

Sales Forecasting: How Much Business Will You Close In The Year Ahead?

You don't need to hire a psychic to see into the future. You don't need a crystal ball. And you don't have to "guesstimate," either. You need a structured way to answer this question on **Sales Forecasting: How Much Business Will You Close In The Year Ahead?**

You're talking with a major prospect about a deal that could be worth \$50,000. What is the value of that prospect? Many people would answer "\$50,000." True, that is the "potential," but it is not a realistic assessment of the "expected value." The difference lies in the probability of close.

Here is a way to place a value on that prospect that includes the element of probability:

Start by defining the key steps in your sales process

A simple sales cycle might include:

- Initial sales call
- Formal presentation
- Demonstration
- Proposal

Determine the probability of close at each key step

This is based entirely upon the results of prior sales campaigns. For example, if 1/3 of the prospects who reached the demo stage have historically ended up buying, your probability at that step is 33%. Your chart of sales steps would then look like this:

- Initial sales call -- 10%
- Formal presentation -- 20%
- Demonstration -- 33%
- Proposal -- 60%

Most salespeople intuitively feel the probabilities at each step should be higher than that. The buyer might be gushing with excitement after the first call, so the salesperson feels the sale is in the bag. But by using historical numbers, rather than looking at how individual prospects feel, you end up with more conservative -- and likely more realistic -- average numbers.

Calculate the current value of each prospect

For each prospect, multiply the potential value of the deal by the probability associated with the most recent sales step.

Example: If you have just completed a formal presentation to your \$50,000 prospect, but the demo is not yet scheduled, the current value of that prospect is $\$50,000 \times 20\% =$

\$10,000. Once the demo is successfully completed, the expected value rises to \$50,000 x 33% = \$16,500.

The key to making these forecasts accurate, of course, is having detailed records of prior sales campaigns from which to build your probability numbers. You will need to establish separate sets of steps and associated probabilities for:

- Different product lines or market segments
- Different price points
- Direct sales vs. reseller sales
- Initial sales vs. add-on sales

Building A Realistic Sales Forecast

The next step is to combine the values of all of your prospects to create a total sales forecast. This involves three steps:

1. Total the expected values of all prospects

The chart below shows a forecast based upon four prospects:

Prospect Name	Potential Value	Probability of Close	Expected Value
Account A	50,000	33%	16,500
Account B	12,000	60%	7,200
Account C	61,000	10%	6,100
Account D	32,000	20%	6,400
Total Forecast			\$36,200

Note that the total forecast is considerably less than the \$155,000 in sales that would be achieved if all of these prospects closed, but it gives a much more realistic view of what is likely to happen.

Create this same chart on a weekly basis, and you'll quickly see whether:

- Your total sales forecast is sufficient to meet your plan.
- Your projection of sales is growing or declining; that is, your sales pipeline is becoming more or less full.

2. Add a closing time frame to each prospect

This is the most challenging part of any sales forecast. In general, prospects buy much later than they say they will, so you have to take their projections, and those of your salespeople, with a grain of salt.

As with the closing percentages you assign to each sales step, it is best to use historical data to determine how long the typical prospect takes to move from each step to the

buying decision: A prospect who receives your proposal takes X weeks, on average, to reach a decision.

Here is a table for the same four prospects as above, with their expected values spread over three months, reflecting projected closing dates:

Prospect Name	Expected Month 1	Expected Month 2	Expected Month 3
Account A	-	16,500	-
Account B	7,200	-	-
Account C	-	-	6,100
Account D	-	6,400	-
Totals	\$7,200	\$22,900	\$6,100

Adding time frames to the forecast gives you a clearer view of sales peaks and valleys. This may indicate a need to pour extra effort into certain prospects to close them sooner.

3. Extrapolate from the known to the unknown

The preceding steps give you a month-by-month forecast of business to be sold. But because it is based solely on known prospects, it results in a forecast showing a steady decline in sales over future periods. For your long-term forecast, you need to project from the near-term periods:

- Are you seeing a pattern of rising, declining or flat sales?
- What changes must you make to your team's sales activity to refill the prospect pipeline for future periods?

Planning For Increasing Sales In The Future

How much sales growth is possible for your company to achieve next year? For some companies, this number is derived from a thorough examination of the potential market. For most companies, it is more of an abstract goal: "We will grow sales by 25% in the year ahead."

Regardless of the method used to set your company's sales growth plan, the difference between achieving that plan and missing it depends upon how ready your organization is to address next year's sales opportunities.

As you plan for the year ahead, three factors will have the greatest impact on your results:

1. The market and competition

Your previous sales took place in a particular business climate. This year, do you expect to have a new market advantage that you didn't have in the past year? Or do you expect additional competitive activity, making your sales job more difficult?

What about pricing? Will the marketplace allow you to hold, or even raise, your prices? Or will the value of the average sale go down?

If the marketplace will not allow you to achieve your planned rate of revenue growth, you may need to:

- Add new products to your line.
- Develop add-ons and enhancements of current products to raise their total selling price.
- Enter new market niches.

2. The readiness of your sales team

In general, seasoned salespeople sell more than new staff does. They know your product line, your industry and the competition. Much of your sales results next year will depend upon the collective seniority of your sales team.

History will tell you the average annual sales of someone who has been with you for three months, a year or three years. It will also tell you how long it takes a new hire to begin producing. As you make your projections:

- Set a sales forecast for each salesperson based upon their likely individual performance, taking into account their experience with your company and prior track record.
- If the total of these individual forecasts is not enough to achieve your plan, consider what you must do in terms of sales skills development, hiring more people or opening new reseller channels.

3. Your sales support infrastructure

Sales growth places a strain on your entire organization: Product development people spend more time with major prospects, managers spend more time at trade shows and conferences, and more help is needed to respond to prospect inquiries.

Take a close look at every step in your selling cycle to determine the dollars and man-hours that go into each sale. Make sure you have the resources in place to handle the growing requirements of your sales team:

- CRM systems and other IT support
- Sales training
- Technical sales support
- Phone, trade show, mail and e-mail lead handling
- Literature development and fulfillment
- Proposal writing
- Customer service and other post-sale support

By looking at every element that affects your company's sales and using past performance to gauge this year's sales, your sales forecasting method can be more realistic and point your team in the direction of growth.