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Guide to Improve Accuracy in Forecasting and Pipeline Management

EXECUTIVE SUMMARY

This guide has been developed to help companies with management of top line financial performance.

Sales bookings are the starting point for predictable and sustained revenue performance, and having a consistent forecasting and pipeline process allows executives two main goals:

1. Determining how forecast trends will translate into future bookings and revenue, to support operating plans and investment models.
2. Provide early insight into negative pipeline trends to alter the outcome before it impacts financial performance.

Additionally, forecast and pipeline trends are generally indicative symptoms of potentially deeper challenges and opportunities like:

1. Changes in market dynamics and macro trends, such as:
   - Price erosion
   - Reduced spending in a vertical
   - Saturation of the market or vertical
2. Changes in the competitive landscape
3. Challenges around positioning and messaging of the solution
4. Market perception (or reality) of product quality and performance
5. Geographic and vertical coverage deficiencies or opportunities
6. Changes / Re-evaluation of demand generation activities and strategies

By better understanding what is probable to occur, executives can better allocate their three resources: **Time**, **People**, and **Money**. Without proper forecasting and pipeline management processes, executives are forced to continually look in the rear-view mirror for answers. They can make decisions with more confidence and accuracy, and stay aligned towards an ever-evolving market and customer.

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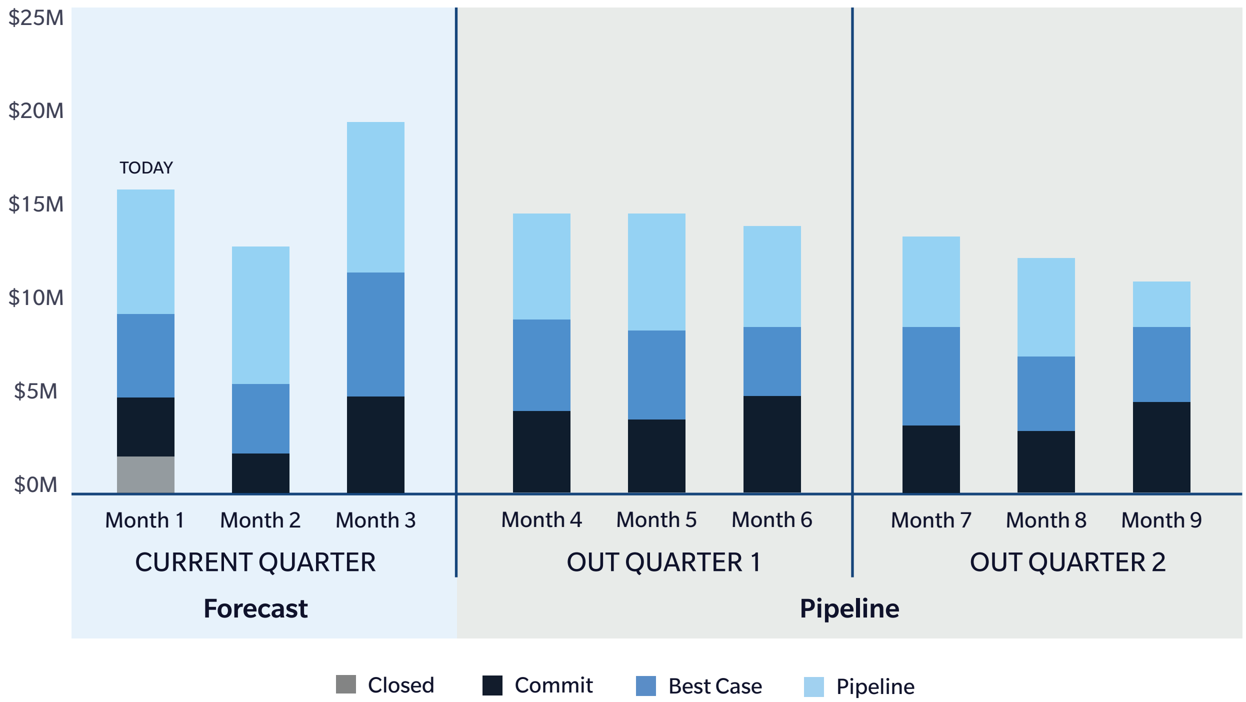
WHAT IS THE DIFFERENCE BETWEEN FORECASTING AND PIPELINE MANAGEMENT?



There are two primary differences between forecasting and pipeline management:

1. Forecasting is focused on **in-quarter** bookings projections, while pipeline is typically focused on **out-quarter** projections.

2. Forecasting in the business-to-business (B2B) space is primarily determined by a rollup of opportunities in each forecast category with the purpose of predicting revenue for that quarter. Pipeline is concerned with "coverage" or the total dollar amount of all opportunities. This is used to understand if there are enough opportunities to hit the plan.

Forecasting

- Provides estimates that help management allocate resources
- Provides a picture of bookings and opportunity health
- Gives Senior leadership the guidance they need to make strategic decisions

Pipeline Management

- Gives management visibility to see opportunities in the distance
- Allows the company to prepare for out-quarter periods
- Enables managers to know if early stage opportunity generation and marketing activities are effective

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FORECASTING - ESTABLISH CONSISTENT DEFINITIONS

To ensure the forecasting process is consistent, it is important to categorize opportunities with uniformity. To do this, establish:

- A defined set of forecast categories
- A set of objective criteria that dictates deal category

Separate sales stage from forecast category. Sales stage defines where a deal is within the sales cycle, not how likely the deal is to close.

Without defined and delineated forecast categories, most companies suffer from inconsistent categorization. What is a “Commit” deal to one sales manager is a “Pipeline” to another. There should also be a formal series of questions to vet opportunities and ensure the forecast category is accurate.

OMIT
Amount that is not counted in the forecast. Customer is extremely early in purchasing process or has indicated they will not purchase in the current quarter. Also used for Losses.

PIPELINE
Open opportunities in the early stages of the sales process with a low probability of converting within the currrent quarter.

BEST CASE
Deals that need several things to go right in order to close within the quarter. Rep has a medium level of confidence these will close, but time or amount may be unsure.

COMMIT
Deals that are expected to close during the quarter based on need, timing, budget, and access to the decision maker, for the dollar amount in the opportunity.

CLOSED
Order received.

SUGGESTED QUESTIONS TO VET OPPORTUNITIES

OMIT	• Has the customer expressed business challenges that our products can solve? • Why Omit and not closed lost? • What must happen for this to turn into a viable opportunity?
PIPELINE	• What are all the client’s explicit challenges with the current state? • Do the key players acknowledge this is a problem worth solving? • Is there a compelling event forcing the customer to purchase a solution by the close date this quarter?
BEST CASE	• What are the decision maker’s required capabilities? • How has this person acknowledged that our solution addresses their required capabilities? • What are the client’s success metrics? • What functional / personal goals does our solution solve? • When is the established decision timeframe for potential solutions?
COMMIT	• Do we know who specifically needs to approve?

SET THE FORECAST CADENCE

Because the goals of forecasting and pipeline management are linked, they should be part of the same process. Top companies develop a cadence with pipeline calls mixed between forecast calls to allow management to keep an eye on the future. Towards the end of the quarter, when the urgency to hit plan increases, companies focus on forecasts. A forecast and pipeline schedule should span all levels of sales, from the SVP to the frontline reps. This communication ensures accuracy and allows managers to provide coaching on crucial opportunities that can make or break the quarter.

Below is a sample quarterly forecast and pipeline call calendar:

FORECAST CALLS
Review in-quarter opportunities and close to plan (60 minutes)

MONTH-END CALLS
Focused on month-end commit deals to drive deals early (60 minutes)

OUT QUARTER PIPELINE CALLS
Review out-quarter coverage to plan to ensure likelihood to hit plan (60 minutes)

DAILY CALLS
Quarter end calls focused on “In and Out” opportunities (30 minutes)

The sequence should be aligned clearly from the bottom up:

- Reps input opportunities in the right forecast category and most likely close date
- Managers inspect their team’s deals and adjust opportunities as needed
- Directors focus on the most important opportunities and remove deal obstacles
- Sales Leaders take the forecasts from RDs, confirms accuracy and likelihood to close then communicates the expected number to company leadership

SET THE FORECAST CALL AGENDA

A strong forecast call consists of four components:

OVERVIEW
Shares the current state of the plan including how the Sales Leader is tracking as well as which sales reps are under/over performing.

DEAL REVIEW
Inspect most critical deals to validate the dollar amount, forecast category and close date.

RISK/REMEDIATION
Evaluate opportunities that look inaccurate. (ie. Opportunities with past due close dates, opportunities with no activity.) This action helps the entire revenue team to maintain data hygiene, create opportunities for coaching and mitigate controllable risks.

SMART ACTIONS
Actions or direction given during a forecast call should be logged and distributed following the call. They should be referenced at the start of every call to close the loop on outstanding activities.

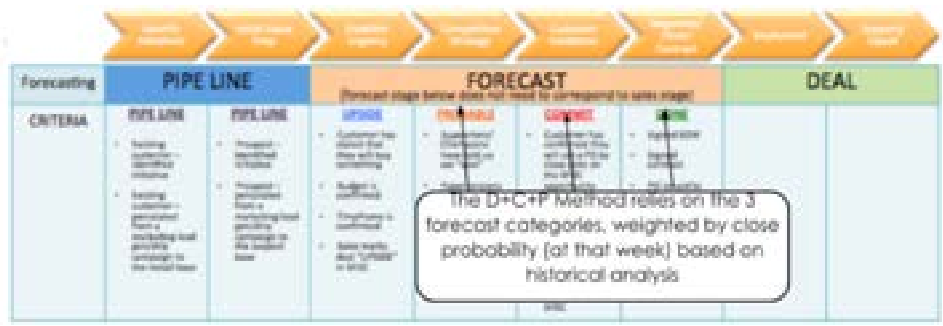
	Forecast Overview	Deal Review	Risks	Actions
WHAT	Review of the core forecast metrics that provide a comprehensive picture of the situation.	Inspection of the most important opportunities, current deal status, and validation of the forecast and pipeline categorization.	Evaluation of elements within a deal that pose significant risks to deal size, closure date, or timeliness.	SMART actions capture and distribute to improve the forecast accuracy and close probability.
WHO	The sales leader of the call is responsible for providing a summary of the current state.	The sales leader is responsible for selecting deals to review. The rep assigned to the opportunity is responsible for answering specific questions about the opportunity.	The sales leader will highlight unseen areas where the deal may slip. The rep will describe deal complications and known risks to the opportunity.	The sales leader will provide activities the rep should complete to reduce likelihood of deal slippage/closure. The rep is responsible for executing them by the assigned date. The scribe is responsible for capturing actions.
WHY	By understanding the current state of sales bookings in the quarter, the team leader can prioritize where time should be focused and which teams need help.	To produce accurate forecasts, leaders need to know the key deals, make sure they are forecasted appropriately, and give advice to increase closure.	DIscussing risks of each deal throughout the quarter allows leadership to provide sales support and mitigate risks in a timely fashion.	Ensure that follow-ups don't fall through the cracks by holding action owners accountable and informing required stakeholders.

APPROACHES TO CALCULATE THE FORECAST

The method below has proven effective for companies with a small number of large deals, a large number of small deals, long sales cycle, or short sales cycle businesses. The method relies on mathematics and learns over time to recognize and account for business patterns.

5 Forecast Data Inputs:

1. **CONVERSION RATE** A percentage based on history that converts from forecast to bookings and/or revenue. In every company, there are critical weeks where this rate will change. The key is to know where that takes place. A lookback at historical data will help identify the key timepoints.
2. **ALGORITHMIC FORECAST** This looks at a week-by-week basis and has a formula that dictates how much business from each forecast category will turn into bookings and revenue. It also takes into account deals that go from forecast to closure in short periods of time. Additionally, it will have a consideration on big deals.
3. **D+C+P** Done (D) + Commit (C) + Probable (P) The total of a subset of the most likely to close forecast classifications.



4. **MANAGER GUT FORECAST** The number that the manager thinks will close based on an assessment of the team's deals and sales rep forecasts.
5. **TEAM ROLLUP FORECAST** This methodology involves a rolled-up calculation from the sales leader's direct reports, based on what they estimate will close – it's a good counterbalance to see if the team leader is more or less optimistic about the forecast than their respective team.
6. **AVERAGE** To emphasize outliers, it is of value to look at the average of all the methodologies and see where it sits in relation to the other methodology results.

	WEEK 1	WEEK 2	...	WEEK 12	WEEK 13 - EOQ
Done	$ -	$ 123,895		$ 5,299,777	$ 7,199,630
Commit	$ 1,867,540	$ 1,929,640		$ 833,999	$ -
Probable	$ 5,678,800	$ 5,186,200		$ 1,756,610	$ -
Upside	$ 9,329,060	$ 7,435,165		$ 1,986,014	$ 923,920
Conversion Rate	$ 6,412,652	$ 6,310,207		$ 7,407,300	$ 6,905,018
Algorithmic	$ 8,085,397	$ 7,416,048		$ 7,780,937	$ 7,430,610
D + C+ P	$ 7,546,340	$ 7,239,735		$ 7,890,386	$ 7,199,630
Manager Gut	$ 7,836,205	$ 7,651,960		$ 7,211,987	$ 7,211,987
Team Rollup	$ 16,875,400	$ 14,674,900		$ 9,876,400	$ 8,123,550
Average	$ 9,351,199	$ 8,658,570		$ 8,033,402	$ 7,374,159

PIPELINE MANAGEMENT – WHAT DOES GOOD LOOK LIKE?

While the majority of B2B sales organizations have a formal forecasting process, many lack pipeline management. This happens because the urgency of the quarter takes precedence over out-quarter pipeline generation. Unfortunately, without pipeline management each quarter has a crisis. Leadership looks at what is currently in-quarter, and puts all hands on deck to generate new opportunities.

A more structured approach is one where management looks at out-quarter pipeline on a regular basis. Marketing, business development and pricing should be included for alignment and input. These sessions should identify potential weak periods and proactively address them.

So, what does a good pipeline program look like?

1. **Promote a Data Hygiene Program**
2. **Set a Pipeline Call Cadence**
3. **Establish and Define the Core Metrics**
4. **Create a Pipeline Review Process**
5. **Use SMART Actions to Increase Close Probability**

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PROMOTE A DATA HYGIENE PROGRAM

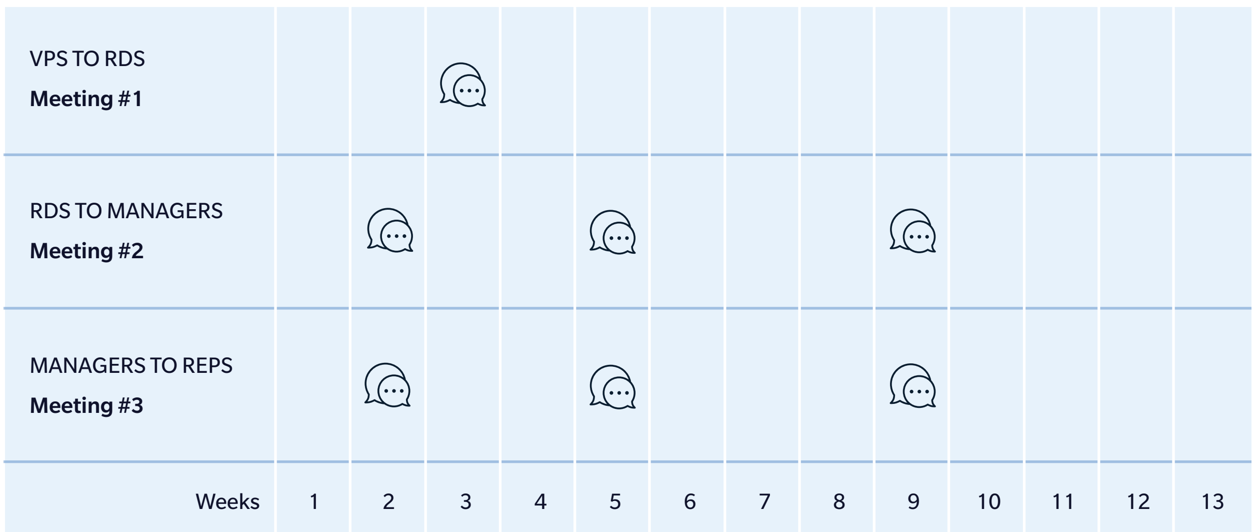
Poor pipeline visibility is often caused by poor training, incorrect incentives, lack of accountability and inconsistent or non-existing definitions. To ensure an accurate pipeline, in addition to addressing pipeline management guidelines, it is helpful to set filters for common errors. Common red-flags:

- Opportunities with ages twice the average sales cycle time
- Opportunities without an activity update for 2 months
- Opportunities with no assigned contact
- Opportunities without a price, product, or sales stage

By identifying opportunities with these errors, leadership and reps can quickly address at risk or already lost opportunities and remove them from the pipeline.

SET A PIPELINE CALL CADENCE

Pipeline management is not a one-time event, it's a habit. Companies have regularly scheduled forecasting calls, so pipeline calls should be no different. They don't need to be as frequent -- we recommend at least 2-3 per quarter to ensure consistent execution. Below is our sample pipeline call sequence from the forecast call cadence presented earlier.



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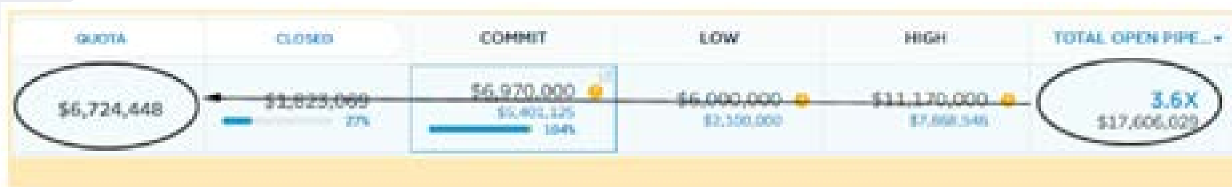
ESTABLISH AND DEFINE THE CORE METRICS

The goal of the pipeline call is to understand your coverage to plan. This is the question that asks "Based on our historical win percentage, do we have enough pipeline to hit our quarterly number?"



Total Pipeline Coverage = Total Pipeline $ / (Quota $ – Closed $)

To answer this, we'll need a series of current and historical metrics to make a projection.

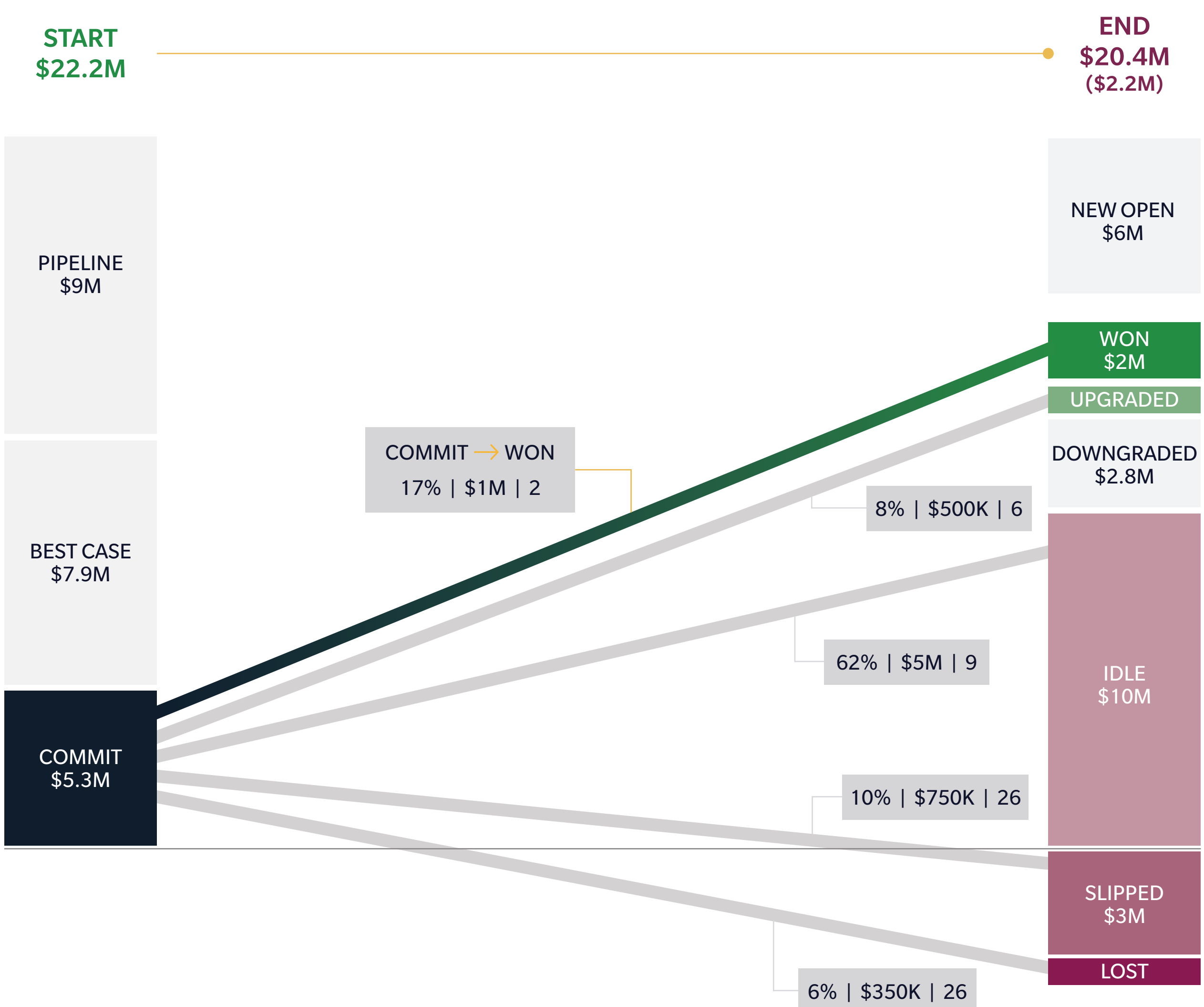
Coverage Ratio	Total Pipeline Dollars / Quota (or Quota – Closed if in-quarter)
Total pipeline # opportunities	Total number of deals in the pipeline at all stages
Total pipeline $	Total number of $ in the pipeline at all stages
Gross opened opportunities	The number of deals opened during the period
Gross opened $	The number of $ opened during the period
Net opened #	The number of deals opened less the number of deals closed during the period
Net opened $	The $ of deals opened less the $ of deals closed during the period
Won #	The number of closed won deals during the period
Won $	The $ amount of won deals during the period
# Won %	Total deals won as a percentage of total deals closed during the period
$ Won %	Total number of closed won $ as a percentage of total $ closed during the period
Average deal size - Created	Average deal size created
Average deal size - Won	Average deal size won
Average age of opportunities	Average amount of time opportunities in the pipeline have been open

The key to a successful pipeline analysis is having a common and consistent set of metrics, KPIs, leading indicators, and thresholds. We have developed a set of tools and best practices that are applicable and easily adaptable to virtually any business. In general, the things you measure are consistent, but depending on deal cycles, number of transactions, and size of transactions, the thresholds and hurdles will change. For example, a company whose target market is The Global 2000 will have lower new opportunity creation than a company targeting the 800,000 on-line retailers in The United States. However, in both cases it is important to measure and monitor the number of opportunities added per quarter, the value of these added opportunities, the number of opportunities closed in the period, the win/loss ratio of those opportunities, and the average age of the opportunities to have a productive pipeline call.

Keep in mind, the story will never be told based on one quarter of data. It must be viewed over time and compared to prior periods. In addition, the data should be compared against each of the other metrics on a regular basis.

For example, let's say that there is a dramatic decline in the number of opportunities created from one quarter to another, but there is little change in the total dollar value of the opportunities created therefore average deal size has gone up significantly. It's worth further examination. In this case, the company made a conscious decision to go upmarket to larger clients, so the number of deals dropped, but the size of the deals went up.

Finally – deal flow should be considered. Deal flow defines how deals typically move that are forecasting within a given quarter. Based on the % of deals closed and run-rate business we can expect, we can confidently predict whether we'll have enough opportunities to hit plan.



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CREATE A PIPELINE REVIEW PROCESS

Without a strong process, pipeline calls revert to a forecast call. Pipeline calls SHOULD NOT address deals, their probability of closing, or activities of sales reps. Here's what a good sequence for a Pipeline Call looks like:

- **PIPELINE CHANGE FROM THE PREVIOUS CALL** How has our pipeline increased or decreased since the last call? Did it go up in a significant amount to prepare us to hit our number? Use the metrics you have defined and tracked to understand your net change in dollars.
- **OPPORTUNITIES CREATED** How many opportunities were created? Which parties created them (Sales, Marketing, BDRs)? Are we depending on 1-2 big deals or a more consistent batch of small deals?
- **PIPELINE BY STAGE** What are the dollar amounts for each forecast category? Is the mix healthy with lots of Commit? Or lower level early-stage deals?
- **PIPELINE MULTIPLIER (PIPELINE / (QUOTA – CLOSED DEALS))** Based on our historical win rate, will we hit the number? (E.G. An organization with a 33% win rate would need 3x pipeline coverage, at minimum)
- **MARKETING AND SALES PROSPECTING EFFORTS** What has marketing done to help us with pipeline coverage? What has our team generated through self-sourced efforts?

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CONCLUDE WITH DIRECTION AND ACTIONS

Forecast calls are concluded with a recap of actions, and so should pipeline calls. The purpose of a pipeline call is to drive behavior. A rep is light in their coverage ratio? There should be an action to re-focus on prospecting activities. One large make-or-break deal within a territory? Actions should be given to maximize the change of closure. The purpose of the call is not to "report the news" but to mitigate risk and capitalize on opportunities.

These action items should be distributed at the close with owners, dates and activity. During the next pipeline call, the previous activities should be reviewed to ensure completion. Pipeline calls are only valuable if the direction is acted upon.

CONCLUSION

Pipeline management is a critical element of planning that few organizations do well. It requires the discipline of multiple departments – Sales, Marketing, Pricing, Business Development, Product – to execute with an eye on the horizon. Without Pipeline Management, organizations engage in the Sisyphean exercise of chasing the quarter-end number. When you can see a problem out of quarter, it gives you more time to react and prevent the miss.

Forecasting and pipeline management isn't a "super-forecasting" exercise that requires an advanced degree. Like many business processes, it is the combination of established definitions, routine, metrics, data, and accountability to create trust and confidence. Through well executed Forecasting and pipeline management you'll have more confidence in your plan as well as the time to alter course and re-allocate resources.

Forecasting and pipeline calls should be considered vital to any B2B sales organization interested in controlling their destiny. They require the vision to create and a commitment to consistent execution. One of the highest compliments a CEOs can pay a colleague is to "have complete command of the business". Sales leaders with well-honed forecast and pipeline processes do.

SALES PIPELINE PROCESS CHECKLIST

		YES/NO
OPPORTUNITY AND FORECAST DEFINITION	We have standardized definitions for forecast stages and exit criteria for all sales stages.	
	Management vets forecast and sales stages using an objective list of questions to understand potential to close.	
	Our reps can clearly articulate each forecast and sales stage definition across regions and business units.	
DATA HYGIENE	Our sales team reviews and updates their opportunities on a weekly basis	
	We have reports that flag aged / neglected opportunities.	
	Our managers routinely inspect out-quarter opportunities for quality.	
	We update / eliminate fields and use the right field categories to eliminate erroneous opportunity entry.	
CADENCE	We schedule out-quarter pipeline call cadence every quarter.	
	Every level of our sales organization participates in pipeline calls.	
	We have top-of-funnel participants attend our pipeline call (marketing, business development, etc).	
	We conduct at least 3 pipeline calls per quarter.	
PIPELINE PROCESS	We consistently review our overall coverage ratio based on our historical win % to ensure we have a path to plan.	
	We inspect pipeline by forecast category to ensure we have a healthy mix of commit, best case, and upside deals.	
	We review net new opportunities created, and inspect any opportunities that represent a substantial portion of pipeline.	
	We distribute action items with owners, activities and dates, and follow up on these activities on subsequent calls.	

SALES OPERATIONS CHECKLIST TO BEST PRACTICE

Answer the following questions with a Yes or No:

1. Sales Operations has a clear charter and is viewed as a key strategic function within the sales organization.
2. The Sales Operations team has a clear annual planning rhythm which provides coverage / territory data / headcount recommendations and compensation plans before the new year starts.
3. You have a data management plan and reporting structure that provides actionable insights to sales leadership on a regular basis.
4. Sales dashboards are embedded into your CRM system and have been created using live data feeds.
5. You follow a disciplined process for managing and reporting sales pipeline status.
6. You follow a disciplined process for managing and reporting sales forecast status.
7. A deal desk has been established where sales management can develop and execute win strategies customized for individual accounts.
8. You measure selling time and you've seen an increase as you shifted non-selling activities off of sales individuals.
9. Sales leadership has confidence in your forecast accuracy rate which enables better decision-making.
10. You have a reliable quote-to-revenue process (includes sales, ops, finance, legal, etc.)

Score (Out of 10):

If you are >8, you are well on your way to having the best in class. If you are below 8, then identify and prioritize items that you should work with to get alignment between the operations and sales team.

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