The Business Case for Improving Sales Forecasting

Research Identifies Challenges and Opportunities for Optimizing Revenue Performance

White Paper

VENTANA RESEARCH

Aligning Business and IT To Improve Performance

Ventana Research
6150 Stoneridge Mall Road, Suite 350
Pleasanton, CA 94588
info@ventanaresearch.com
(925) 474-0060
www.ventanaresearch.com

Table of Contents

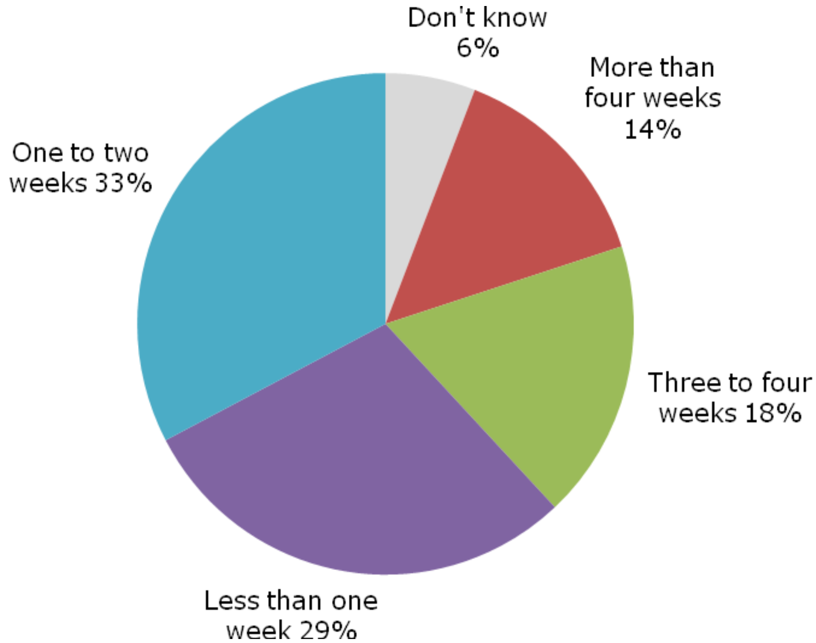
Why Sales Forecasting Falls Short

Forecasting sales is a critical activity for any organization that sells goods or services. However, one-third of such organizations lack complete confidence in their sales operations and performance, according to a recent benchmark research finding by Ventana Research. The sales forecast helps determine revenue potential and also affects planning and budgeting, human resources and other core aspects of business – and ultimately the bottom line. It should be no surprise that two-thirds of organizations in the recent research identified sales forecasting as the most important application for their sales department.

Effective sales forecasting requires a process that manages the steps in a high quality, regularly repeatable manner. At its heart is accurate, comprehensive information gathered on a continuous basis from a variety of sources both within and outside of the company. But collecting and analyzing all this information into a forecast has proven to be a difficult task for many organizations. The sales channels, internal and indirect, are geographically dispersed and usually have separate, often incompatible systems to store and use the information they accumulate.

As a result, businesses often end up with sales forecasts of questionable reliability and timeliness. Our benchmark research on sales forecasting found that only 35 percent of participating companies achieve better than 80 percent accuracy in their sales forecasts. Moreover, to maintain accuracy, forecasts must be updated regularly – indeed, in today's volatile economy, the more often the better. But doing so can be a challenge. How long it takes to complete a forecast can directly impact the timeliness (and hence the value) of the forecast information.

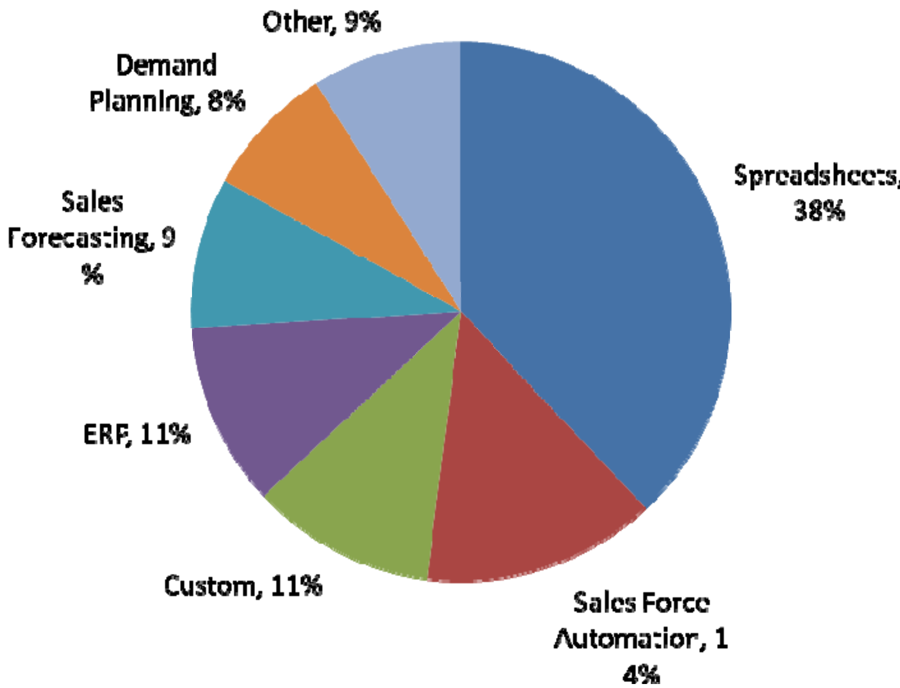
Our research shows that organizations vary in how long they take to create and compile sales forecasts:



Source: Ventana Research

For many, the time it takes to collect, aggregate, review and approve the sales forecast directly impacts how frequently they prepare it. The primary cause of a lengthy forecasting process is manual intervention, typically involving a series of rote, repetitive steps, many of which could be automated. This cost in person-hours also may limit how many people and departments participate in its formation. The combination of a lengthy process and manual tasks can undermine confidence in the sales forecast.

In pursuit of greater forecast accuracy, organizations should examine the technology they use to manage the process. Our research has found a variety of technologies used to manage sales forecasting today:



Source: Ventana Research

Using software not designed for sales forecasting can have adverse consequences, research reveals:

- Close to half (47 percent) of the participants in our research on sales performance management reported that reliance on spreadsheets has made it more difficult to manage activities such as forecasting.
- We found dissatisfaction with sales force automation (SFA) software in 39 percent of organizations, while only 23 percent are even somewhat satisfied; SFA is not designed to generate or manage sales forecasts.

Spreadsheets, which were designed as single-user productivity software, are prone to errors when files are shared, added to and consolidated to produce sales forecasts. The repetitive tasks of aggregating sales forecasts and combining data should be automated to eliminate the inevitable human errors.

When people prepare forecasts using spreadsheets, the process either is manual or at best has been somewhat automated using macros, which can be of questionable use for this purpose. The risks of introducing errors and inconsistency are heightened when users e-mail the files and store them on file servers with little or no version or security control. In addition, productive collaboration is undercut when the "dueling spreadsheets" situation occurs because individuals have manually updated files and e-mailed them to others. Reconciling differing versions of the same spreadsheet is an unproductive waste of valuable time.

All these factors work to create uncertainty about the sales forecast and can lead to finger-pointing when targets are missed. Improving confidence in forecasts requires understanding the hindrances and taking steps to improve. Predicting realistic revenue potential, for example, becomes more feasible when effective processes and the right technology tools deliver the information sales, finance and operations management need to create accurate sales forecasts.

Focus On Key Forecasting Components

To improve sales forecasting, organizations should focus on the people involved, the process itself, the information required to develop it and technology that supports it effectively. Taking practical steps to improve these components can address issues in accuracy, collaboration and timeliness.

The process of forecasting sales works well only when it enables the appropriate people to contribute to it. For some in sales, to be sure, no additional input will be required, as forecast information will be drawn directly from the sales pipeline; it's worth pointing out, though, that organizations can get more from their investments in SFA and customer relationship management (CRM) systems by integrating them with the sales forecast. Many organizations require additional information from indirect distribution channels that operate their own sales-tracking systems; that information must be rationalized to fit into the forecast. Whatever the source, though, involving appropriate individuals is critical, and the value of the forecast depends in part on the competence of the individuals who participate in the process by providing either information or reviewing and approval.

82 percent of organizations require unit forecasting over time to meet their operational needs.

To participate effectively in the sales forecasting process, sales operations personnel and management need tools with appropriate capabilities. For example, sales operations employees need unit forecasting over time: An overwhelming 82 percent of participants in the Ventana Research sales forecasting benchmark research said this is important or very important. Also important or very important is the ability to do what-if scenario planning, to compare the forecast to any date, to plan at the account level and to provide statistical forecast suggestions; all were ranked at this level by 75 percent or more of participants.

The information the forecast provides to sales and particularly to management is critical to help them understand what actions may be necessary to improve the quality of sales opportunities. Given that, managers must maintain control over the front-end information input process. It should be governed by well-defined policies that include a schedule and guidelines for input and the types of information that must be provided. This is essential so that no one can "game" the forecast, manipulating it to suit his or her own interests. Nearly half (48 percent) of the participants in our benchmark research said that gaming occurs in information provided in the forecasting process; any such manipulation undermines the accuracy of the forecast and people's confidence in it. The research found that organizations that eliminated or reduced gaming in the process have the highest levels of accuracy of forecast information.

88 percent of research participants said sales managers need the ability to track forecast performance to the target plan.

Sales forecasting technology can not only automate these activities but also provide management capabilities and facilitate participation in the process. For example, sales managers need the ability to track forecast performance to the target plan (88 percent said this is important or very important). Participants also cited the following capabilities as critical:

- Using charts and dashboards to display forecast performance (80 percent)
- Updating forecasts for different aspects of sales, such as customers and products (81 percent)
- Tracking comments about why the forecast has changed (79 percent).

On the negative side, participants expressed dissatisfaction that they cannot view forecasts from a product perspective or integrate them easily with other applications, particularly SFA and ERP. Delivering these as well as other functional capabilities is what makes sales forecasting uniquely valuable as an enterprise system.

Organizations should evaluate the way they do sales forecasting to determine what improvements need to be made in people, process and supporting technology so the right people promptly receive the information they need for effective forecasting.

Sales Effectiveness Requires Collaboration

Collaboration in the sales forecasting process is critical to its effectiveness. The input and review should involve participants from both sales and operational teams. Ventana Research confirmed this in its benchmark research: 58 percent of participants reported that their organization is looking to improve internal collaboration in sales forecasting.

Because sales forecasts are key tools for estimating revenue, finance departments use them as well as other forecasts in their ongoing efforts to assess and manage the organization's overall financial performance. They therefore must collaborate with Sales to ensure that forecasts are accurate and have the details Finance needs to update the financial plan.

Finance can play an important role in establishing the business case for investing in tools that improve sales forecasting. In our recent sales forecasting benchmark research, participants from Finance told us they viewed it as important to be able to access information for improving financial performance (36 percent) and improving sales forecasting processes (27 percent). And with good reason: Only 37 percent of organizations report they can complete an updated sales forecast within a week, which makes it hard to share accurate information in a timely fashion. Having such information delivered promptly is critical for determining financial implications across the business.

Having access to sales forecast information (36%) and improving sales forecasting processes (27%) are most critical to finance organizations.

Working together to streamline the forecasting process can provide valuable insights for both Sales and Finance and help identify issues the organization needs to address. For example, they could learn that existing customers are no longer purchasing due to previous product issues or that manufacturing is not going to be able to meet demand on time.

This sort of information, made available regularly to both Sales and Finance, can drive not only useful collaboration but accountability in the organization. The sales forecast is one of the most critical indicators for closing business, but many sales organizations have not made it integral to their efforts by ensuring that they provide information in a timely way.

Being forced to rely on information that is not accurate hinders effective decision-making. It is not unheard of for interested individuals to place inaccurate information in play. For example, some salespeople will submit updates simply to relieve pressure to deliver them or to cover up embarrassing situations. Thus, contributors from Sales – and all other business units as well – must understand they are expected to provide accurate information from reliable sources and will be monitored and evaluated on this basis.

Establishing accountability also requires that everyone is educated on the sales forecasting process and receives whatever training and coaching they need to improve the quality of their involvement. Our research found that some organizations that are serious about forecast accuracy offer rewards (31 percent) to those who take all necessary measures to contribute accurate and consistent input to sales forecasts. Putting time, effort and accountability into the efficiency of the sales forecasting process helps ensure that sales opportunities are managed properly and the sales forecast is treated seriously.

Benefits Found in Effective Sales Forecasting

Sales forecasting, managed as a process using accurate information supplied frequently, can provide significant value to a business. The primary benefit delivered by frequent, accurate sales forecasting is an increase in revenue and profitability, which is very important to almost three-quarters (72 percent) of organizations in our sales forecast benchmark research. With Sales focused on revenue, Finance and Operations management can examine how to improve revenue potential and manage costs more closely to enhance profitability.

But sales forecasting is important for more than revenue projection. Done well, it can dramatically improve the efficiency of related sales processes, which is very important to most (54 percent) organizations. The sales forecast provides vital input to sales incentive strategies, product-level demand plans, customer satisfaction improvement efforts and other key processes tied to sales activities. In addition to improving revenue, better performance of these activities will increase management's confidence that sales operations are executing to overall business strategy and goals.

38 percent of research participants plan to deploy new sales forecasting technology within the next two years.

Ultimately, the performance of the sales organization is reflected in the bottom line. Establishing well-defined sales forecasting processes and systems will enhance effectiveness by empowering the sales, operations and finance functions with critical information. Sales forecasting is a building block for managing revenue and bookings. In this context, it is no surprise that 38 percent of research participants plan to deploy new sales forecasting technology over next two years.

What To Do Next: Recommendations

To improve your sales forecasting and hence revenue performance, your organization should start with a pragmatic review of how forecasting is done now and assess what needs improving. Examining the elements of people, process, information and technology and comparing findings to our benchmark research can help your organization determine how to proceed and where to make investments.

People

The people elements involved in sales forecasting may prove to be the most difficult to address, because they demand changes in how people work. Improvement likely will require more information-sharing and collaboration than exists at most companies today. To make these changes you need high-level executive sponsors who clearly communicate strategy and connect it to specific objectives that the company measures while framing it in terms of individual performance. This can contribute as well to changing a culture that inadvertently permits gaming in forecasts.

Process

The key steps in advancing process maturity are to increase the frequency of planning and forecasting and to reduce the cycle time required to complete them. You may want to increase frequency incrementally, but the commitment, backed by decisions and actions, must remain firm: The organization should be acting on a plan to drive improvement. For companies that sell into retail channels, we believe that increased interaction and coordination with their channel partners in forecasting and planning can have a positive impact on revenue performance.

Information

The information that companies use to forecast sales often is suspect because they rely on spreadsheets to process the data that goes into the forecast. Managers and employees may mistrust the accuracy of information in forecasts for several reasons: Spreadsheets can introduce errors and inconsistent, conflicting data; gaming may be rampant in the organization; and sales pipeline data often is not widely shared. Many companies have access to the data they need but do not collect it at the level of detail or in the format required. Organizations should define the information and frequency needed to meet the sales forecasting process requirements.

Technology to support improved sales forecasting has advanced significantly in recent years.

Technology

Technology to support improved sales forecasting has advanced significantly in recent years. While spreadsheet use remains widespread, it is a barrier to effective forecasting and planning. Moreover, companies relying on it fail to take advantage of statistically based forecasting techniques, instead improvising or relying on simple extrapolations of past trends. Dedicated forecasting tools are available with a range of capabilities and prices. Because sales forecasting initiatives will involve people from many parts of the business, it is important to include each type of user in any software selection process. Look for methods to gain more value from current SFA and CRM investments through automating the integration of business information and data to support the sales forecasting process. Given the right tools, adding more detail to sales forecasts is not technically difficult. Be aware that making this change, however, will require sponsorship by senior sales and finance executives and new incentives to encourage the change.

To exploit the full potential of your sales group and its contribution to the revenue performance of the organization through improved sales forecasting, we recommend that you follow these steps:

1. Assess your current sales forecasting processes and their effectiveness to identify areas for improvement.
2. Solicit user input on how to improve the process.
3. Reach consensus on the organization's improvement goals and define the scope of an initiative to realize them.
4. Develop a business case for the value of the improvements.

5. Investigate technology tools that will work as part of attaining the goal of creating forecasts more efficiently and effectively.
6. Assemble a program and a framework for implementation and plan to manage improvements.
7. Apply the plan to your sales forecasting process and measure improvements.

About Ventana Research

Ventana Research is the leading benchmark research and advisory services firm. We provide expert guidance to help organizations manage and optimize performance – to become not only more efficient but more effective. Our unparalleled insights and best practices guidance are based on our rigorous, research-based benchmarking of people, processes, information and technology across business and IT functions worldwide. The combination we offer of benchmark research, thorough market coverage and in-depth knowledge of hundreds of technology providers means we can deliver business and technology education and expertise to our clients where and when you need them. Ventana Research provides the most comprehensive analyst coverage in the industry; more than 2.5 million business and IT professionals around the world benefit from Ventana Research's insights. To learn how our benchmark research and assessment and advisory services can improve your organization's performance, visit www.ventanaresearch.com.