of its CRM, executive management at Emerson frequently communicates the need and requirement for sales reps to use the system. In addition, sales leadership frequently communicates internally around the success stories of reps using it, demonstrating the role of CRM in achieving their agreed-to-objectives. In order to track and measure the sales rep and the overall sales team performance, Emerson also utilizes a sales analytics solution. "Our analytics tools allow us to not only monitor the accuracy of our sales forecasts but also assess performance of each rep, team, product-line and the overall company based on budgeted numbers," says Macaluso.

Sales forecasting and analytics in Emerson is a continuously evolving process. The company's initiatives to use sales forecasting and analytics tools to predict demand and support selling efforts enabled them to achieve improvements last year in key performance measures such as customer retention and sales rep attainment of quota. The company is planning to improve its performance further. "We are looking to grow our ability to conduct more granular analysis to optimize our sales forecasting and analytics efforts," concludes Macaluso.

Chapter Two: Benchmarking Requirements for Success

Effective sales forecasting deployments play a critical role in an organization's ability to turn these strategies into profit. The following sections provide an analysis of how top performers distinguish themselves from other companies through the implementation of capabilities and enablers that support excellence in deploying best practices in analytics-informed selling.

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute daily operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of the appropriate tools and the effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure its results to improve its business). These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 3: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Formal definition of progressive sales stages, used to weight sales forecasts		
	74%	57%	41%
	Standardized rankings used to classify all sales opportunities/leads		
	59%	48%	32%
Organization	Cross-functional access to the sales forecast		
	89%	72%	58%
	Training provided to all sales reps on how to log/enter all sales stage information in company's CRM or SFA software		
	67%	63%	47%
Knowledge	Centralized repository of all current sales deals, identified by stage or likelihood to close		
	70%	64%	55%
	Published policies on revenue recognition for the life of each customer contract		
	63%	46%	24%

Fast Facts

√ When not making sales forecasts available on-demand, the Best-in-Class average 2.7 hours' time to create their estimate, compared with 3.9 hours for Industry Average and Laggard firms, a 44% shorter timeframe.

√ While all survey respondents indicated that executive and sales management were the most likely beneficiaries of more accurate sales forecasting, the next most popular role was in operations among the Best-in-Class (35% vs. 19% among all others), but marketing management among the Industry Average and Laggards (24% vs. 4% for the Best-in-Class).

	Best-in-Class	Average	Laggards
Enabling Technology or Service	▪ 57% Internal sales collaboration tools (wikis, discussion forums, social media platform) ▪ 53% CRM/SFA dashboard integrated with goal vs. actual sales forecast data ▪ 52% Partner relationship or channel management ▪ 48% Sales pipeline modeling and simulation ▪ 48% Sales stage analysis that identifies problems with deal velocity	▪ 50% Internal sales collaboration tools (wikis, discussion forums, social media platform) ▪ 47% CRM/SFA dashboard integrated with goal vs. actual sales forecast data ▪ 48% Partner relationship or channel management ▪ 41% Sales pipeline modeling and simulation ▪ 35% Sales stage analysis that identifies problems with deal velocity	▪ 44% Internal sales collaboration tools (wikis, discussion forums, social media platform) ▪ 35% CRM/SFA dashboard integrated with goal vs. actual sales forecast data ▪ 37% Partner relationship or channel management ▪ 25% Sales pipeline modeling and simulation ▪ 23% Sales stage analysis that identifies problems with deal velocity
Performance	Performance analytics against agreed-to objectives (metrics) are reviewed regularly		
	70%	60%	44%

Source: Aberdeen Group, June 2011

Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end users, the Best-in-Class demonstrate that a highly identifiable set of corporate capabilities and enablers can lead to measurable business success through the deployment of specific sales forecasting methodologies and technologies. Additional Aberdeen research is cited to further support these positive trends.

Process

The Best-in-Class are 30% more likely than Industry Average firms, and 81% more so than Laggards, to **formally define sales stages and create weighted sales forecasts** based on the trajectory and timing of each deal under consideration. As we have seen, the opportunity to align a more accurate forecast with the overall company's need to predict performance is enhanced when the likelihood of every opportunity to close automatically increases when each successive sales stage is reached. Traditionally these stages are defined in myriad ways, such as "prospect / confirmed interest / timing aligns / budget identified / decision-makers engaged / formal proposal submitted" to track and weigh opportunities moving through the sales activity funnel. This approach can especially come in handy for companies whose sales team includes channel partners, franchisees or other non-payroll sellers who may be geographically far-flung and not in frequent communication with corporate sales management, as well. Aberdeen research for *The Extended Sales Enterprise: Channeling Better Results* (April, 2011) report showcased the value of partners having "guided selling or stage-by-stage sales process assistance" from the OEM or producer organization, with the Best-in-Class – those with the best quota attainment, and growth in lead conversion rate and average deal size – more than 2.5-times as likely as Laggards (55% vs. 20%) to adopt stage-centric sales processes, and more than twice as likely (76% vs. 38%) to deploy sales analytics for forecasting purposes.

"Deep customer insight is the absolute key to accuracy. Many of our selling partners do not understand their end-customer's demand needs, and thus we get thrashed with too many forecast changes."

~ John Klaasen, Director, Customer Program Management, RadiSys

We know from *Streamlining the Top of the Funnel: How Inside Sales Teams Source, Qualify, and Close Business* (March, 2011) that 62% of surveyed companies deployed **lead scoring to standardize rankings to classify all sales opportunities or leads**. The current sales forecasting research highlights this practice, with the Best-in-Class doing so 23% and 84% respectively more often than Industry Average and Laggard firms. In order for an automated forecasting or analytical technology solution to function properly, it is crucial to avoid any conflicting data borne out of inconsistent opportunity definitions.

Table 4: Best-in-Class Timing Regarding Sales Forecast Weighting

Sales Stage When Weighting is Applied to the Forecast	Sales Funnel Progression	Percent of Best-in-Class
Before the opportunity is handled by our field sales reps, closers or channel partners	↓	13%
Early in the field sales engagement process, i.e. after one or two conversations		38%
When an opportunity is more mature, i.e. data have been collected about budget, authority, need, time, etc.		44%
When a formal proposal or contract has been offered		25%

Source: Aberdeen Group, June 2011

Indeed, the more a sales organization determines the stages and classifications of deals as they move through the funnel, the easier it becomes to apply the kind of weighting factors, discussed above, to help further refine the accuracy of the overall forecast. Table 4 indicates the relative maturity of the sales stages at which the Best-in-Class most frequently applies weighting, revealing not only that adjusting the "likelihood to close" can take place more than once per opportunity, as survey

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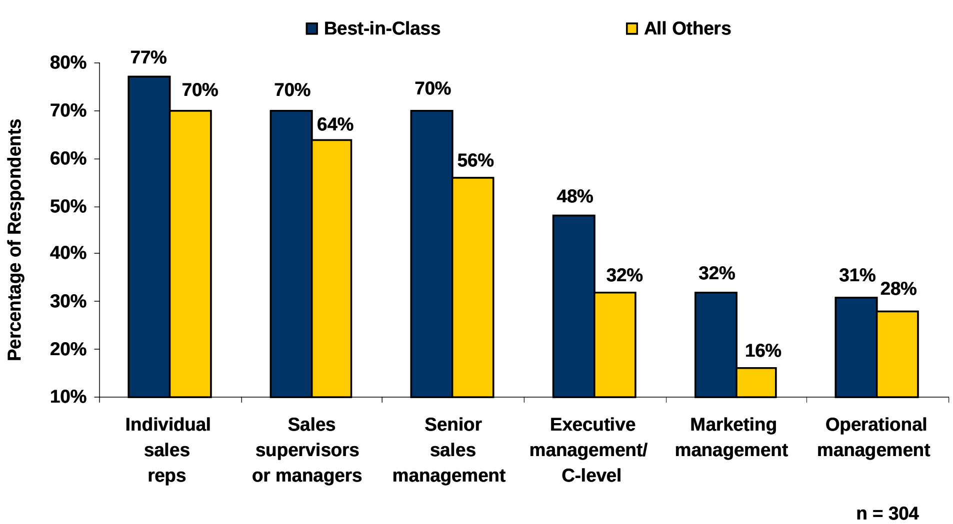
respondents were allowed to select multiple answers, but that also they do not wait until the near-end of the deal cycle to do so. These companies recognize that analyzing their sales opportunities early and often is the best way to improve their selling "batting average" by targeting those deals most likely to close, as well as being candid with themselves about which ones may not be worth continued pursuit. Still, the fact that fewer than 50% utilization of any of these stage-centric weights implies that even the Best-in-Class have room to grow this best practice.

Organization

It may be common sense to provide **cross-functional access to the sales forecast,** and indeed 71% of survey respondents do so, but while nearly four of five Best-in-Class companies concur, the percentage drops from their 89% to 67% among other firms. Considering how crucial revenue flow is to constituencies throughout the enterprise, rather than just sales leadership, the March 2010 report, *Providing a 360° View of the Customer - Better Service - Higher Sales*, showed 52% of the Best-in-Class (companies with the best customer retention, satisfaction and growth in customer spend) provided all internal stakeholders – marketing, customer service, finance – with a technology-based common view of the customer. This better enables a "one voice" approach to maintaining customer loyalty and spend; only 25% of Laggards agreed, however. It makes sense that the same variety of teams will benefit from an ability to make their own department-specific plans based on a direct and more accurate understanding of pending revenue streams.

Figure 8: Active Sales Forecast Contributors by Best-in-Class



Source: Aberdeen Group, June 2011

In fact, we see in Figure 8 that sales forecasts are a collaborative process, with the Best-in-Class consistently including more non-sales staffers in gathering data that populates the final product. Of particular interest is the fact that twice as many of these top performers (32% vs. 16%) include marketing management in developing their sales forecast. After all, Aberdeen research conducted for *Sales and Marketing Alignment: Collaboration + Cooperation = Peak Performance* (September 2010) revealed that organizations growing corporate revenue at a 20% rate reported 47% of their sales pipeline as marketing-generated, while companies whose revenue declined year-over-year at a 4% rate could only boast a 5% marketing-generated pipeline. The take-away here is clear: collaboration in creating and managing the revenue funnel is directly associated with better business outcomes.

Sales training, CRM adoption and forecasting are heavily intertwined in Aberdeen research for *Sales Training: Deploying Knowledge, Process and Technology to Consistently Hit Quota* (September 2010), in which the Best-in-Class companies were defined by optimal quota attainment, and annual growth in average deal size and corporate revenue. These companies out-paced Laggards 55% to 30% in integrating call planning and milestones into their CRM utilization, and 75% to 45% in using sales analytics solutions to improve forecasting. **Training sales reps to enter CRM sales stage data** consistently is further supported by the current research, with two-thirds of the Best-in-Class but fewer than half of Laggards adopting this best practice, which assures against the dreaded sales forecasting GIGO – "garbage in, garbage out" – and replaces intuition-based forecasting with sales stage progressions that are commonly accepted and adhered to in daily practice.

"Measure key KPI's to support sales forecasting, as well as developing continuous sales improvement processes, dashboards and early alerts regarding forecast errors."

~ Greg Schlegel, VP Business Development, SherTrack LLC

Knowledge Management

Companies more adept at retaining customers, growing sales quota attainment and reducing their sales cycle create an efficient and **centralized repository of all the "now" sales opportunities** in play. By providing broad, multi-departmental access to the size, sales stage, potential margin and other key data around all current deals that the sales team is hoping to close, 70% of the Best-in-Class adopt this knowledge management capability, 27% more often than Laggards. These under-performing companies more frequently fail to provide multiple stakeholders with valuable data that can impact their budgeting, hiring or project plans, because they are not enabled with an on-demand view of where the overall business is going. The easiest way to capture, store and communicate this data is within the CRM; 52% of the Best-in-Class indicate that "forecasting workflow is formally integrated into the CRM or SFA," compared with 36% of all other firms.

Pending Aberdeen research for *"Chance Favors the Prepared Mind" - Understanding the Science of Sales Intelligence* (publishing July 2011) shows that 52% of Best-in-Class firms (defined as companies with the best customer retention and increases in revenue and team quota attainment) formally analyze or segment their customer base to identify up-sell or cross-sell opportunities; while 43% and 18% of Industry Average and Laggards respectively do so. These companies are more adept at understanding when in the customer lifecycle the most repeatable business can be garnered from their accounts. In the context of sales forecasting, **publishing policies on**

customer contract revenue recognition can kill two birds with one stone: more accurate long-range forecasts based on understanding when bookings, billings or revenue will be counted toward the top-line; and also a more automated process to flag customer accounts in advance of contract expirations that can then be proactively up-sold or cross-sold. The current research showcases Best-in-Class adoption of policy publication at more that 2.5-times that of Laggards, 63% vs. 24%, proving the wisdom of this knowledge management capability.

Technology Enablers

While 63% of all survey respondents utilize forecasting and analytics tools to enhance their sales effectiveness, a number of additional technology enablers represented in Table 3 showcase significant adoption rate differentials between the Best-in-Class and other firms:

- Few can doubt that social media-based, **internal sales collaboration tools** are growing increasingly popular. Aberdeen research published in March, 2011, *Real-Time Collaboration: Innovate Your Business and Increase Revenue*, showcased a set of Best-in-Class organizations with an average annualized revenue growth of 24.5% and only an hour's lag time to widely disseminate critical company information. These firms out-paced Laggards (whose revenue averaged a 7.3% annual decrease and who took 2.7 days to share vital news) 59% to 36% in their use of social business software for internal use, not to mention 50% to 19% in adopting externally-oriented social tools as well. In the context of better forecasting, we've already seen that better sales results are directly associated with more departments and data contributing, so enabling this process with easy-to-use social technologies makes sense.
- We know from *The Carrot or the Stick? Competing Strategies for Sales Effectiveness* (July 2009) that driving CRM adoption through the provision of integrated, sales-centric data, rather than through punitive measures such as withholding compensation, has a positive effect on overall sales performance. End-user organizations that reported the best quota attainment, lead conversion rates and year-over-year revenue growth were more inclined to **integrate goal vs. actual sales forecast data with the CRM** deployment, such as sales intelligence and forecast content. The latter, when it includes a goal-versus-actual visual component, can be an effective motivator of additional effort by sales practitioners throughout the enterprise.
- With a 41% higher adoption rate than Laggards (52% vs. 37%), the Best-in-Class use **partner relationship or channel management** solutions to achieve better visibility into disparate selling partners and refine their sales forecast despite potentially wider gaps in geography, time zone and even language. In *The Extended Sales Enterprise: Channeling Better Results* (April, 2011), barely a third of Laggards had in place the structure or process to give the OEM or producer organization easy visibility into estimated channel-generated revenue, compared with about two-thirds of Industry Average and four out of

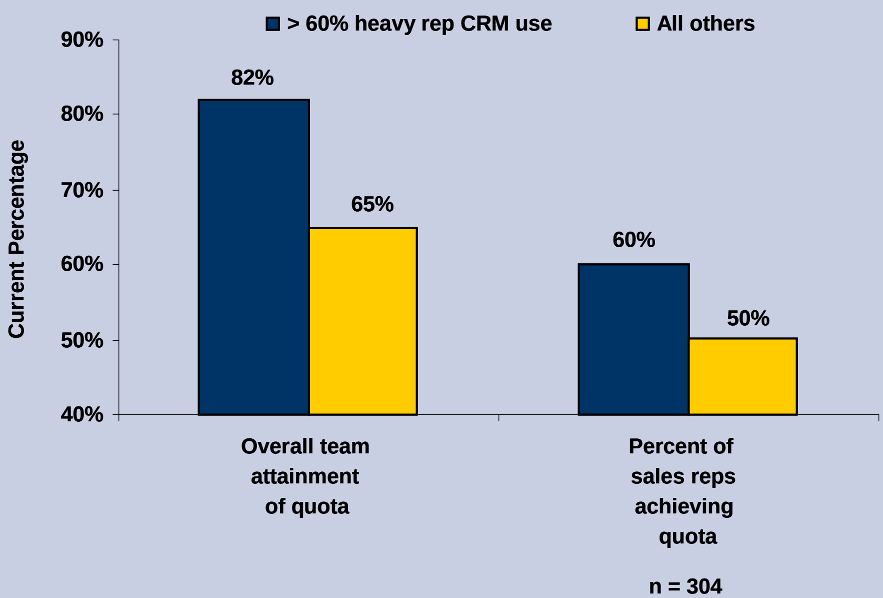
Telephone: 617 854 5200
Fax: 617 723 7897

five Best-in-Class companies (top performers around overall quota attainment and growth in deal size and channel lead conversion rates). By remaining in the dark about accurately predicting the future volume of revenue they will recognize from their extended selling organization, 62% of those Laggards were inadvertently impacting this actual revenue negatively.

Technology Insight

"If you don't enter your deal into the CRM, you won't receive your commission!" "Do you want me selling or doing administrative work?" These contrasting management- and sales rep-oriented phrases may all too often be heard within professional selling organizations, in which the age-old conundrum arises regarding how best to utilize the time and skills of the front-line players, while needing vital data on accounts and deals to help better forecast the health of the business.

Figure 9: Increased CRM Use Directly Impacts Business Results



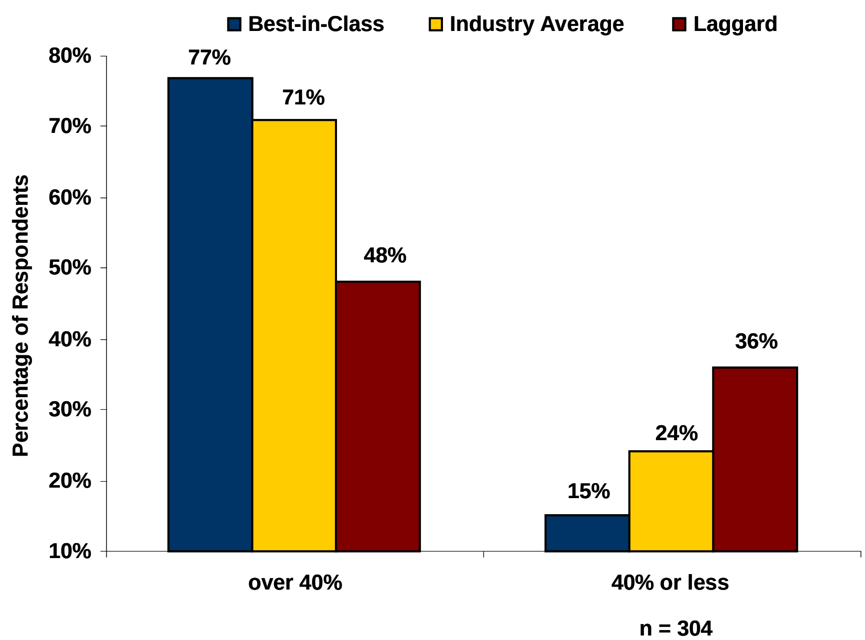
Source: Aberdeen Group, June 2011

In Figure 9 we see two key performance metrics that strongly favor significant use of the CRM technology by sales reps. In comparing how companies reporting heavy use by more than 60% of their sellers stack up against other firms, the all-important KPI's around current quota attainment are quite clear, and point to the value of capturing enough information to both support stage-specific forecast weights as well as overall management ability to maintain visibility into their team's activities. This does not imply that 24/7 CRM use is essential by all sales staffers, merely that considering it the most important system of record and workflow platform is a wise path.

Performance Management

While deploying sales forecasting processes and technologies are clearly associated with stronger sales and corporate performance, keeping track of how the business results relate to the expense and commitment to supporting these best practices is equally as important. With the Best-in-Class 68% more likely than Laggards (70% vs. 44%) to **regularly review performance metrics**, the top-performing companies are ensuring that the goals of the business remain aligned with the yardsticks used to measure success.

Figure 10: Sales Rep Use of Forecasting Solution to Monitor and Improve Their Own Performance, by Best-in-Class



Source: Aberdeen Group, June 2011

Additionally, the most successful enterprises do not limit performance management practices to the leaders within their organization; they also provide a healthy and transparent team environment in which sales reps themselves can view the contents of the sales forecast and independently use predicted sales results to motivate, adjust and improve their own performance. In Figure 10 we see that more than three-quarters of the Best-in-Class report that more than 40% of their front-line sellers do so, compared to fewer than half of Laggards, while more than twice as many as the latter fall into the sub-40% rep use of forecasting tools, compared to the top performers (36% of Laggards vs. 15% for the Best-in-Class). Hence the technology so often used by management to look down the hierarchy, actually benefits those closer to the bottom of the corporate food chain, to help achieve solid business results.

Chapter Three: Required Actions

Whether a company is trying to move its performance in sales effectiveness from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

Laggard Steps to Success

- **Define the steps to success** with formal descriptions of how your company labels sales opportunities at each chronological watershed moment in the customer management lifecycle. Laggards are half as likely as average-performing firms (48% vs. 32%) to adopt this crucial process, in which successful enterprises define sales stages and use these tiers to more precisely weight their sales forecast.
- **Know before you go** with estimates of the long-term value of complex customer relationships that are still part of the sales activity funnel, through published revenue recognition policies that clarify exactly how much gross income each sale will generate for the top line, through the life of the contract or sales agreement. Laggards trail the Industry Average by 92% (46% vs. 24%) in taking this long-range view of their business – 63% of the Best-in-Class are adopters – and may be missing out on more accurately identifying which deals will provide more short- or long-term value to the business overall.
- **Display the brass ring** at all times by integrating sales forecast data – actual to-date accomplishments versus the selling period's goals – with the CRM or SFA tool available to all sales reps, managers and relevant stakeholders. While roughly one-half of Best-in-Class and Average companies maintain this level of visibility and transparency on behalf of their business development organization, only about one-third of Laggard companies provide a clear, real-time view of the quota and how to get there.

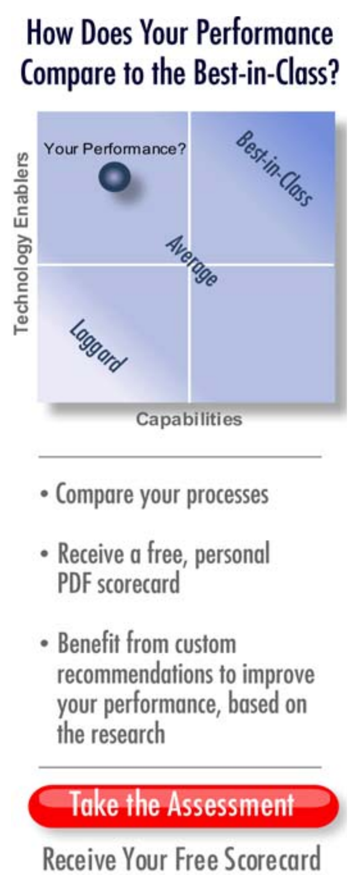
Industry Average Steps to Success

- **Take an open-source approach to sales forecast access** by allowing all stakeholders in who can benefit from understanding what lies ahead in the revenue column. The marketing team can more accurately calculate the ROI on their campaigns; customer care staff gain insight into loyalty, retention and "share of wallet" data; the finance team has a better opportunity to project cash flow; even the operations/business analysis group is empowered to more tightly deploy their supply chain methodology. While the majority of Industry Average companies provide an open book, they still trail the Best-in-Class by 24% (89% vs. 72%) in making the forecast

Fast Facts

√ 65% of the Best-in-Class note that "sales delivery of a sales forecast is perceived as accurate and trustworthy by senior management and the company as a whole," compared to 38% of Industry Average and 10% of Laggard firms.

√ The Best-in-Class report a 7.2% average year-over-year improvement in the accuracy of internally-published sales forecasts, compared to actual sales results, versus an average 0.2% decline among other firms.



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contents available to their peers, and should continue their development in doing so.

- **Break the barriers to deal closure** by analyzing and improving deal velocity, looking at deals that sit in these pre-defined sales stages for a longer period of time than the norm. Only about one-third of Industry Average firms deploy technology and process to accomplish this, compared to roughly one-half of the Best-in-Class. The advantage for all adopters will be maximizing their sales effectiveness with velocity analysis that identifies and recommends action to nudge stalled deals that have reached a fork in the road, either to more advanced stages in the selling funnel or, if necessary off the playing field should their predictive analytics indicate a very low likelihood-to-close.
- **Measure twice, cut once** when not only pulling data regarding sales effectiveness, but in determining which KPI's themselves should be used, and updated regularly, to evaluate sales forecasting accuracy and its impact on overall organizational success. More often than not, Industry Average survey respondents agree on the importance of "performance analytics against agreed-to objectives (metrics) are reviewed regularly," but still not as often as the Best-in-Class companies that have learned to consistently perform both the measurements of sales success, as well as reality checks on whether the metrics themselves hold up as relevant.

"The ability to forecast accurately is mission-critical."

~ Christine Nurnberger, VP Global Field Operations, Infor

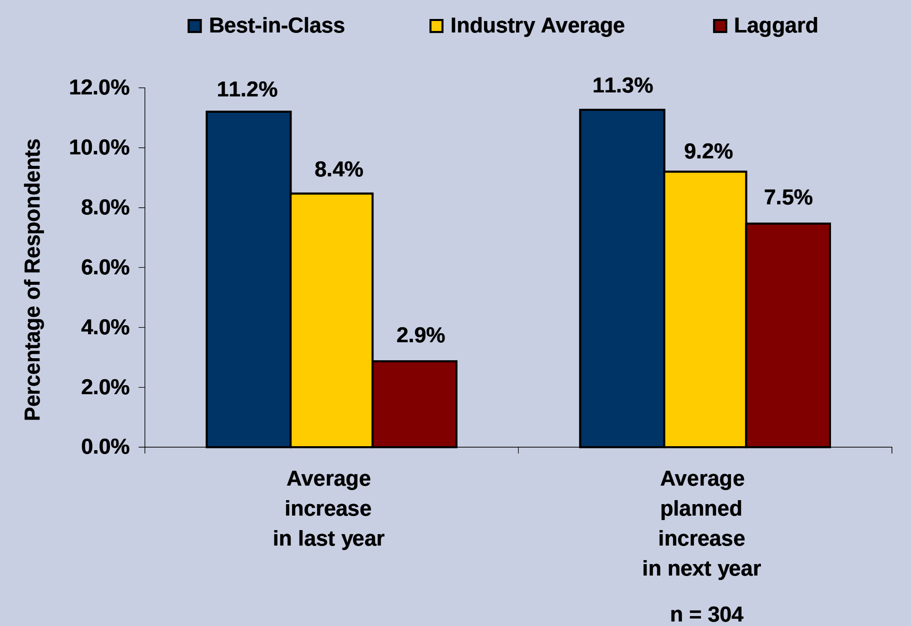
Best-in-Class Steps to Success

- **Say "howdy, partner"** to the extended sellers of your product or service, by enabling distributors, value-added resellers and franchisees to have role-appropriate access to the health of their own sales pipeline, if not the bigger picture of the enterprise as a whole. Barely half of the Best-in-Class deploy partner relationship or channel management solutions yet, particularly for those organizations whose sales are heavily leveraged by non-payroll sellers, the advantages of widespread forecast visibility have been made in the research to be, as it were, perfectly clear.
- **Protect the bottom line.** While more frequently indicating that they "compare finished deals with how they were presented in pre-sale forecasts, in order to discern how effectively we will deliver against contractual expectations" than other firms, only one-third of the Best-in-Class conduct the kind of post-contract analysis to ensure that not only have they made strides toward achieving sales quota, but have ensured a healthy profit along the way. From a cultural perspective, too, the positive aspects of satisfying customers more frequently is certainly a healthy takeaway from this kind of practice.

Summary

Ultimately, the promise of contemporary sales analytics solutions depends on an enterprise's ability to accurately anticipate its overall business health by corroborating two-dimensional CRM data with intelligence stored elsewhere within the organization. When information from other groups (such as finance, supply chain, customer service and marketing) are linked to sales information, the enterprise can better focus sales efforts on the newly-identified, most profitable opportunities in the pipeline – and learn to more readily avoid the lowest-probability deals, as well. Add to this the value of empowering sales reps, their managers and company executives with role-specific views of the past, present and future – and better quota achievement should become well within the reach of an increasing percentage of companies, all of which are continuing to increase their investment in the space (Figure 11).

Figure11: Sales Forecasting Budgets Continue to Grow



Source: Aberdeen Group, June 2011

In the end, of course, gathering the data is only part of the challenge; acting decisively and intelligently based on what it tells us remains the most important key to long-term sales success.

Appendix A: Research Methodology

Between April and May of 2011, Aberdeen examined the use, the experiences, and the intentions of 304 enterprises using services and technologies that impact the results from their sales forecasting practices.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on sales forecasting strategies, experiences, and results.

Responding enterprises included the following:

- *Job title:* The research sample included respondents with the following job titles: CEO / President (22%), EVP / SVP / VP (22%), Manager (17%), Director (17%), General Manager / Managing Director (7%) and other (15%).
- *Department / function:* The research sample included respondents from the following departments or functions: sales and business development (42%), corporate management (20%), marketing (11%), operations (11%) and other (16%).
- *Industry:* The research sample included respondents exclusively from software (23%), IT consulting and services (16%), telecommunications equipment/services (13%), financial services (8%), wholesale/distribution (6%), consumer electronics (5%), industrial product/equipment manufacturing (5%), Transportation / logistics (4%), and other (20%).
- *Geography:* The majority of respondents (65%) were from the Americas. Remaining respondents were from the EMEA region (27%) and Asia-Pacific (8%).
- *Company size:* 19% of respondents were from large enterprises (annual revenues above US $1 billion); 27% were from midsize enterprises (annual revenues between $50 million and $1 billion); and 54% of respondents were from small businesses (annual revenues of $50 million or less).
- *Headcount:* 29% of respondents were from large enterprises (headcount greater than 1,000 employees); 33% were from midsize enterprises (headcount between 100 and 999 employees); and 38% of respondents were from small businesses (headcount between 1 and 99 employees).

Study Focus

Responding executives, primarily in sales management roles, completed an online survey that included questions designed to determine the following:

√ The degree to which sales forecasting and analytics are deployed in their organization and the impact they have on achieving their business goals

√ The structure, effectiveness and satisfaction with existing sales forecasting and analytics implementations

√ Current and planned use of sales forecasting and analytics to achieve desired changes in revenue, quota and deal size

√ The benefits, if any, that have been derived from sales forecasting and analytics initiatives

The study aimed to identify emerging best practices for sales forecasting and analytics usage, and to provide a framework by which readers could assess their own management capabilities.

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Table 5: The PACE Framework Key

Overview
Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows: **Pressures —** external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive) **Actions —** the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy) **Capabilities —** the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing) **Enablers —** the key functionality of technology solutions required to support the organization's enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Source: Aberdeen Group, June 2011

Table 6: The Competitive Framework Key

Overview	
The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance: **Best-in-Class (20%) —** Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance. **Industry Average (50%) —** Practices that represent the average or norm, and result in average industry performance. **Laggards (30%) —** Practices that are significantly behind the average of the industry, and result in below average performance.	In the following categories: **Process —** What is the scope of process standardization? What is the efficiency and effectiveness of this process? **Organization —** How is your company currently organized to manage and optimize this particular process? **Knowledge —** What visibility do you have into key data and intelligence required to manage this process? **Technology —** What level of automation have you used to support this process? How is this automation integrated and aligned? **Performance —** What do you measure? How frequently? What's your actual performance?

Source: Aberdeen Group, June 2011

Table 7: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.

Source: Aberdeen Group, June 2011

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- *The Extended Sales Enterprise: Channeling Better Results*; April 2011
- *Streamlining the Top of the Funnel: How Inside Sales Teams Source, Qualify and Close Business*; March 2011
- *Sales Mobility: Quotas Untethered*; November 2010
- *Sales Training: Deploying Knowledge, Process and Technology to Consistently Hit Quota*; September 2010
- *Sales and Marketing Alignment: Collaboration + Cooperation = Peak Performance*; September 2010
- *Sales Performance Management: Getting Everyone on the Same Page*; August, 2010
- *Sales Forecasting: Analytics to the Rescue!*; June 2010
- *Optimizing Lead-To-Win: Shrinking the Sales Cycle and Focusing Closers on Sealing More Deals*; May 2010
- *Providing a 360° View of the Customer: Better Service - Higher Sales*; March 2010

Information on these and any other Aberdeen publications can be found at http://www.aberdeen.com/.

Author: Peter Ostrow, Research Director, Sales Effectiveness (peter.ostrow@aberdeen.com)

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