How to Get a Grip on Forecast Accuracy

What are the chances of your sales forecast for the coming quarter being accurate? Probably not that great. Accurate forecasting has mystified some of the smartest people in business. In fact, the CSO Insights 2017 World Class Sales Practices Study found that only 40% of respondents said their ability to close deals as originally forecasted met or exceeded expectations.

Almost half of the sales leaders we surveyed (47.6%) estimated that 50% or less of their won deals closed with the timeframes, amounts and solutions originally forecasted. Perhaps even more concerning, an additional 11% weren’t sure.
Forecasting is a multifaceted process that requires sales process discipline, exacting data and a thorough knowledge of the customer’s decision dynamic. Every customer makes every purchase differently, every time, so creating a consistent, predictable process to predict what a group of customers will do this time is a challenge.

When forecasts deviate widely from actuals, it raises questions about the CSO’s ability to manage the business. Forecasts drive the levels of manufacturing production needed to meet demand. When actuals are lower than forecast, inventory carrying and capacity costs escalate. If actual demand exceeds forecast, revenue opportunities may be missed and customer failures may occur.

We can begin to create a consistent forecast management process by establishing a solid starting point. There are five steps that lay the groundwork for accurate forecasting:

1. Create a forecast standard operating procedure (SOP) to document the details necessary to understand and execute the process.
2. Decide what you will forecast.
3. Determine what activities need to be executed by both sellers and buyers for a deal to be considered forecastable.
4. Assess and, if necessary, implement a well-disciplined and consistent sales process and methodologies throughout your organization.

Even World-Class Sales Organizations have limited confidence in the data that resides in their CRM system. This has profound implications on forecast accuracy.

SOURCE: 2017 World Class Sales Practices Study
5. Establish a forecast accuracy baseline, and then set your accuracy goals in terms your team understands.

Let’s take a closer look at each of these.

1. **Create a standard operating procedure.** Document the current forecasting process and any related details. At a minimum, a good SOP contains these elements: title, purpose, background, scope, responsibilities, procedures, review, contingencies, references, definitions, documentation and change history.

   Sales operations typically owns the responsibility for creating the forecast SOP. They should begin by investigating and documenting the current forecasting processes, including interviewing all of the relevant stakeholders involved in producing a forecast or leveraging the forecast. This due diligence will often identify areas for improvement that have an immediate and positive impact on forecasts.

   The next three steps will impact the final forecast SOP, but once it is complete, this document should be considered the final word on how forecasting is to be done.

2. **Decide what you will forecast.** Does the organization need to forecast units sold or amount sold? Does the organization need to forecast revenue or bookings? Questions like these are fundamental forecast management decisions. As basic as they seem, the decision can become quite complex. For example, a software company transitioning from a premise-based deployment to a software-as-a-service offering may need to transition their forecast from a revenue-based model to a bookings-based model. In addition, other functions in the organization also have a stake in how forecasting should be done. Manufacturing and Fulfillment may need to understand the units forecasted, but related revenue is probably less...
important to them. Product management would like to have more detailed forecasts so they can see if their specific solution is on track to meet volume and margin targets.

3. **Determine what activities need to be executed by both sellers and buyers for a deal to be considered forecastable.** Sales operations should review all of the tactics that both sellers and buyers need to complete in order for sales to have thoroughly educated the key buying stakeholders and created a business case to justify the purchase. This process should also include determining what level of buyer initiated tactics need to occur to be able to assess their real intent to move forward with a purchase.

4. **Assess and implement a sales process and sales methodologies.** Sales operations should examine the organization's sales process and associated methodologies and terminology to ensure they are consistent across the sales force. Establishing discipline and consistency across a sales organization is the key to forecast accuracy. It requires openness, patience and persistence on the part of the sales leaders. If sales operations' examination shows the processes, methodologies and terminology vary greatly across the sales force, sales leadership must address the problem before proceeding. It is vital that they not gloss over any of the findings. Forecast

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**World-Class Sales Organizations vs All Respondents**

*"We effectively use a formal sales process and methodology to create new sales opportunities with existing customers.*

- **World-Class Sales Organizations**: 73%
- **All Respondents**: 32%

*"We effectively use a formal sales process and methodology to create new sales opportunities with new prospects.*

- **World-Class Sales Organizations**: 75%
- **All Respondents**: 35%

**SOURCE**: 2017 World Class Sales Practices Study
accuracy is only possible when process and methodology is consistently executed across the sales organization

5. Establish a forecast accuracy baseline. Before setting the specific forecast goal, perform an analysis of your results to determine if they are, in fact, predictable. If they are, you can use the analysis to establish a starting baseline.

Forecast accuracy goals are typically expressed as plus or minus a percentage of actuals. For example, a forecast target for all sales could be +/- 8% of actuals. Organizations may also choose goals for different types of transactions, products or markets. For example, renewals and purchases from existing customers may have a tight forecast goal range, such as +/- 2% of actuals. New logo opportunities, products and markets that carry a higher risk might have a wider range, for example, +/- 12% of actuals. A forecast goal statement might be: “Frontline sales managers will be expected to move the forecast accuracy metric from the current baseline of +/- 12% of actuals to +/- 5% of actuals by June 30 by using the organization’s forecast management process.”

Getting a grip on forecast accuracy, like so many business challenges, begins with understanding all the components of the problem, and then putting a plan in place that includes a repeatable, predictable process. The challenge is not so daunting when it is broken into realistic, achievable steps: create an SOP, decide what you will forecast, determine what activities need to be executed by both buyers and sellers, implement a sales process and sales methodology, and establish a forecast accuracy baseline.
About CSO Insights

CSO Insights is the independent research arm within Miller Heiman Group™, dedicated to improving the performance and productivity of complex B2B sales. The CSO Insights team of respected analysts provides sales leaders with the research, data, expertise, and best practices required to build sustainable strategies for sales performance improvement. CSO Insights’ annual sales effectiveness studies, along with its benchmarking capabilities, are industry standards for sales leaders seeking operational and behavioral insights into how to improve their sales performance and to gain holistic assessments of their selling and sales management efficacy. Annual research studies address sales and service best practices, sales enablement and sales performance optimization.