



Thriving in a Hostile Environment

Beachgrass Consulting

Sales Forecasting

Many companies request their sales people to produce regularly sales forecasts. In most of these companies, these forecasts are not used to plan production. Why then do sales people have to make forecasts?

In field operations, sales forecasts have 4 distinct objectives, even though they are not all recognized by sales managers:

- 1- They force the sales people to review its sales funnel, to ponder what to do next to ensure sales materialize; in short, **forecasts are sales dashboard dials**.
- 2- They are used to **manage finance** at the field level [working capital planning, foreign exchange needs] and to provide management with inputs for its decision-making.
- 3- Sometimes, they are used for finished goods **inventory management**.
- 4- If they are discussed in group meetings, they foster a **team spirit** among sales people and provide management with market insights.

So, why are not they used by production? Usually this is because of their poor reliability. Production people need forecasts for 3-6 months down the line, as they have to take into account the time their suppliers need to deliver to the factory, the time of production cycle, the time to transfer the finished goods to the sales warehouses around the world. Today in manufacturing, most often all these times add up to 3 to 6 months. Usually sales forecasts from the field are not very reliable beyond a month or two.

Then why are sales forecasts so important? Studies indicate that **an average forecast error of $\pm 5\%$ costs 1% of revenues in profit and 2% in lost opportunities**. A forecast with a 5%-average error is a very reliable forecast!

What to do to **improve the forecast reliability**?

The first thing to do is to collect reliable raw data from the sales people. Unfortunately, most companies consider the sales forecasts as personal commitments of sales people. As a consequence of this, sales people manipulate their forecasts, yielding poor forecast reliability. Hence management should stop using forecasts against their sales people, if they want to produce reliable sales forecasts. Management should only ask for funnel data: **values and positions in funnel**, and assign to someone outside the sales force the responsibility to produce a sales forecast. Armed with these data, using empirical and mathematical models, this person can develop a sales forecast, the reliability of which she/he can improve with experience.

Finally, to induce sales people to provide good raw data, management should **use such data to improve the sales skills of its sales force**. Is this sales person good at qualifying deals, but rather inefficient at closing them? Or does this other one waste too much time prospecting unpromising deals? Why it is so that this third one closes his/her deals faster than all the others? When sales people understand that providing reliable, trustworthy data helps them become better sales persons, they provide very good data and forecasts become quickly more reliable.

