

 QUARTER ONE

How to create the ultimate sales forecast

Everything you need to create and understand your sales forecast





Introduction

Creating an accurate and reliable sales forecast can be a daunting and time consuming process, do you agree?

Being able to estimate the future sales for your business is key to its success and growth –so why do we often struggle with this process?

To help, we've put together a complete guide on the how, what and why of salesforecasting, which will hopefully help improve the way your business creates a sales forecast– for the better!



Why does sales forecasting matter?

Reliable sales forecasts help your business to plan ahead financially and play an important role in other key areas of your business, including:



Budget Tracking

The sales number is often the most important figure in a business's budget. Reliable sales forecasts help businesses ensure they are keeping on track to achieve growth and/or profit.



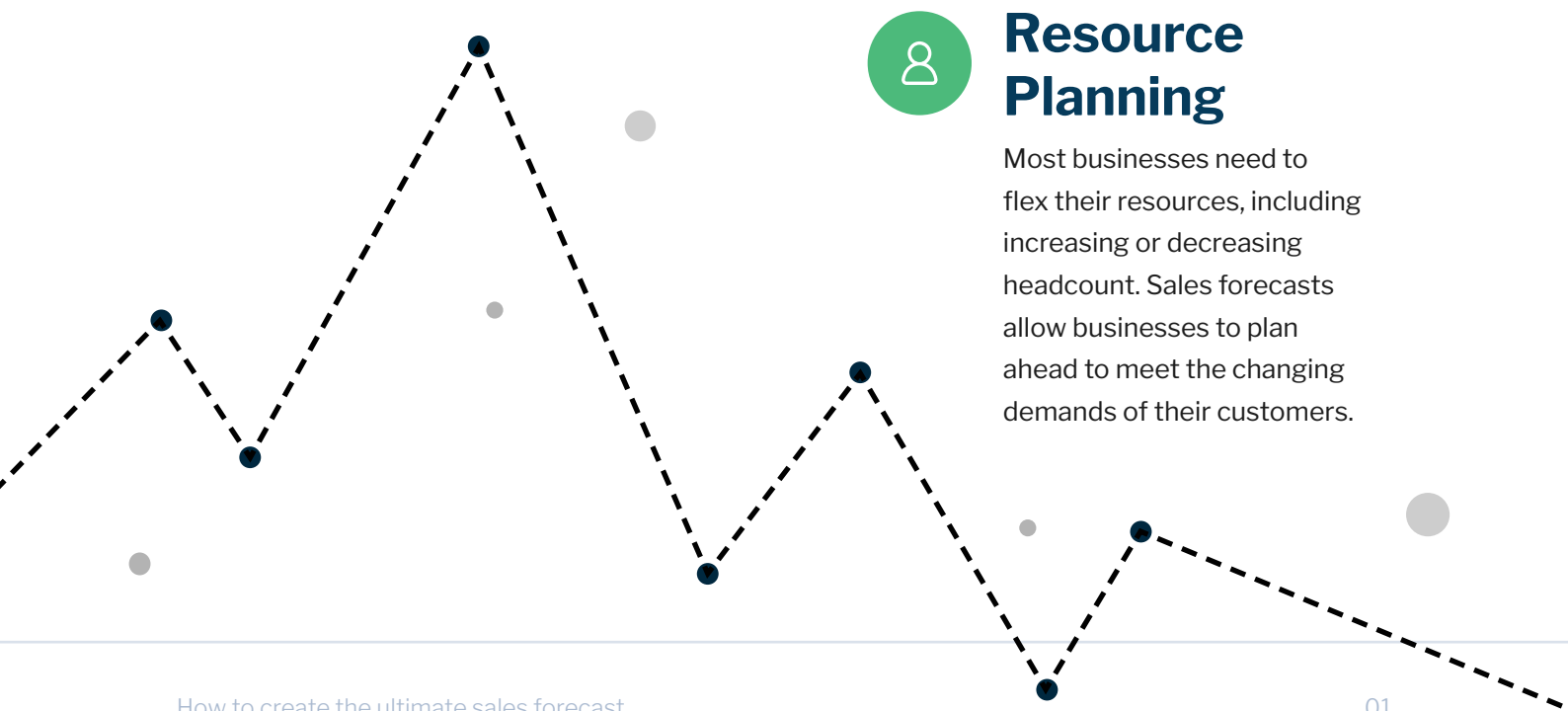
Cash-flow Planning

Sales forecasts are used to make sure businesses have sufficient and timely cash inflows from their customers.



Resource Planning

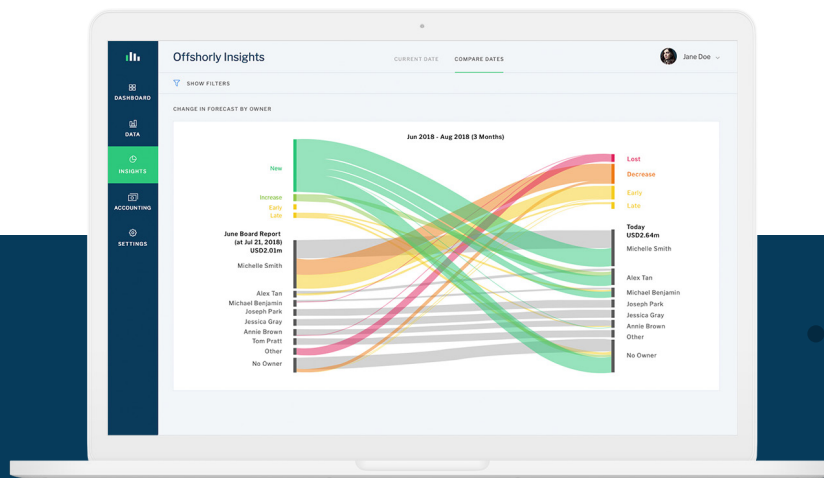
Most businesses need to flex their resources, including increasing or decreasing headcount. Sales forecasts allow businesses to plan ahead to meet the changing demands of their customers.





Sales Forecasting Methods

There are a few different approaches to sales forecasting which depend on how you want to build your forecast:



Historic Forecasting

Based only on your past sales data

Basic Pipeline Forecasting

Based on only raw data taken straight from your sales pipeline

Enhanced Pipeline Forecasting

A combination of both, where data is collated from different sources and combined to make one report.



Historical Forecasting

Historical Forecasting is where future sales forecasts are extrapolated from historic sales performance. In its simplest form this would be taking the sales for the previous month and applying a +/-% variance.



Suitable for:

This is for you if you're a high volume transactional business with predictable income streams or if you're a business without a sales pipeline (e.g. cash retailer).

Things to consider:

If your business varies a lot month-to-month or you're worried about the next 3-6 months, then this method almost certainly isn't for you.

Ultimately, historical demand should be used as a benchmark rather than the foundation of a sales forecast.

Pros

- + Quick and simple method that can be updated relatively easily.
- + Easy to incorporate seasonal trends.
- + Easy to create annual forecasts (rather than monthly or quarterly).

Cons

- Only suitable for established businesses with predictable revenue streams.
- Won't work for new, fast growing or project-based businesses with a significant one-off income.
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Basic Pipeline Forecasting

Basic Pipeline Forecasting is the processing of forecasting from a business' raw sales pipeline.

In its simplest form, this would be a list of deals under negotiation with customers and prospective customers.



Suitable for:

Businesses using a CRM that are solely focused on the next 1-3 months of sales and don't need projections going further out.

If you track your business' sales pipeline in a CRM and only care about the next 3 months, then this is probably the approach for you. If you'd also like to look beyond 3-months, then look at Enhanced Pipeline forecasting method below.

Pros

- + Provides granular forecast data, which can be integrated and sense checked.
- + Better for business's with lots of monthly variances or with business's with project and one-off income.
- + Same data can be used for sales team management – e.g. tracking projected team performance against targets

Cons

- Rarely effective for long-term (post 6 months) forecasting.
- Requires reliable and up-to-date data, which can be time consuming to update.
- Probability weighting assumptions can be complex to calculate from scratch.



Enhanced Pipeline Forecasting

Enhanced Pipeline Forecasting combines basic pipeline forecasting with intelligent sales velocity modelling to extend forecast predictions beyond the immediate pipeline and improve the level of accuracy.



Suitable for:

All businesses using a CRM that would like reliable long and short term forecasts.

If you have a sales team and really care about forecasts, try out **QuarterOne's enhanced pipeline forecasting** today. It takes less than 4 minutes to get started.

Pros

- + All the advantages as Basic Pipeline Forecasting; plus:
- + It produces long-term forecasts beyond the immediate sales pipeline.
- + Incorporate sales velocity metrics into calculation.

Cons

- Requires up-to-date CRM pipeline data, although the QuarterOne app also includes a suite of automated reports to make this as painless as possible.



What next?

There are a few other things to consider when creating the ultimate sales forecast, such as sales velocity, sales team management and sales process.



The four key measures of sales velocity are:

Understand your sales velocity

Sales velocity is the measure of how quickly your business is winning new deals. A higher sales velocity means you're bringing in more revenue in less time.

The quicker you can grow your pipeline and convert prospects into paying customers, the more successful your business will be. Yet, sales velocity is often overlooked by businesses and rarely incorporated into sales forecasts.

Understanding sales velocity will not only improve your sales forecasting, but will also help you determine how your business's sales process can be optimised. If you ignore sales velocity and just focus on keeping your pipeline full, you'll have tons of prospects, but they'll take longer to close and you'll potentially spend too much time on low value deals.

Once you start measuring sales velocity you'll have the data and insights necessary to optimize your sales process from start to finish.

Number of deals

1

how many new prospects your business is adding to the pipeline each month.

Average time to close

2

how many days it take for prospects to move through your sales stages.

Average deal size

3

the average value of a sale.

Win rate

4

how many of your prospects convert into paying customers over a given period. Calculating these metrics can be tricky and they are rarely available in CRM reporting suites.



Effective sales team management

Sales forecasts are only as good as data you get from your sales team. Effective sales forecasting requires effective sales management, good data and timely sales reports.

Create a well-defined sales process

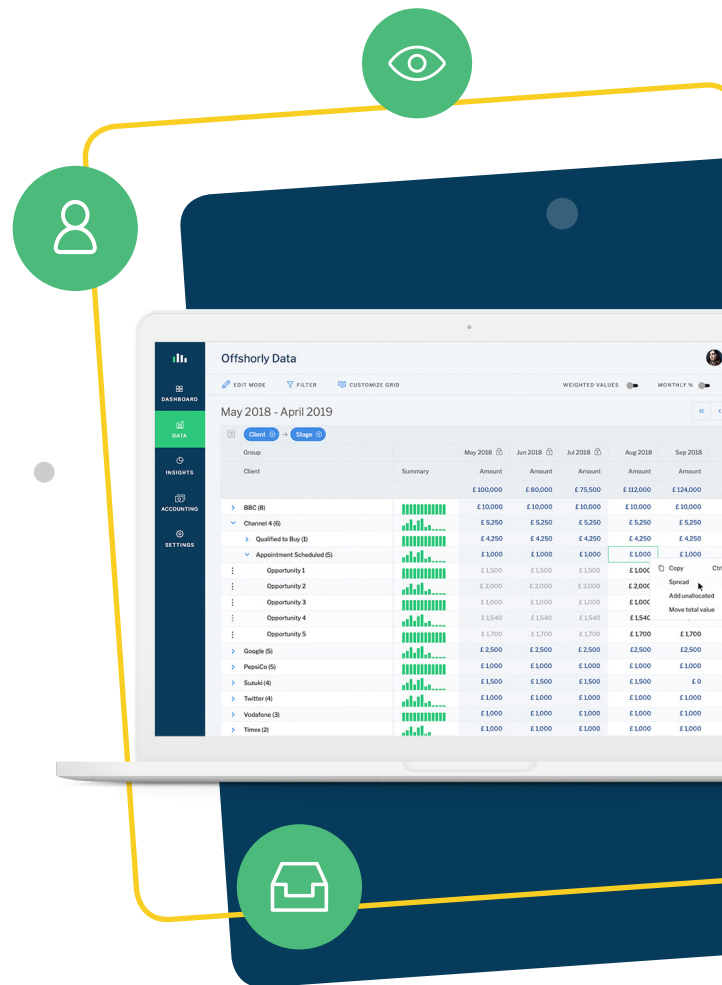
Part of what makes an effective sales manager is knowing the process of the sale: how many interactions with customers it takes to close a deal and how long a deal should be in the sales pipeline. It's essential to create well defined definitions of your sales cycle stages.

Everyone in your team needs to agree about when to add and remove deals from your pipeline. If your sales reps aren't consistently using the same stages and steps, you won't be able to predict the likelihood of a deal closing.

Establish clear accountability

Each member of the sales team must take responsibility to maintain their own sales pipeline. The most effective way to establish accountability within your team is to create clear, timely and transparent sales reports that are shared across the team and senior management.

Keep the reporting to the point and consistent, ensuring team activities are compared to targets where possible. Send reports via automated emails and embed the key insights and sales KPIs in the email text as well as in attachments.





Get the right tools

Reliable sales forecasts need up-to-date data. Good data comes from adopting software that your team enjoy using. A CRM provides a robust database for sales reps to document sales pipeline activities in a single-place.

There are loads of great CRMs on the market, but make sure your sales team really like the user interface and experience – otherwise you'll end up with an expensive database no one actually uses.

CRMs are great at capturing sales data, but they aren't built for sales forecasting.

- **By connecting your CRM to QuarterOne, you can automate the process of transforming your sales pipeline into an instant, meaningful sales forecast you can trust.**

If you're not quite ready to use QuarterOne, it's possible to achieve similar results in Excel, but be prepared to spend a lot of time fiddling with exports from your CRM every week.

Sign up for a free trial

If you would like more information on sales forecasting and to find out how QuarterOne can help you create your ultimate sales forecast, please get in touch:

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🌐 www.quarterone.com