*"Forecasting: Why bad things happen to good people".*
by Philippe Lavie

Picture this…
It's the last week of the month. Each sales rep provides his manager his forecast with his best guess as to what will close this month. Taking this information, the sales manager prepares her forecast and submits it to her VP sales Americas. He turns around and prepares his forecast to his VP worldwide sales. When the forecast gets to the CFO, CEO, and the Board, the forecast has been touched by many with their own guesses, biases, and wishful projection to attain Nirvana this month. (This story applies to quarterly forecasts too, as many sales people know.) The month comes to a close and suddenly the sunshine, smiles, and optimism disappear as time comes to justify what transpired. Revenue was missed by 20% to 40%, less than 50% of the sales reps met their quotas, and the expenses and inventory increased significantly based on the original forecast. Does this sound familiar? If you have been in such a situation, and if you were the VP sales (worldwide, Americas, or regional), how did that make you feel?

It is funny how the results and responses of the CFO and CEO are similar in such a scenario:

- What happened?
- What are you going to do to fix this mess and never put us again in such a position?
- Why aren't you controlling your forecast and pipeline grading more effectively?

What we have found is that in most cases, companies share the following stats:

- The accuracy of the forecast is a direct result of the accurate grading of the pipeline at the opportunity level, not just the revenue numbers.
- Such accuracy varies from 30-50% at best.
- Sales people use at least a 40-50% fudge factor when preparing their forecast unless it can be audited without trusting the words of the sales rep.
- It takes 8-10 hours a month per rep to get the forecast produced.

*So* ***"why do bad things happen to good people?***
There are at least three reasons this happens:

1. Asking sales people to grade their pipeline without having implemented a consistent and auditable sales process across the company is like putting the fox into the chicken coop while closing any possible avenue for the fox or the chicken to get out.
2. Sales people should never be requested to forecast their business without a thorough review and approval done by their managers.
3. Trusting the words of the sales rep when preparing their forecast is like inviting them to be optimistic when below quota, and pessimistic when close to meeting their quota. Either way, you will never get the truth.

Why should sales management take the grading of the pipeline and the preparation of the forecast away from sales reps? Simply because sales people, like all professionals, want to keep their jobs, want to get their expense reports paid, and get their managers off their backs. Since the managers and the company have never implemented a uniform pipeline grading system with auditable stages and milestones, there is very little chances for objectivity, accuracy, and reliability in grading opportunities in the pipeline. Put in the simplest terms: *"If you can't inspect it, you can't track it. If you can't track it, there is no accountability. No accountability also means no motivation. No motivation means no reasons to change. Do not expect what you can't inspect."*

**Where do we go from here?**
First and foremost, establish a uniform pipeline grading system that includes stages and milestones. Ensure that each milestone has at least one objective deliverable to the prospect in line with their buying cycle. Remembering the traditional sales funnel, each stage of the buying cycle should be reflected into your sales cycle and not the other way around. Here is an example of a pipeline grading system you can all use. It

can also be customized to reflect your own industry, market, business engagement model, and specific situation. Call us if you need help with this.

- Inactive – The available universe of potential prospects

- Active – From your universe, this include prospects that you have pro-actively decided to pursue, that you have engaged in a conversation with, that have expressed an interest to learn more about your offering, and that have shared some reasons why they may be interested in further talking with you. Deliverable: Sales Process Control Letter.

- Goal Shared – The buyer you are talking with has shared a specific goal to achieve, a need to satisfy, or a problem to address, with a bias toward your offering. In other words, you have helped her create a vision in her mind of HOW your offering can help her address her needs. Deliverable: Sales Process Control Letter with 5 specific elements in it. It documents the conversation you had with your prospect and presents capabilities she said could help her achieve her objective.

- Champion – Gain access to someone who can introduce you to (or is himself) the key players involved in evaluating your solution and empower him to make the final buying decision. Deliverable: Sales Process Control Letter with request to meet with the key players of your choice.

- Evaluating Phase 1 – The longest of all these stages, it is the one in which you first meet with each key player individually, then meet with them all in one setting, ensuring that all their goals and issues are in alignment. During this meeting, you identify the correct sequence for evaluating your offering and get their approval to move forward. Deliverables: individual Sales Process Control Letters, Sequence of Events to guide their buying decisions, and approval (verbal or written) has been gained to move forward.

- Evaluating Phase 2 - When all line items from the Sequence of Events are delivered and acted upon. Things like contractual review of your license agreement, success metrics for the project identified and agreed upon, cost benefit analysis developed and delivered, IT implementation plan agreed upon, etc.

- Win the deal – verbal or document signed
- No decision – final proposal is delivered and you wait until the cows come home in the winter
- Loss – another vendor took the business away from you

You can assign probability-to-close percentages to each of the stages, with the Evaluating Stage representing the only one that can carry a 50% chance to close. Getting a verbal will bring you to 90%, while delivering the proposal and being in a no decision phase will bring you back down to a 10% probability-to-close.

**What's next?**
Is there a light at the end of the funnel? There is, if you are diligent at creating a pipeline grading system that mirrors your buyer's buying cycle, if it is auditable, and if it is diligently enforced, by the management team. The results are that you no longer rely on the opinions of sales people when preparing your forecast, you can inspect what you expect, you can retire what sales people call the "*sunshine pump",* and you can significantly reduce the amount of time and resources spent on preparing your forecast. When I was VP sales for a software company, I reduced the time spent on forecasting from ten hours a week to two hours a week after implementing such a system.

**In summary**
Design a sales process that mirrors your prospect's buying cycle. Develop a pipeline grading system with stages and milestones that mirror the process with auditable and measurable deliverables. Document all major conversations between your prospects and your company whether by the sales rep or the sales

management. Audit these communications and these deliverables. Make forecasting the responsibility of the sales management, not the sales rep. As many of our clients have experienced, your accuracy and reliability of your pipeline, and hence your forecast will be in the 90th percentile at the opportunity level, the right measures of a healthy sales force.

**Philippe Lavie,** president KeyRoad Enterprises LLC, dedicated to helping companies plan for, accelerate, and manage their revenue growth. www.keyroad.com. KeyRoad training services help companies implement customized sales processes, messaging, and training programs designed to drive increase revenue and greater accuracy in their pipeline management. Based in Chicago IL and San Francisco CA, he can be reached at: 415-229-9226 or at plavie@keyroad.com.