kluster intelligence

The Sales Ops Guide to
Sales Forecasting:

How to deliver an accurate forecast,
what to cover in a forecasting meeting with your reps and
how to forecast up to your board

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Introduction

"You can't get hung out to dry with an inaccurate forecast; but you can by not following a process".

This mantra was drilled into me in a previous career when forecasting the financial impacts of hurricanes and terror attacks.

Forecasting revenue is no different.

A well-developed process is a powerful tool to have when creating and owning your forecasts. Its purpose is two-fold. Firstly, to deliver a reliable forecast; and secondly, to encourage consistent and objective thinking when doing so.

The latter point compounds greatly when working across an organisation, which can **give the board the visibility it needs to steer the company in the right direction**.

An added bonus is that keeping a log of your process and workings **bolsters your credibility** in the event a month or quarter simply did not go as expected.

Using insights from market leaders in this eBook, a forecasting process can be developed and tailored to your business. We have explored ideas around which methods are most appropriate, and guidance on how to confidently lead a meeting whether it is reporting to the board, or eliciting forecasts from the team.

Enjoy the read.

Dan Thompson, Co-Founder & CEO
Kluster Intelligence

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The sales forecasting process

Catherine Mandungu
Director of Sales Operations, Ometria

I break the process down into three parts: **Looking back**, **looking forward** and finally, **"feeling the pulse"**. The quantitative part of the process is looking back and looking forward and a qualitative approach is layered over to verify and add weight to it.

I start by looking at historical data, which usually requires using time series techniques. When trying to understand the trends, not only do I look at what has been closed in the past, I also try to understand the historical pipeline. This means forming an understanding of how pipeline has been built in the past – e.g. sales cycles, conversion rates etc.

Usually I would look back a year or more, depending on the data availability in the business. **Data availability in itself is an important topic within forecasting and definitely deserves a lot of attention**. Here it should be discussed how businesses organise their data strategy, the systems to support that and finally how teams are enabled to do the right thing around data.

In the historical pipeline, I look at each quarter of the year because each quarter signifies a certain seasonality too i.e. looking at holiday seasonality which affects certain markets and makes for some slower quarters. This also means sometimes being as granular as looking at bank holidays.

Then I look at different type of deals such as renewals and upsells, new acquisitions and big, exception deals – trying to understand the run-rate. I end up with a full historical overview. This is applied to the composition of the business (such as different products or product groups), by go-to market channels and broken down into countries.

When looking forward I look at the pipeline for the next quarter(s), comparing it with the pipeline for the same quarter last year and one quarter before. Here especially, I look at how any initiatives such as marketing/demand generation, promos/spiffs, market area considerations, resources, available opportunities as well as leads and productivity could affect a change in the historical trends.

Once I've come to a number, it's time to "feel the pulse". This means gathering qualitative information that can only enrich the data even further. I start reviewing it with the sales heads, sometimes going to each sales rep to really understand the pipeline at deal level.

I always find the qualitative part interesting. **The sales reps are on the ground 24/7 so they should know exactly what's going on, providing weight to the forecasting process**. Marketing and finance should also be involved in this process. This could be in the form of weekly forecast meetings to discuss the quarterly forecast broken down in weeks in order to catch any changes (especially if it is a fast paced, transactional business). Other businesses with longer sales processes might want to look at different cadences for their forecast reviews.

Successful forecasting is all about having a clear, clean and easily understood process. That comes down to three points:

Robin Yeoman
Director of Sales Ops
Snowflake

1. Making sure that you have clear sales stages
2. Asking your salespeople if they're confident that deal will happen this quarter from many angles. Changing the angle and testing the deal from multiple viewpoints is critical to sales operations.
3. Ensuring transparency of reports so that they are open to everyone who needs to see them. So you can quickly see that the SD is calling something but the RD isn't, for example.

Making it that simple really helps. **I always tell people to 'Fisher Price' things: make them so simple that a child could use it.**

Barrett Kelly
Global Sales Ops Manager
Exari

Bottom-up approach

The first step to forecasting is deciding what your true goal really is. If you are looking to forecast next year's potential to get more headcount, the forecast approach will be very different to seeing how your quarter will turn out.

The general rule of thumb is to use a bottom-up approach for as long as you have real visibility into.

This means picking out named opportunities and forecasting their value, close date and likelihood. When you have a good grasp on the deals, bottom-up is always better as it doesn't rely on as many assumptions as top-down models do.

It's important to note that forecasting needs to be a real time quick exercise. Meaning that **it should be fairly simple and easy to put together an updated forecast in under 30 minutes**. The only way to do that is to make sure Sales Managers or sellers are updating their deals and forecasts as deals evolve. Adding a new forecasting field to the Salesforce opportunity record is a personal favourite of mine.

Creating a new forecast field on the Salesforce opportunity record makes it very easy for the forecaster to change their viewpoint and export to put into an automated pivot table excel model. To clarify, I'm not talking about the out of the box forecasting field in Salesforce. **I recommend a basic field which includes the following drop down options: "Yes", "Maybe", "Next Quarter", or "No".**
A "Yes" would indicate that the deal is likely to close in the quarter of the selected close date.

Once the data has been exported into excel, it should feed a pivot table backend which then ties to a simple and aesthetically pleasing summary layout. The low-end forecast should be won deals + "Yes" deals, the high end should be low end + "Maybe" deals, and I recommend averaging the low and high ends for a solid middle ground number. **Over time, it will be key to measure accuracy and to see how far out the business has a good feel on what deals will close or not.** This will make it easier to ask questions for future quarters, "No stage 3 new business deal has ever closed 30 days before, so what makes this deal so different that you think it will?".

Top-down approach

Barrett Kelly
Global Sales Ops Manager
Exari

When building a top-down approach, you want to make sure you know the goal. Some examples could be forecasting quarters that you don't have good enough visibility to do a bottom-up, to have a way to sanity check your bottom-up model, or to show next year's sales potential in an effort to get more headcount.

Once you have a goal in mind, the needed assumptions will come easier.

Weighted pipeline

If you want a longer term forecast which can also be used to sanity check, a weighted pipeline works nicely. You will first need to obtain win rates by stage for each deal type (Ex. new business or add-on).

Make sure your win rates are based on enough data but are still relevant. **Don't be afraid to use three different weighted pipeline forecasts either.** A low-end, high-end and mid-point (avg. of low and high) are all useful data points.

Bookings waterfall model

When your goal is getting more headcount, you need to consider the audience first. Are you looking to get approval from your Finance team, CEO or board of directors?

The key thing is to present the forecast in a way that will make sense to them and provide the right level of detail.

Some finance professionals love to know all the detail and how each number was generated, while some CEOs will just want the high-level summary.

Headcount approvals are usually in Q4 for the following year. This is too far out for a bottom-up and top-down in some cases.

With this in mind, I like to use a bookings waterfall model. Simply, a waterfall model will incorporate your team members, their roles, their start dates, typical ramp time for their level, seasonality, quota, quota attainment, and other factors.

The great part of this kind of model is you can add more team members, change start dates, change seniority, ramp etc. to see how the numbers are impacted. Just remember that depending on your ramp time and start dates, some new hires will not have a huge impact on the year you're forecasting.

Summary

In summary, you need to **determine your goal for forecasting** and then **create a great process** to support it. The process needs to be easy, quick and to be as real time as possible. A forecast from two weeks ago isn't very helpful unless you're using it for accuracy analysis. Most importantly, you need to **partner with Sales Management.** Forecasting should not be just your responsibility or theirs. It's a partnership where you can respectfully challenge each other's ideas without causing negative reactions.

Best of luck!

Factors that can affect your forecast

Tom Glason
VP Sales
& Operations
Trussle

Optimism vs. pessimism

Manual weighting needs to be applied based on how optimistic or pessimistic your reps are. For this, I assess how they've performed historically in terms of their forecasts, specifically looking at whether they typically deliver less than their stated commit or more.

New reps

Typically the ratio is fairly constant over time, unless you have several new reps coming into the business, in which case **your pipeline can get bloated and the coverage ratio might increase** while the new reps adjust to your forecasting and refine their ability to qualify deals.

Selling multiple offerings

Matt Magee
Director of Global
Sales Operations
Smarsh

At Smarsh, we capture and archive electronic communications, which enables companies to build trust with their clients. We sell those two services separately from one another or combined in a single solution.

Being curious about how we could dig deeper into understanding our pipeline, it occurred to me that these different solutions will have different sales cycles and behaviours.

So, I decided to figure out a way to segment those and how we analyse that data, enabling us to look at how long it takes to complete a deal of one type versus another and use it to refine our forecast and the ideal composition of our pipeline.

The curiosity question could be: "well, these things must behave differently from each other, right?" Maybe they do; maybe they don't.

Since we're measuring time on all our opportunities, I know now: different solutions move at different rates – one type being measurably faster than another.

Now we can go back to our benchmarks – OK, this is an enterprise deal, a busy client; we know these take longer. It is already Q2 and you have got a deal that is not yet in 'commit' – maybe this should be throwing red flags, right? Well, no; not if we know it is a type that moves faster... We know we're still in the green zone there. Things don't need to be yellow or red yet.

We have a ton of very complicated data. It is important that we simplify this so that it drives directly at what the business and the sales team is trying to accomplish and is easily digestible so that we can make meaningful business decisions from it.

That's where keeping it simple is a benefit. It is easy to get really complicated but does it really change the outcome? And does it really change what you are going to do with the information? If you can come back and the data shows that it does, then maybe you should start measuring it. But if it is negligible to zero, don't measure it; keep it simple.

We have dashboards and reports that highlight when an opportunity may be in danger of slipping or may be forecasted iincorrectly based on this data and it has driven deeper adoption of our methodology and forecast accuracy.

Desk to desk process

Roy Jacques
Managing Director,
UK & EMEA
Appcast

Lots can happen during the course of a sales process. A prospect's business may be sold through an M&A program, but in a standard sales environment, forecast accuracy is typically down to diligence in process and being in control of the deal. **One key area is defined in 'desk to desk' process**. i.e. the physical steps that have to be taken by a prospect to set you up as a supplier, process a contractual agreement, have it signed and delivered back to you.

I have seen rep-called deals pushed out by months because the client's procurement process was not fully understood. **The rep needs to know the process, who is involved in the process and how long each stage of the process is expected to take**. In an ideal world, this will be planned and mutually agreed with the client.

Forecasting periods

Forecasting periods are also important. For example, in a solutions-based business, a rep should be able to give you a 95% accurate forecast within one month but on a 90-day sales cycle, that accuracy will drop considerably three months out.

In scaled businesses with high rep numbers it's a slightly different ball game. The same principles apply: forecast accuracy, variance of forecast, submission to the board etc, but your CRM and adherence to stages and evidence bases need to be more robust. If you have 100 sales reps, they will still have managers who can go through the same due diligence, but the bigger the organisation gets, the more likely there will be variance because now you're measuring optimism and pessimism in all these different channels and across several teams. In this scenario, a CRO would want to click the report button in the CRM and see the forecast. That's the utopia. But to do that you need rigid stages and evidence base.

Nature of the customer

The nature of the customer that's buying from you will affect the process. For example, if you work in an enterprise only team who sell directly to companies who have an established desk to desk process, then the chances are your forecast is going to be good.

But if you're selling through an intermediary, like a channel or agency, you don't have direct control over the budget at the end of that process. It becomes harder to understand the desk to desk process. **I used to add 6 weeks closing time to any 'committed' deal via an agency to avoid the inevitable margin of error.**

Forecasting down: What to cover in a forecasting meeting with your sales reps

Tom Glason
VP Sales & Operations, Trussle

For me, forecasting is done on a Monday. The sales reps input their commit, best case, and most likely outcome into our forecasting tool, which then forms the basis of the forecasting meetings. Generally, we'd expect the figure that's landed on is between the commit and best case.

The majority of companies I've worked at have a monthly cycle with a sales cycle of anything from a couple of days to a couple of months. In these types of cycles it's common for reps to start the month with little certainty of where their sales are going to come from, relying on deals that come in mid-way through the month to hit their target.

The first two weeks of any month can be hard to predict where you're going to land, but I have a couple of methods that help visibility. On the final day of the current month, pipelines need to be cleaned out of any ambiguous deals for the coming month (starting the following day). We only want deals the reps believe have a 50% chance or more of closing. I track over time what percentage of the total pipeline we end up closing each month, which is a measurement I call the **coverage ratio**. For example, if we have an average coverage ratio of 4 over the last few months, and we come into the month with 400k of total deal value that have a close date of that month, I know that we'll probably hit 100k of deals. Of course, deals will slip and other deals will come in, but I'm looking at the trends of that ratio over time. The coverage ratio is a function of push rates to a degree because when you're coming in with 400k and you're only closing 100k, 300k of it has been pushed or closed lost.

New pipeline is where it starts to get interesting, especially if you get a big deal coming in mid-way through the month.

It's helpful to give the reps visibility about their forecasting accuracy. We incorporate a **forecasting heatmap** in the monthly forecasting meeting, where we show each rep how far they were from their day 20 commit. Providing this trend over time enables the reps to become conscious of their biases.

The last two weeks of the month is when the rubber starts hitting the road. At this point I expect our forecasting to be a lot more accurate. This is when I will conduct deal deep dives in a separate pipeline review meeting so we can push out any unlikely deals to ensure we've got a more realistic forecast meeting on Monday.

Forecasting is always tough and fairly fluid, but in the last week of the month we need to have it nailed down as best as we can.

Roy Jacques
Managing Director,
UK & EMEA
Appcast

There is a strand of wisdom that says the accuracy of a sales rep's forecast will tell you everything you need to know about their professional ability. To forecast accurately, you need to have great command over your sales process and your CRM. Combined with achievement against quota, you get a fairly clear picture.

For me, the forecasting meeting is always an individual meeting. Even with a clearly defined process you get natural levels of optimism and pessimism from a sales rep which can skew the forecast.

1:1's are critical touch points between sales leaders and their reps. **It's a time for deal exploration and coaching and should be sacrosanct in your calendar.**

If you want to be truly effective at forecasting, you need to go deal by deal with the rep. Look at the CRM evidence base for the forecast, ask some searching questions and decide if that deal is actually closing this month.

I typically do deal deep dives once per month, with the interposed meetings used to get operating updates. These are great for asking reps to self-reflect on their deals. **Sometimes, taking a step back is progressive**; are we engaged with the decision maker? Is there more than one decision maker? What is the legal process? What are the blockers we might face? (This could be as innocuous as a single legal clause.)

Catherine Mandungu
Director of Sales Operations
Ometria

When meeting with the sales reps, it's all about looking at their pipeline – understanding where the pipeline is, what stages there are, when they think their deals will close, which of those deals they're committing and looking at where the risks are. Based on that we adjust the forecast.

Forecasting can be a powerful enablement tool for sales reps.

If you ask a sales rep to produce a forecast, present it to you and explain their process, it makes them accountable as they start taking full ownership of their number and process. For me, that's the most important part. **An activity to help with this are quarterly business reviews (QBR) for individual sales reps** whereby they deliver a presentation every quarter with an overview of how they performed, their strategy going forward, what they will be pursuing this quarter in order to hit their goal, and whether they have a personal forecast versus the business forecast. **QBRs make the sales reps more accountable, instilling a positive mindset and an enhanced understanding of their pipeline.**

For me, every sales rep is an entrepreneur of their own business. QBRs reinforce this.

In terms of ensuring continuity in defining an opportunity, I tell my sales people that the lead stage is synonymous with the awareness stage. It's all about making the prospect aware of their challenges and how your business can solve them. Once it goes through that stage and they're considering purchasing, it becomes an opportunity.

Robin Yeoman
Director of Sales Ops
Snowflake

My view is that it's actually sales that own forecasting. They're the ones who are really qualifying deals in and out.

Sales ops, in my view, are all about giving the information to sales to say that these are solid deals. **It's about giving them enough information to ensure that the next steps are accurate.**

We're the ones that do the digging and it's very important that if sales ops have been face to face with the customer in a contractual call or I've looked at the structure of the deal and I know what's been going back and forth, I've got a window into that deal that probably a sales manager may not have had.

So I think that's a great insight to how deals are actually flowing up to close won. And I think we as sales ops own all the process piece and the data to back it up.

But ultimately sales own that forecast. Whenever I'm going through calls, I will run the reports, have them set for sales, but I'll expect them to work through deals and call out deals. And if they miss one that I think needs talking about, then I'll bring that up and make them aware. I see sales ops as the sidekick that provides sales with a different angle of all the deals and keeps them on their toes a little bit.

Then it's about cutting out those deals that you're not confident about on a weekly basis so on Monday we're just looking at accurate data. And that comes down to having **clear qualification criteria and an in-depth knowledge of the industry as well**. For example, knowing that with data hungry products there's going to be a legal conversation at the end that will add time to the process.

Barrett Kelly
Global Sales Ops Manager
Exari

Keeping forecasting in the minds of the Sales Managers is very important, so staying up to date on their deals and viewpoints is key. **A weekly forecast meeting with key stakeholders to review current deals works well.** This gives everyone the chance to ask questions and make sure there is no confusion. An example would be, "Sales Manager A, you have deal X forecasted to close in 30 days but it is a new business deal that is still in stage 3. Given our average contracting process, do you truly feel that it is likely?".

Making sure people are accountable to the forecast is very key. This is why Sales Managers need to forecast their own deals, and then be able to defend their reasoning. If not, then the forecast will always just belong to sales ops and Sales Managers will not feel the need to justify a missed forecast because it was not their forecast. The process needs to be a partnership where asking questions and digging into the details is the norm.

Consistently high forecasts can lead to questions such as,

- **Are they not having pricing negotiations early enough?**
- **Have they not made sure that the customer wants that price?**
- **Are they communicating well with other teams?**

We've seen some reps have a really long sales cycle because they're not communicating with other teams, so the other teams aren't helping them as much.

Forecasting up: What to cover in a forecasting meeting with your board

"It's about managing expectations"

Tom Glason
VP Sales & Operations
Trussle

I've experienced varying degrees of scrutiny on the forecast, with some businesses asking at day one of the month and others not until the end of the month.

It's all about managing expectations. I never give a commit to the board, instead I provide worst case and best case, always erring on the side of caution. I will explain the rationale behind the number, citing the historic cover ratio for example, where required.

Roy Jacques
Managing Director, UK & EMEA
Appcast

Remember when I said the accuracy of a sales rep's forecast will tell you everything you need to know about their professional ability?

If you take that up another level to the sales manager, **your accuracy of forecast to the board demonstrates numerical competency, control over process and therefore builds trust in that relationship.**

This type of forecasting meeting depends on the leader that receives the forecast, the structure of the business and how well the CEO understands sales. For a CRO who is genuinely responsible for the revenue of the business, you put forward the number, you are accountable! Your CEO should not need to stress test that number.

There's always a balance between delivering that number and not over-selling it or under-selling it. In the same way that reps are optimistic or pessimistic, sales leaders are the same. You never want to hugely overstate or understate the forecast because that starts to harm your credibility with the board. Basically, no surprises.

There is always an upside and downside risk when you are forecasting month to month. The upside is the handful of deals the reps tell you will come in but you are uncertain of based on what you learned in the 1:1. The downside is where there is a risk in the 'desk to desk' process that might tip you into the next month or deals that are on the fringe of the month end date.

This is where forecast tolerance becomes interesting. If you're happy as a business to accept plus or minus 5%, then anytime you look at the forecast you're regarding it within those brackets.

Separating your pipeline review meeting from your forecast meeting

> "There are so many learning points that you can feed into the forecasting meeting"

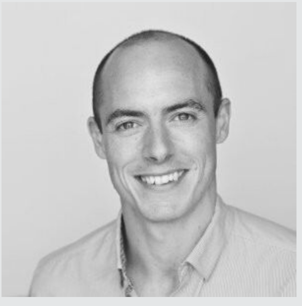
Catherine Mandungu
Director of Sales Operations
Ometria

The pipeline review meeting is a time to discuss individual sales reps' pipeline deals, understanding where they are in the sales process and when they're going to close.

The pipeline review meeting intertwines with the forecasting meeting when you start to understand how certain deals work and how deals in different business segments behave. You then use this intelligence to set up the forecast. **The information gathered from the pipeline review meeting should inform the forecasting meeting**.

The sales process should match the buying process and once you've got the two matched up you will start to see accurate forecasts. That's why these pipeline meetings are so valuable. **There are so many learning points in there that you can feed into the forecast**.

Tom Glason
VP Sales & Operations
Trussle



Deal deep dives normally take place in a separate pipeline review meeting on a Friday, so we can push out any unlikely deals to ensure we've got a more realistic forecast meeting on Monday.

The pipeline review meetings consist of a deal by deal review where I ask typical qualification questions. It's about understanding if there's a critical event, understanding the sign off process, and looking at engagement from the client side.

For example, a rep could have a deal that was supposed to close this month, but we've got a week left of the month and it's been in the same stage for a couple of weeks with no engagement from the economic buyer. At that point, I'd recommend that we remove the deal from the current month and suggest we bring the deal back in if the buyer engages.

Momentum in the deal is critical. If it's an average sized deal that is more than three or four weeks old, we know that based on historical win rates, it's got a slim chance of closing. **That's why I like the idea of incentivising deals to get to certain stages in the pipeline within a certain time frame**. Reps should be focused on creating that momentum and we track average time in each stage of our sales funnel to highlight where rep coaching may be required.

The pipeline reviews are also informed by push rates on individual deals because we know that if a deal gets pushed twice there's 60% less chance of closing.

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Kluster makes forecasting, pipeline management and reporting **simple**, **accurate** and **efficient**.

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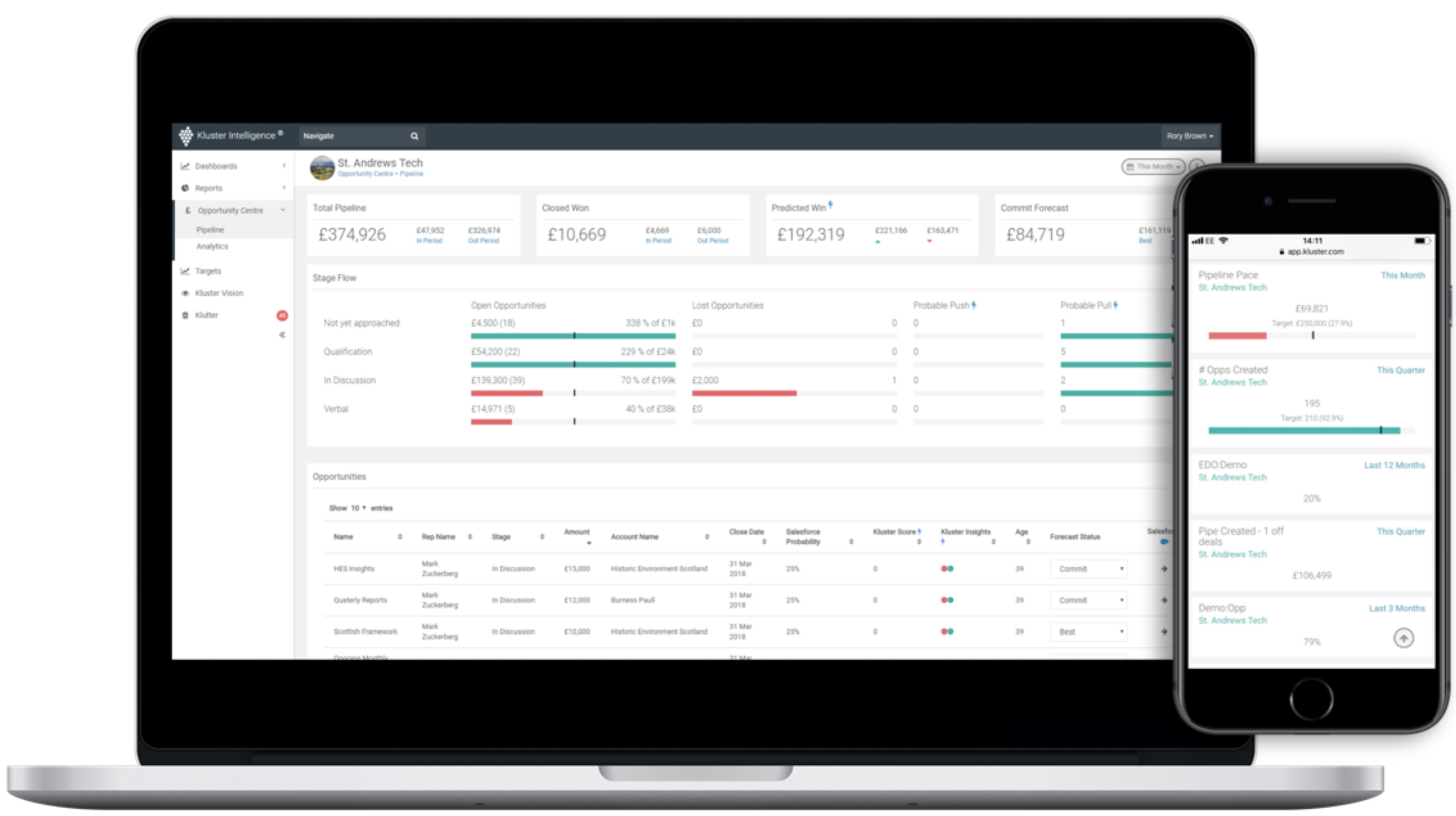

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