

THE SALES FORECAST: TOP 4 BARRIERS TO SALES TEAM ACCURACY

LEARN WHAT PREVENTS YOUR SALES TEAM FROM
CONTRIBUTING TO TRUSTWORTHY DEMAND FORECASTS

A **VANGUARD SOFTWARE** WHITE PAPER

Companies have long struggled with how to include sales team insights into their operations forecasts. The potential benefits are great— Sales has unique insights into rising trends, market shifts, and new competitors. They are the ones on the ground speaking with current and potential clients on a daily basis. Without their market intelligence, companies become blind to the opportunities and threats brought on by rapidly changing markets.

Forecasts from Sales, however, are often inaccurate or incomplete. In this white paper, we discuss the cultural and structural barriers that prevent Sales from providing accurate information. Companies can resolve most of these issues by allowing forecasters and Sales to focus on their areas of expertise. We detail the cause of each barrier and how to overcome these barriers based on our decades of experience helping companies create forecasts they can trust. Learn what barriers are keeping your company from staying ahead of the competition.

BARRIER #1: ASKING FOR THE WRONG INFORMATION



The meaning of “forecast” and “forecast accuracy” often differs depending on whether you’re speaking to Sales, Operations, Marketing, Finance, or others. With so many possible definitions, it’s easy to inadvertently request information from Sales that proves more detrimental than helpful for forecasts.

There are two forecast types: judgment-based (e.g. “gut feel”) and quantitative (e.g. statistics). The most trustworthy forecasts combine both methods to support their strengths and mitigate their weaknesses.

Forecasts from Sales are primarily judgment-based forecasts. Sales examines their pipeline, estimates the value of potential deals, and assigns a probability of closing. These estimates are sometimes done with CRMs and lead scoring tools, but all methods require an individual sales person asking, “What’s the likelihood of this sale closing?” The sales forecast is, in essence, a combination of educated guesses. This approach works well for sales management— they get a good sense of the sales pipeline and can oversee their staff.

Operations, however, needs forecasts that are far more precise right down to the unit level. It is very challenging to push Sales towards this precision because of the nature of judgment forecasts. Judgment forecasts are prone to biases that fluctuate with time, day, recent experiences, and more. Bias undercuts accuracy.

Biases common to judgment forecasts

Forecast Types	
	
<p>Judgment Forecasting</p> <p>Intuition and experience. Not ideal for discerning trends and patterns in large data sets. Best for responding to sudden demand shifts.</p>	<p>Quantitative Forecasting</p> <p>Statistical analysis of past trends and patterns. By nature, slow to respond to demand shifts. Best for large data sets.</p>

Forecast Bias	Description
Motivational bias	If the forecast results in particular rewards (financial, political, professional pride, etc.), the individual will be motivated to adjust the forecast to achieve the rewards. See Barrier #2 for more details.

Forecast Bias	Description
Memory bias	People tend to overestimate the power of events that they best remember. For example, if two clients really hated a certain product within the same time frame, the team might believe this means the product is doomed though 90% of total clients are happy.
Correlation bias	A team might incorrectly believe that a factor that correlated with a product's success or failure caused that success or failure. For example, a new color is given credit for improved sales, but improved sales were actually the result of a random fluctuation.
Confidence bias	Top sales people are particularly prone to this bias because, by nature, they are resilient in the face of rejection. This optimism is a great quality given how often a sales person is told "no." It is the key to sales success. This confidence, on the other hand, causes sales people to overestimate their close rate.

Companies, in asking for Sales contribution to forecasts, often are asking for judgment forecasts. Asking Sales for every SKU, only priority SKUs, or adjustments/overrides of baseline forecasts, etc. are all essentially asking for judgment forecasts. Changing the number or manner of forecasts that Sales must contribute does not change the essential judgment forecasting process Sales uses. Individual biases can accumulate, causing inaccuracies.

LEARN THE SOLUTION TO THIS BARRIER ON PAGE 4

SOLUTION

TO BARRIER #1: ASKING FOR THE WRONG INFORMATION

For accurate demand forecasting, we recommend relying primarily on quantitative forecasting methods. Statistical forecasting is typically far more accurate than judgment forecasts. It can find trends and patterns otherwise difficult to detect within the data noise. Statistical forecasting can also shorten the forecast cycle. As a result, the sales team—unless they’re made up of statistics experts—is not the ideal choice to “own” a forecast within the demand planning process.

Sales teams can contribute best to forecasts by stepping in where statistical tools fail: sudden demand change. Statistical forecasts, by nature, react very slowly to demand change. They are based on, to different extents, averages. Moving an average takes multiple periods. For most modern companies, this is not fast enough to remain competitive.

Sudden demand change includes the entrance, exit, expansion, or contraction of new and current clients. Competitor entrance and exit also impacts sales. Your sales team will often know this information. Additionally, they will also know of incoming large orders or cancellations which have not yet been inputted into the data systems. You will want this information in your demand forecast.

To collect sudden demand change data from your sales force, it’s best to keep the process as simple as possible. A complicated process acts as a barrier to adoption. Ideally, individual sales members can fill out a form that lists SKUs by their specific customers (sales people think in terms of their personal clients). They should input only related demand changes—no more, no less. No special knowledge of coding should be required. A simple, straightforward input of unit increases or decreases on expected changes is best. See the screenshot for an example input screen used in Vanguard Forecast Server.

	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Average	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep
MANUFACTURING CORP - VA	0	0	0	0	0	0						
MANUFACTURING CORP - GA	0	0	0	0	0	0						
MANUFACTURING CORP - TX		600	0	0	0	150						
ACME CORP - GA		600	0	0	0	150						
ALLIED DISTRIBUTION - GA	0	0	0	0	400	80						
SAMPLE INC - NC	0	0	0	0	0	0						
CAROLINA GIFTS - NC	605	330	275	275	330	363			900	900	900	
MORTH CENTRAL INC - VA				600	490	545						
GLOBEX INC - VA					0	0						
GLOBEX INC - GA	0	0	0	0	0	0						
GLOBEX INC - TX	175	400	440	0	0	203						
TECH EXP CORP - NC	350	275	360	250	150	277						
WAYLAN DIST - NC	670	775	900	425	550	664						

Screenshot from Forecast Server: Sales staff can decide to view their clients by SKU or SKUs by client. In this example, the sales person is viewing clients by SKU 100. They can see historic demand, average demand, and type in major demand changes. After speaking with contacts at Carolina Gifts, Inc, this sales person knows they’re planning to expand and will need 900 units of SKU 100. He inputs the data into his sales table. The software automatically adds this new information into the forecast using calculations that avoid double-counting (some demand changes were already predicted) and that weights the changes’ importance. The software also similarly updates interdependent items. Managers can later go back and examine Sam’s accuracy over time and make decisions about whether or not to adjust his individual contributions.

After the sales staff inputs these changes, the baseline forecast can adjust accordingly either through an automated system or through manual efforts by a forecaster. Be sure that the new demand data is separated from the baseline forecast and given greater weight. Otherwise, the new data will get averaged in and you lose the ability to see and respond to a sudden demand change.

Many software packages will allow sales staff to directly create adjustments and overrides to baseline forecasts, but the temptation to create adjustments beyond known demand changes is too strong and, moreover, difficult to track or roll back. The data is also averaged in, making it less useful for detecting big changes. Access to the baseline forecast to test what-if scenarios works well for the sales and operations planning process (S&OP) or at another step, but can lead to judgment forecasting during data collection.

BARRIER #2: MOTIVATING SALES TO GIVE INACCURATE FORECASTS

Companies often unknowingly create processes that motivate Sales to under- or over-forecast. This occurs whenever companies treat forecasts and plans interchangeably. A forecast should be an independent measure of demand, behaving as a weather vane. Plans use forecasts to prepare—they get the umbrellas ready. Plans apply real-world constraints like capacity, budget, or corporate goals to the forecasts.

What happens when you don't differentiate the plan from the forecast? The goals of individual departments and the company dominate the forecast. The demand planner, in this scenario, will often be told to change the forecast because it feels “too low” or “too high” because it contradicts what a department wants to happen. Changing a forecast because of political needs destroys the objectivity and, therefore, functionality of the forecast.

Sandbagging or under-forecasting sales

We hear many companies complain about having Sales “sandbag” or under-forecast in order to achieve bonuses. When forecasts and plans are identical, the cause of sandbagging is more complicated than individual financial gain. Sales managers rely on achievable bonuses to motivate their teams. A Harvard Business Review article from 2012 notes that setting targets to beat serves as the most effective motivator for high-performing sales staff. However, target beating is a sign that the forecast is inaccurate.

Consider the dilemma sales managers face: if forecasts are accurate, targets should not be beatable and hence there is little chance of bonuses. Staff becomes discouraged and performance stagnates because the team will, accurately, begin to think, “What's the point in doing better?” Arguing that better forecasts help operations management is too abstract to serve as a good incentive. Sales management, as a result, has a strong incentive to lower forecasts. This can cause stock-outs and poor service levels.

Over-forecasting sales

Less complained about, but equally damaging for operations, sales teams will knowingly increase forecasts. Over-forecasting harms Sales' ability to earn target-beating bonuses, but that is preferable to poor service. Delayed orders or stock-outs lead to angry calls directly from clients or, worse, lost deals. To protect themselves against this scenario, Sales will over-forecast to ensure sufficient production/inventory. This results in holding excessive inventory and related carrying costs.

LEARN THE SOLUTION TO THIS BARRIER ON **PAGE 6**

SOLUTION

TO BARRIER #2: MOTIVATING SALES TO GIVE INACCURATE FORECASTS

To combat both under- and over-forecasting, sales quotas and targets should be separated from the forecasts. Sales can continue to develop its own forecast with its CRM system, but companies should recognize that these forecasts are judgment-based (see Barrier #1) and best suited for department-specific strategies.

By separating Sales' plans from the forecasts, the sales teams' forecast will no longer impact production and revenue targets. Sales loses incentive to under- or over-forecast. This results in greater weight being placed on statistical forecasts and a stronger need for a review process. Separating the forecast from the plan also allows companies to become more agile. Because companies treat forecasts as independent, there's less corporate pressure to have forecasts look a certain way.

Sales can remain part of the overall forecasting process via a sales and operations planning process (S&OP). The S&OP process gives sales teams an opportunity to discuss differences between the statistical forecasts and their own department-specific sales pipeline forecasts. These conversations can help the operations team identify potential issues. Consensus will be easier to arrive at when Sales is not motivated to protect its compensation structure or has the ability to change production levels.

Moreover, separating plans from forecasts gives companies a competitive edge in a Big Data age. Leading companies do their best to improve forecast accuracy by differentiating between a forecast and a plan. According to Aberdeen, it's only the laggards who haven't made forecasting accuracy a priority.

Quiz: Are you confusing the sales forecast for the sales plan?

- Does “not liking” a forecast lead to a change in the forecast?
- Does your organization engage in long debates about what the forecast numbers should be?
- Is a forecast “bad” if it doesn't match management expectations?
- Has anyone ever asked, “What do you want the forecast to look like?” and built a forecast accordingly?

If you answered “yes” to any of these questions, you have not separated sales forecasts from sales plans. A forecast's only purpose is to reflect the future, not aspirations or desires. Managers are free to change plans, but forecasts should be politically neutral. You need forecast independence to get an untarnished view of what's ahead.

BARRIER #3: TURNING SALES PEOPLE INTO FORECASTERS

One of the most common responses to inaccurate forecasts from Sales is to improve sales force forecasting skills. The strategies include hiring practices, education, and revamped compensation structures. At first, this can seem like a good approach as forecasting accuracy increases. However, these strategies can impact the quality and efficacy of the sales staff. The negative impact on a company is easy to overlook— they don't measure the cost of a weakened sales team.

The table on the opposite page describes common approaches to forecast accuracy that can have negative long-term impact.

LEARN THE SOLUTION TO THIS BARRIER ON PAGE 8

Forecast Bias	Description
Only hiring sales people with excellent quantitative skills	<p>The assumption is that having strong quantitative skills means that a sales person is also trainable in forecasting. This is an underestimation of forecasting's complicated nature, especially as the number of SKUs, groups, families, etc. grows. Forecasting is a specialized skill.</p> <p>Companies that are able to hire excellent sales people who are also great forecasters are lucky. Setting up the exception as the standard, however, means eliminating a lot of top sales people or, worse, compromising and choosing lesser sales people.</p>
Training sales team in forecasting	<p>Training usually consists of only basic forecasting techniques. The company should turn elsewhere for basic forecasting. Forecasting software and/or trained forecasters are much better at producing baseline forecasts than a sales team.</p> <p>The most valuable input that Sales can provide are exceptions. This type of input—about a new product, for example—is complex and beyond the reach of a moving average. Basic forecasting skills, in other words, can't capture this information anyway.</p>
Assign a forecasting team to Sales	<p>Some organizations assign one or more forecasters to Sales in order to create baseline forecasts and monitor adjustments for accuracy. While this brings forecasting expertise close to the sales team, it doesn't mean the sales team will provide better input. Negative impacts include:</p> <ul style="list-style-type: none"> • Increased expenses due to forecasting staff expansion, • Disengagement by the sales team as forecasters continually change data shared by Sales; incentives to provide good data diminish with time, and • Relocating instead of eliminating the data accuracy problem—the forecasting team gets the blame rather than the sales team.
Base bonus system on forecast accuracy instead of Sales' performance	<p>Some companies eliminate quota-based bonuses entirely and replace it with bonuses for forecasting accuracy. This prioritizes forecasts over profit. Sales predictions improve, but the incentive for better performance disappears. Sales teams have no rewards for doing better than expected and are, in fact, rewarded for not closing deals above the target. The price of resulting lost sales and motivation is difficult to measure.</p>

SOLUTION

TO BARRIER #3: TURNING SALES PEOPLE INTO FORECASTERS

A big picture perspective is necessary. A company does best with great sales people, not mediocre sales people good at forecasting. What sales people are good at, trained in, and hired for is to sell. It does not make sense to force them outside their skill set. A forecaster, on the other hand, is good at, trained in, and hired for forecasting. Letting these experts do what they do best only improves job contentment and the health of the company.

The next question often asked is, “But where will I get my sales forecast?” The answer for us is always from the statistical forecast. Any demand planner will tell you that a baseline forecast is more accurate than the standard forecast from Sales. To get information that a statistical forecast can’t capture, ask the Sales team to contribute only the key insights that cause demand to fluctuate (see the solution to Barrier 1 for more detail).

BARRIER #4: SALES INPUT DOESN'T SEEM TO MATTER

Forecasting is too often a black box where there's no tangible way to see how one's work makes a difference. If Sales believes their input makes little to no impact on the final demand forecast, they are apt to find the entire exercise pointless. This leads to indifference and general foot-dragging. Companies cultivate this attitude when they ask for information that they appear to not use.

The following are popular forecasting processes that can discount Sales:

Forecasting Process	How Sales Input Gets Discounted
Creating statistical forecasts with no Sales input	Sales input is never collected in this process. This works sufficiently for smaller companies with stable demand and few SKUs.
Consensus forecast by discussion	In this process, representatives from Operations, Finance, Sales, etc. discuss what the forecast figures should be. This approach favors the loudest voice in the room. If that voice is not Sales, chances are high their input gets discounted.
Forecast by weighted combined average	After attempting to create forecasts based on simple averages, companies find that departments manipulate the numbers to their own ends and hurt accuracy. Forecasting teams try to fix this by weighting the average by the department's historic accuracy. The sales team usually has high historic inaccuracy (see Barriers 1, 2, 3). This causes Sales input to have increasingly less impact on the overall forecast.

Once the sales team becomes disengaged from the forecasting process, their data quality goes down. They correctly see that there's little advantage to involvement—they are, after all, ignored. Even entering only basic exceptions becomes a task placed on the back-burner, done haphazardly, or avoided altogether. The organization loses crucial insights like large new orders, sudden client closures, or new trends.

LEARN THE SOLUTION TO THIS BARRIER ON PAGE 10

SOLUTION

TO BARRIER #4: SALES INPUT DOESN'T SEEM TO MATTER

Sales will not offer timely, accurate information until it's clear that the requested information serves a purpose and the process is transparent. By transparency, we mean that for every change made, it is clear who, when, where, and why changes were made. Transparency encourages accountability.

Sales input, if narrowly defined by exceptions by SKU by client, can make it both simpler for Sales to contribute and easier to track changes. Traditionally, when Sales was asked to share exceptions, they were given access to the entire baseline forecast. It was difficult to track who made changes and why. There was a strong tendency to fiddle with the forecast and make more adjustments than were necessary. To overcome this, we suggest being specific in requests for exceptions.

See page 4 for how Vanguard Forecast Server utilizes a separate Sales input screen to update forecasts by company and SKU. Because you know who made what changes, it's easy to follow-up with the sales person if there are any questions.

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Vanguard’s enterprise forecasting software, Forecast Server™, was built with the entire forecasting in mind. The software enables collaboration by taking advantage of breakthroughs in data collection, storage, and processing technology. Forecast Server makes it easier than ever to reach consensus.

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