Improve Your Sales Forecasting Accuracy

Make informed decisions and predict sales performance

SPOTIO

Abstract

Forecasting techniques are, in effect, ways for your organization to make predictions. The range of available techniques run the gamut from creative art forms to strict numbers-based science. Of course, one is not better than the other, but can complement each other well enough.

In this eBook we go in depth into each of the forecasting techniques to prepare your company, specifically your sales department, for different possibilities in your future.

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section one

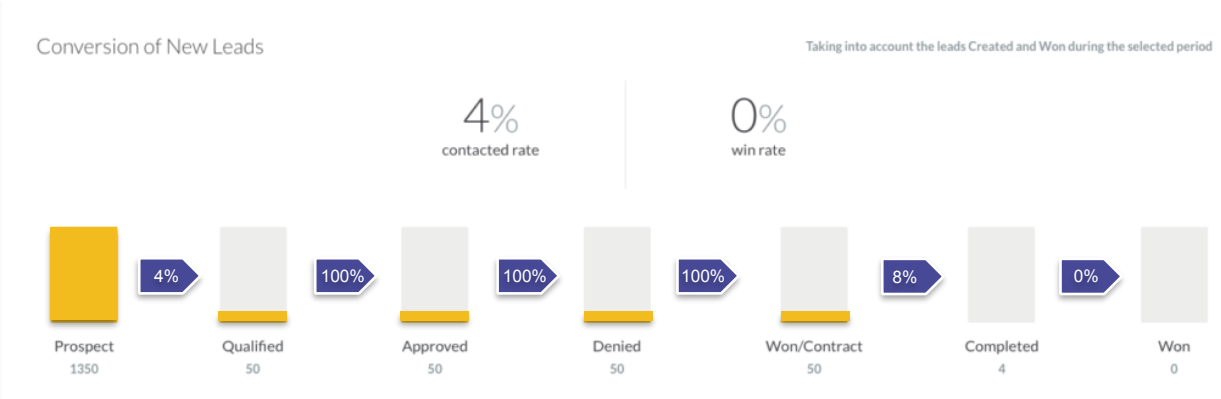
Forecast Technique #1: Opportunity Stages

Opportunity stages forecasting is the most common because it is one of the easiest to implement and to grasp for those with limited experience in forecasting. Moreover, it is one of the best forecasting methods to use for those who want an objective understanding of each stage of the sales pipeline.

Consider that as a sales leader, the most accurate understanding you get from every deal that was either closed or left open is the subjective opinion given by your sales reps. But with this type of forecasting, you can have a much clearer idea of what happened. You can also use this to assess the performance of your sales team and figure out where they truly need improvement as they start working down the pipeline with a prospective client.

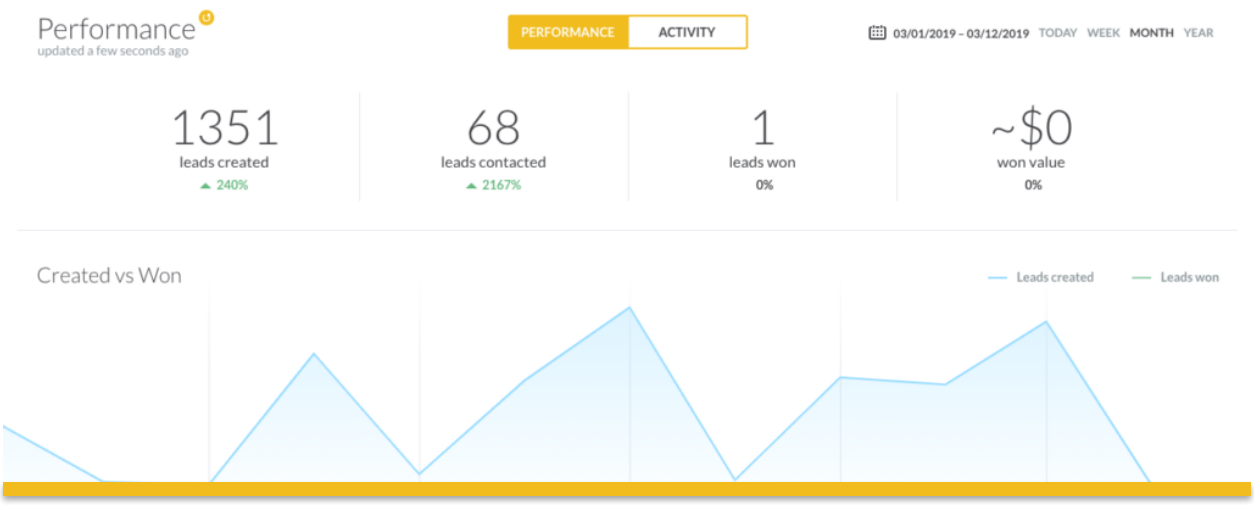
Common Sales Pipeline Stages

1. Prospect
2. Qualify
3. Approve
4. Deny
5. Contract Sent
6. Completed
7. Won/lost



How to Implement Opportunity Stages Forecasting

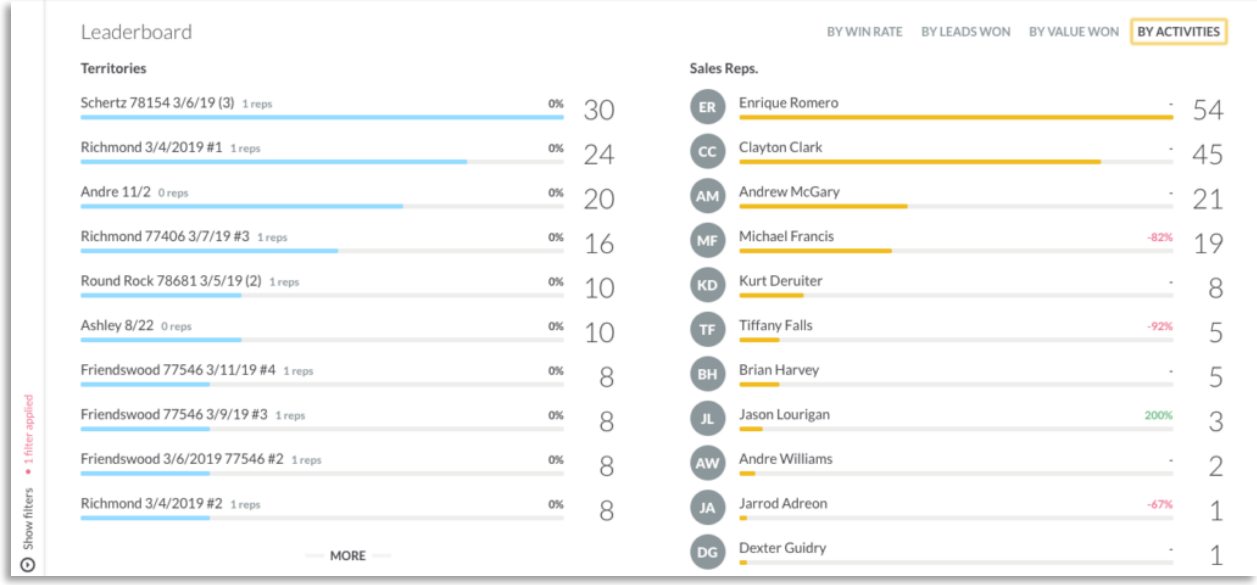
In order to implement this technique sales leaders must analyze and understand past performance. Extrapolating on past sales performances to better understand success rates at every stage of the pipeline ensures that estimates are pertaining to future results.



If past performance indicates that half of the deals are successful, then during a given quarter your chance of closing a deal at the final stage of the pipeline is going to be 50%.

Basic calculations using this forecasting method allows you to estimate income in revenue streams which can help you assess the deals in your pipeline and performance for each sales rep. Companies with top-of-the-line sales leaders still struggle to use the right sales forecasting.

The reasoning is simple. It is a quantitative topic, one with many moving parts and factors to take into consideration.



It takes a lot of practice to become proficient at sales forecasting but with the right techniques and the proper tools, it is possible. A CRM with great data and reporting capabilities is critical to fixing your sales forecast and properly implementing this technique. With a reliable CRM from a reputable company, your sales staff will have everything they need to improve all stages of the pipeline.

Start implementing opportunity stages forecasting in tandem with reliable CRM with full data/reporting capabilities to improve your sales pipeline.

section two

Forecast Technique #2: Length of Sales Cycle

The length of the sales cycle is a critical metric used within any sales organization. It's for this reason that sales operations professionals are always reviewing the length of sales cycles statistics and looking for the respective stages where things are slowing down or things are speeding up. The overarching goal here is finding a way to reduce this timeframe.

Why?

Simply put, the shorter the sales cycle length, the faster the company earns money.

Understanding the Sales Cycle

Your sales cycle is a series of predictable phases through which your sales representatives go in order to sell the product or service you offer. The sales cycle varies from one organization to the next based on the company itself and the products offered, so no two sales processes or cycles will be exactly the same.

That said, there are different stages to a sales cycle which have some flexibility from one business to another, depending on the complexity of the product.

Most businesses have the following stages:

1. The prospect phase, where representatives handle phone calls or cold calling
2. The qualification phase, where representatives learn and understand about the prospects pain points in order to figure out if they are truly a good fit
3. The consideration phase where the sales presentation occurs
4. The decision phase where addressing of objectives happens
5. The closing phase, where theoretically the sale closes
6. The referral phase, where you request referrals from your happy customer

When you visualize the stages, they take the form of the sales pipeline.

The Importance of Reviewing Sales Cycle Length

Knowing the average sales cycle length can introduce a level of predictability into your sales forecasting. With this type of metric, if you receive a specific number of leads, you will know what the projected sales figures will likely be in one month, or even a few months down the line.

If you decide to set a KPI in order to reduce the length of your sales cycle, you can accelerate your revenue growth.

Tangentially, you can review which areas take longer than others and analyze any room for improvement. You can find out which months or weeks might be hitting the average mark or falling a bit behind. When reviewing individual representatives you can see how their average sales cycle length compares to the overall average.

How to Calculate the Length of Sales Cycle

The easiest way to track the length of your sales cycle is to start at the point of creation for a lead in your CRM and to end at the point the deal closes. If you leverage a CRM system you can give your organization a much more visually appealing sales pipeline in which to track each stage of the sales cycle.

With this method your marketing and sales managers will be able to view a customer journey from start to finish. From this, sales teams can learn how to improve their top of the funnel activities like prospect, lead generation, and marketing phases. These early stages are critical in terms of their success, without which customers are not propelled through the sales cycle quick enough.

There is some debate here because a lead can technically reach creation at any time. You might purchase a list of leads but then that list sits in the CRM for months at a

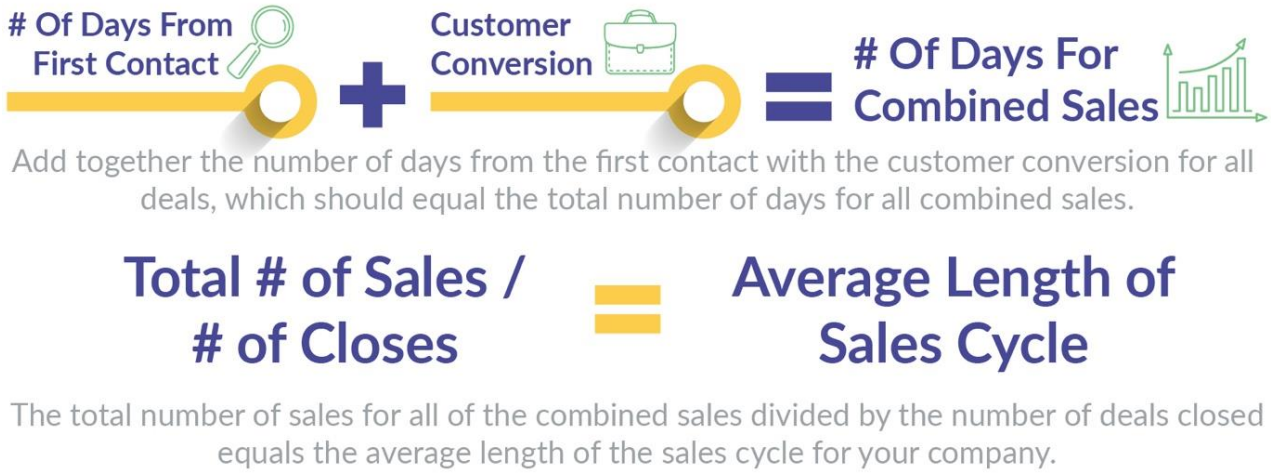
time before anyone even looks at it. One of those leads could be someone who downloaded a marketing ebook from your company and then requested a demo months later, at which point they created a second lead and triggered the initial contact with your sales team.

Arguably, that second lead and the initial contact is what made them into a potential client and thus viewed as the start of the sales cycle.

That said, if you credit the moment when you receive that list or the person first signs up, then you are using the first touch attribution.

Measuring the length of a sales cycle can get a bit complicated if your organization has two or three touch points attributed to a single opportunity, like the initial creation of the lead followed by the request for a demo. In this situation the company would be relying upon the multi-touch attribution.

In any case, having the right tools makes it easier for sales leaders to decide how to peg the starting point of their sales cycle and therefore, review the length of the sales cycle.
Once you decide upon the start point, the calculation of the average sales cycle length occurs with the following equations:



In the end, you should automate when and where you can. Automating the entire process with modern sales software can reduce a large part of the burden of analysis. This occurs especially when you automate CRM data entry, analyzing conversion length, and the creation of reports based on different deals, different teams, or individual sales representatives.

Automation software can provide you with reports based on objective data pertaining to your sales operations and your teams. All of this occurs while concurrently freeing up time that sales representatives would have previously used.

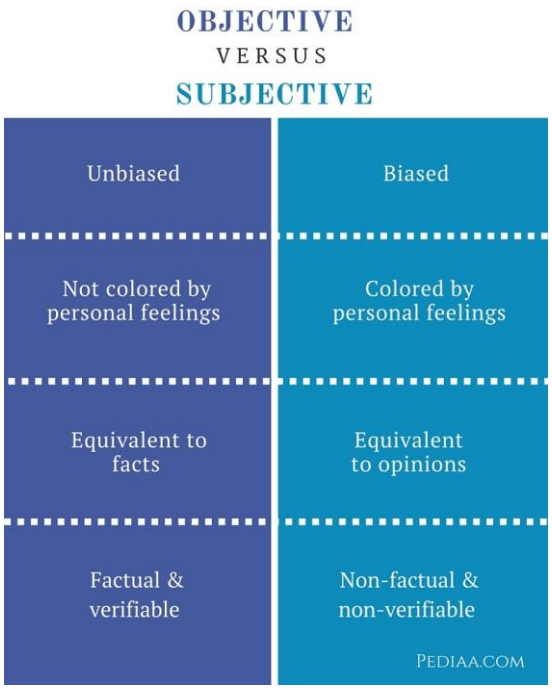
There's no one-size-fits-all solution to appropriately calculate your sales cycle length. It is up to you to find a method that works for your team and your company, and then dive in.

section three

Forecast Technique #3: Forecast Stages

Opportunity Forecasting is a qualitative approach that helps companies determine the expected value of the deals they close. It uses insight rather than intuition, relying heavily upon the assessments of sales reps.

The downside to this particular method is that it doesn't rely upon hard science/math and is quite subjective. Companies that are not entirely certain their entire team of sales reps can make assessments about individual skills and potential clients, might end up with a tremendous amount of disappointment using this method.



However, there are stages they can take to mitigate this potential loss and improve sales for all reps.

Importance of Forecast Stages

Sales forecasting is important as it allows you to find potential problems while there is still sufficient time to prevent them from worsening.
If, for example, you notice that your team is coming in around thirty percent below their quota across the board, you can determine the cause and initiate a course-

correct. Perhaps the cause is a competitor that has started a new discount, or your sales compensation plan does nothing to encourage good sales achievement.

An accurate sales forecast requires quotas from individuals and teams so that you can not only gauge performance, but have an objective definition of your individual and team based success. You also need a documented structure for your sales process. Understand that if you're not consistently relying upon the same steps for your sales process, you won't be able to predict the likelihood of closing in the future.

A CRM is imperative so that every representative has a database for tracking opportunities that can achieve accurate predictions.

Factors That Impact Your Forecast

There are different factors that can impact your sales forecast and thus, require your attention. Internal factors that are impactful include sales turnover. As employees come and go, revenue will decrease unless you already have your pipeline for potential hires. Policy changes such as a four-month production on commissions will decrease revenue as your representatives will typically only sell to the most likely of prospects.

If, for example, your reps only provide discounts for the first two weeks of every month, you will see a spike in close rates during the first two weeks and a significant decrease during the last two weeks.

Other impacting factors include territory shifts, especially if you have new representatives that need time to familiarize themselves with a new territory and subsequently fill out their pipeline.

Competitive changes such as a competitors slashing prices can cause sales outcomes to decrease. Economic conditions, market changes, industry changes, legislative changes, product changes, even fluctuating seasons can impact your forecasting.

That said, knowing these potential impacts ahead of time will help you set up your forecasting and is a crucial stage in preparing the forecast.

So, What Are the Stages?

Stage 1. Have a clear understanding of your business.

Determine whether you operate a business that provides services seasonally, manufactures products, relies on suppliers, or something else entirely.

These questions help you determine how activities from your suppliers or customers can impact your sales, and the answers help you to modify your forecast.

Stage 2. Analyze your past performances.

If, for example, you have completed a business cycle, you can start your sales forecasting with field sales software. This is not an analysis you want to do manually. You can convert the sales data that you get from a single business cycle into graphs which produce overlay data for different cycles for better analysis.

You can, using this method, view seasonal changes to sales on an annual basis.

Stage 3. Understand your variables.

Sales forecasting is at the mercy of dynamic variables within your market sector. You need to understand as much as you can by gathering and analyzing market intelligence. Get it from every source you can. Use things like economic trends, online reports, competitor activity, industry newsletters, and more to get this information.

You need to train your sales force to report customer variables so that you can track the impact they might have on future sales.

Stage 4. At this point you need to calculate costs.

In order to build your sales forecast, you must review anticipated business growth. You want to push yourself toward incremental improvements annually, one season to the next, and one cycle to the next.

Your sales forecasts should account for the periods where things go downhill. Good sales forecasting for your down periods - as well as your high periods - will help you to manage costs, reduce inventory, and adjust sales staff as necessary.

Stage 5. Now it is time to create the sales forecast.

As a sales manager you want to forecast with some flexibility. You want to prepare for unforeseen contingencies which could come about. It can, for example, be difficult to predict when your supplier will fail to meet requirements or when an economic change will negatively impact the overall sales.

In the end, following all five stages will help your company to achieve more reliable sales forecasting ideas in calculating costs, preparing for unforeseen contingencies, and better understanding the variables that influence your future sales.

section four

Forecast Technique #4: Scenario Writing

Scenario Writing is a great way to prepare your company, specifically your sales department, for different possibilities in your future.

This is a qualitative approach enabling you to achieve long term planning and prepare for any potential extremes that your quantitative data might not be able to provide. Similar to forecast stages, this approach is contingent upon a more subjective appreciation of sales and business.

Your goal is to project numerous likely outcomes based on different, highly specific, assumption sets. This is accomplished through drafting several pictures of what might unfold based on those individual sets.

This provides you with the best-case scenarios, worst case scenarios, and everything in between.

Advantages and Disadvantages of Scenario Writing

For scenario writing to be an effective, you need to plan the scenarios in question around uncertainties that lie ahead for your organization. Then, you need a clear plan

of action that you would be able to immediately implement should any of the projected scenarios happen.

Even when properly implemented, there are disadvantages to using this forecasting technique.

Advantages:

You have the opportunity to think strategically about the things that might happen within your sales department. Tangentially, you get to make plans that comprise a contingency of sorts, preparing your sales for the worst and best to come.

Disadvantages:

As is the case with Forecast Stages, using Scenario Writing means you need to have one person within your company who has a keen eye for psychology and for business activity, particularly within sales. These are more subjective than they are quantitative. That means they function as more of an art form and less of a strict science. This should be used as a way to complement other data driven methods, rather than relying upon it entirely.

By combining more than one technique, you get the best of both worlds and generate a fuller picture of what the future brings.

The Eight Step Scenario Planning Process

Eight steps you can follow in order to think strategically about your scenarios and your planning process:

1. The focal issue within your assumption set.
2. Key factors that are influenced by the focal issue and which influence the focal issue.
3. Any external forces from the focal issue.
4. Critical uncertainties related to the external forces or critical uncertainties.
5. Scenario logics, as they derive from: a) key factors b) external forces or c) critical uncertainties.
6. Scenarios
7. Implications and options
8. Early indicators, as they relate to the focal issue and the key factors

With this, you will note that a lot of the aspects relate to one another in some way. That is to say, that scenario writing looks similar to storytelling.

Let's look at an example:

If your focal issue is annual sales, your key internal factors might be sales calls or received inquiries. The external factors that might impact this include local restrictions or competitors.

Your critical uncertainties pertain to what issues you might face over the coming year. This could include customers preferring online content rather than in-person lectures, changes to local institutions that impact your business.

From there, you can develop scenarios that pertain to each of these potential situations, in both good and bad directions. With that, you can develop the scenarios, what implications it would have for the annual sales, what options your organization would have if that event were to take place, and any early indicators.

This, in effect, would help you understand how your organization would go about handling each of these scenarios.

So, this is a process that can be applied to annual sales, quarterly issues, and other long-term projections. With it, your organization won't be caught off guard when things fluctuate favorably or unfavorably for your organization.

Using the example above, if you provide in-person content now but you have projected customers will lean toward newer technology, you could choose to implement an online version.

However, you would still need to be prepared to handle that in terms of sales calls and scheduling, something you would prepare for with scenario writing.

By comparison, had you not prepared for the possibility of increased sales for an online component, you would find yourself ill equipped to handle the future

scenarios, no matter how beneficial they would be for your company in terms of meeting annual sales requirements for your sales staff.

Should You Use Scenario Writing as a Forecasting Technique?

The answer to this question depends on your company. You are not limited to using just one technique. When your organization relies upon multiple forecasts it allows you to achieve a fuller picture of your overall sales approach. Thus, it is imperative that you decide which method is most effective for your company before you arbitrarily start applying techniques.

Conversely, don't let yourself get caught up in the analytical stage of trying to find out which one is best, at the expense of just implementing one. While it is crucial to have accurate data, you should aim for valuable information above perfect information.

Remember too that all techniques take time and practice to successfully implement. So, you might need to tweak the methods you use in conjunction with the manner you go about using scenario forecasting in order to achieve your sales objectives by looking into the future.

section five

Forecast Technique #5: Regression Analysis

We’ve gone over many of the most prominent forms of forecasting, and now it is time to review the use of Regression Analysis. Using this quantitative analytical method can improve business operations, sales, and marketing.

What is Regression Analysis Forecasting?

Regression Analysis forecasting is the most mathematically minded method is usually why people shy away from it. This technique is meant for those companies that need in-depth, granular, or quantitative knowledge of what might be impacting sales and how it can be changed in one direction or the other, as necessary.

Applying this method successfully requires comprehensive understanding of statistics and the influences that exert their power on your company’s sales performance. There are many calculations required to examine relationships between sales and variables that impact sales.

To use this, you would start to figuring out the reasons you are forecasting, essentially what it is you want to learn and why that would be valuable. From there you figure out the factor that is being affected which in this case is the dependent variable, your sales.

Add to this the factors that impact the dependent variable, anything that influences sales. Then, select the period of time you want to review and collect the data for the variables in question.

From there, you choose your regression model and run it after which you find any correlation between those variables.

Example of Regression Analysis Forecasting

Your business wants to forecast your sales for the upcoming summer program in order to plan for your budget and figure out if you need to conduct a second round of hiring for temporary sales reps. In this scenario, the sales team is the dependent variable and your goal is to understand what influences it.

So, you compare the sales to an independent variable, like the number of sales calls. Then you collect data for both the total seasonal sales and the total seasonal sales calls for the last five years.

The goal here, again, is to compare what influences the number of calls had on the number of sales.

Once you set everything up and have the data, you can get even more granular with that information and review the number of sales calls as it impacts the number of sales each year, and then again for each month during the sales season so that you can determine not only how many new sales reps to hire the following year, but for precisely what months you need to ramp up seasonal sales reps.

Then, you filter them out as the sales calls and subsequently the sales themselves, start to thin out.

The regression **model equation might be as simple as Y = a + bX in which case the Y is your Sales, the 'a' is the intercept and the 'b' is the slope.** You would need regression software to run an effective analysis. You are trying to find the best fit in order to uncover the relationship between these variables.

Regression Equation - Example

Recall the example involving Copier Sales of America. The sales manager gathered information on the number of sales calls made and the number of copiers sold for a random sample of 10 sales representatives. Use the least squares method to determine a linear equation to express the relationship between the two variables.

What is the expected number of copiers sold by a representative who made 20 calls?

Sales Representative	Number of Sales Calls	Number of Copiers Sold
Tom Keller	20	30
Jeff Hall	40	60
Brian Virost	20	40
Greg Fish	30	60
Susan Welch	10	30
Carlos Ramirez	10	40
Rich Niles	20	40
Mike Kiel	20	50
Mark Reynolds	20	30
Soni Jones	30	70

Step 1 – Find the slope (b) of the line

$$b = r\left(\frac{s_y}{s_x}\right) = .759\left(\frac{14.337}{9.189}\right) = 1.1842$$

Step 2 – Find the y-intercept (a)

$$a = \bar{Y} - b\bar{X} = 45 - 1.1842(22) = 18.9476$$

The regression equation is:

$$\hat{Y} = a + bX$$

$$\hat{Y} = 18.9476 + 1.1842X$$

$$\hat{Y} = 18.9476 + 1.1842(20)$$

$$\hat{Y} = 42.6316$$

The sales manager gathered information on the number of sales calls made and the number of copiers sold for a random sample of 10 sales representatives. Use the least squares method to determine a linear equation to express the relationship between the two variables. What is the expected number of copiers sold by a representative who made 20 calls? Step 1 – Find the slope (b) of the line. Step 2 – Find the y-intercept (a)[/caption]

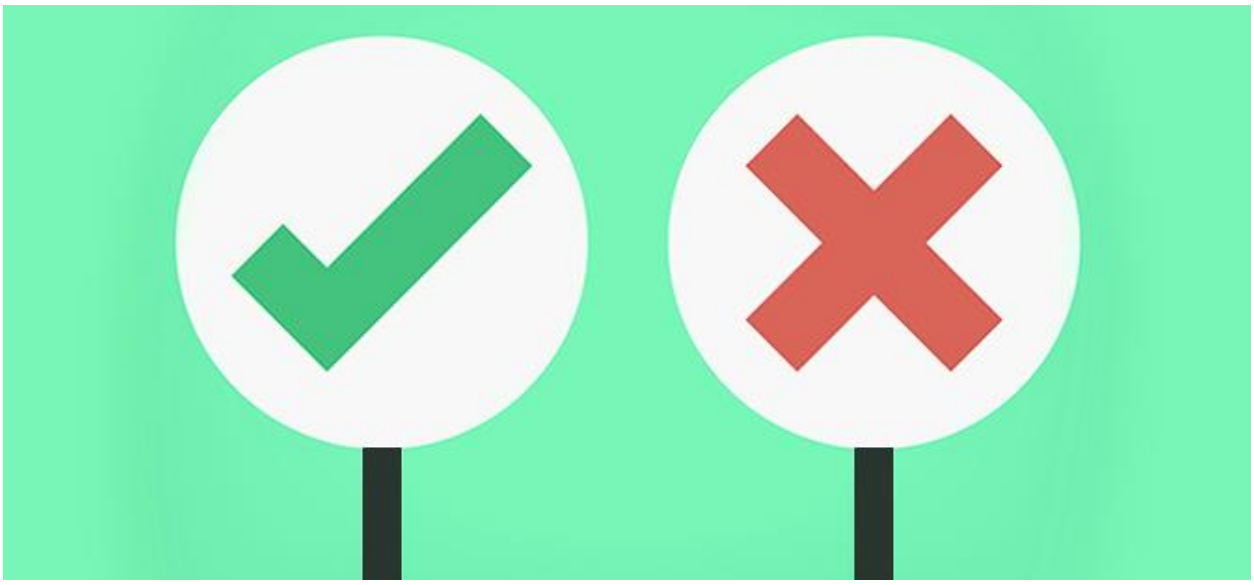
With this model you might see how something correlated to your sales that could be causing your sales to get better or worse.

However, just because there is a correlated variable does not mean the variable itself is the cause.

This is where things get a bit complicated.

You need to take into consideration other factors that make the example too complicated for this short article. Additionally, this particular example is a rudimentary, linear one and in most real time cases your business will have a multiple linear regression. This contains multiple independent variable like the numbers of training sessions help, the number of incoming calls, the number of emails sent, etc.

Pros and Cons



The upside is that this helps you determine the precise variables that impact sales at any given time. In other words, this is one of the most accurate forms of forecasting out there. If you want the real-time data, and only the data, this is how you get it.

The downside is that this is accurate, but is incredibly advanced. Be fair warned that the reason most companies don't use it or shy away from it, is because not just anyone can do it. It's certainly not the easiest method to use.

For many companies, the variables that have to be taken into account in order to generate proper forecasts requires someone with a PhD in mathematics to figure out. This is especially true for larger companies. To that end, the larger amounts of accurate data is effectively a requirement in order to achieve meaningful results, and the large amounts can be tricky.

Should You Use Regression Analysis Forecasting?

Regression Analysis is a highly data driven method which is why it takes skill and regular practice to do it well. Not only will you need to refine your ability to execute it, but to understand the results generated therein.

However, if you are able to properly run your regressions, soon your company will be able to uncover valuable information about the company that can be used to drive growth in the future.
Much like the other methods of sales forecasting, regression analysis may not necessarily be the optimum solution for your business.

To that end, it is imperative to know how each method works and when it works best in order to determine if/when it is most suitable for your company.

Moreover, this does not have to function as a standalone tool; your business might very well benefit from integrating more than one method particularly if one is a quantitative method designed to counterbalance and complement a qualitative method.

To Sum Up Your 5 Forecasting Techniques

1 | Opportunity Stages Forecasting

Opportunity stages forecasting, as the name suggests, is a forecasting technique where sales staff break down the pipeline into different stages. This includes specific calculations pertaining to the chances of closing a deal at each stage in the pipeline.

2 | Length of Sales Cycle

This forecasting method is a quantitative method that helps you to predict when a deal is likely to close rather than what your overall success rate is. This happens through understanding how long the average sales cycle is and dividing the total number of closed deals by the total number of days it took to close those deals.

3 | Forecast Stages

Forecast stages is a qualitative approach that helps companies to determine the expected value of the deals they close. It uses insight rather than intuition, relying heavily upon the assessments of sales reps.

The downside to this particular method is that it doesn't rely upon hard science/math and is quite subjective. Companies that are not entirely certain their entire team of sales reps can make assessments about individual skills and potential clients might end up with a lot of disappointment using this method.

4 | Scenario Writing

This technique is a qualitative approach designed for long-term planning. It’s a course dependent upon a subjective understanding of sales. It requires sales leaders to draft a different picture that could potentially unfold based upon a variety of assumptions. This usually encompasses best case scenario and worst-case scenarios.

For this method to be properly applied, users would need a comprehensive understanding of business activity and psychology and they would be reliant upon a more subjective science rather than a strict science.

5 | Regression Analysis

Regression analysis gives you a much more in-depth quantitative view of what things could impact sales and what changes you have to make as a result of your sales process.

However, this particular method requires a comprehensive understanding of statistics and involves a great deal of calculations pertaining to different variables that can impact sales.

As the name suggests, sales leaders would have to choose a regression model and run it after they have determined the reasons for forecasting, dependent variables, independent variables, length of time for review, etc.

Wrapping Up

By using sales forecasting techniques correctly you will be able to identify potential problems early on, evaluate your sales opportunities, track the progress of individual reps, and prepare post-sales support systems as needed such as infrastructure and materials.

SPOTIO is the #1 field sales acceleration and performance management software that will increase revenue, maximize profitability, and boost sales productivity.

Want to see a product demonstration? Click here to see how SPOTIO can take your sales game to the next level.