Huthwaite

Rational Forecasting

The Convergence of Skills, Strategy and Pipeline Management

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Executive Summary

Inaccurate sales forecasts are unnecessary, and do not result as a failure of process. Often they are symptoms of deeper flaws: failing to incorporate the customer's point of view in the development and implementation of the sales strategy. If the seller and the selling organization craft sales strategies on the basis of buyer behavior, creating a forecasting model of exceptional accuracy is relatively straightforward. In fact, research has proven that the skills and tactics of customer-focused selling are the basis of good forecasting.

One point to remember: it is impossible to move forecasting beyond pure guess-work unless the sales force has a common set of practices for developing customer-centric sales plans.

Background

Pipelines v. Strategies

Sales pipelines are often constructed with milestones that register activity rather than events. Effective strategies are those that focus on events and on customer commitments, not just on checking off which activities a salesperson has completed. It is a mistake to depend on pipeline milestones such as "customer gap analysis defined," "initial sales meeting completed," "customer audit performed" or "proposal submitted." These milestones have little to do with measuring the effectiveness of a sales strategy and even less to do with how to measure the likelihood of closing a sale.

Great sales strategies measure events rather than activities, which is crucial in producing accurate forecasts.

Effective sales strategies require planning that identifies the outcomes of events as the basis for moving toward a sale. If strategy is the linking of events to achieve a specific sales outcome, then it is these kinds of events that should constitute the milestones in the pipeline tool used to forecast.

How Buyer Behavior Drives Strategy

Effective pipeline tools are representations of two aspects of each sale; the events that the seller has conducted or completed, and the buyer's incremental commitments to make a buying decision. Begin to develop the pipeline by establishing a set of steps in the sales process that track each opportunity as it moves from "suspect" to "contract." Each stage in this process should legitimately represent some significant change in the orientation of the seller. The commitments and actions of the buyer as they move closer to making a buying decision drive movements through the pipeline.

Huthwaite conducted a twelve-year study of buyer behavior and determined that buyers in complex sales always move through a set of five predictable stages as they move closer to making a purchase. These stages are defined below.

1. Recognition of Needs - buyers focus on defining a problem or opportunity in terms of what a successful outcome or solution will look like.
2. Evaluation of Options - buyers are focused on differentiating between the various suppliers vying for their business.
3. Resolution of Concerns - buyers are evaluating the consequences of following through on a tentative decision.
4. Implementation - buyers are looking to measure their actual success against the vision of success created earlier in the decision cycle.
5. Changes Over Time - buyers do not yet recognize a need for change and are comfortable with the status quo.

The buyer's behaviors require the seller to master three skills:

- The ability to recognize where the buyer is in their decision cycle at any given time.
- The ability to execute the specific skills that create value for the customer at each stage.
- The ability to move a buyer both forward and backward in their decision cycle.

Evaluation

The Pipeline as a Useful Tool

Using a pipeline tool to develop accurate forecasts requires that each company determine which milestones uniquely measure progress in their particular market and sales environment.

The six stages of the tool - Opportunity Qualification, Needs Identification, Solution Differentiation, Risk Resolution, Decision/Confirmation, and Implementation - describe a different seller focus as the sales opportunity advances. The proper pipeline aligns one set of pipeline stages common to all parts of the business, but allows the milestones that measure progress within and between stages to vary according to the specific selling environment of each business unit.

Forecasting Metrics

Establishing weighted metrics for each stage begins with estimates of the total revenue available for each opportunity in the pipeline. The sum of these collective estimates can be called the gross value (GV) of the pipeline. Then, by assigning a discounting factor to each stage, those factors produce an economic value (EV) of the pipeline as well. Adding up the value of pipeline opportunities in each stage, then multiplying the sum by the discounting factor for each stage produces this estimate. This sales forecast is useful in several ways.

First, the EV serves as a leading indicator of a salesperson's likelihood of achieving a quota. Some companies establish a GV expectation as a longer term success indicator, typically 2.5 to 4 times the salesperson's quota.

This tool can also drive sales forecasts for particular time periods. Developing an estimate of sales for the current period is simply a matter of calculating the EV for late stage(s) opportunities.

Feedback and Refinement

Routinely, managers should evaluate how accurately current period revenue was previously predicted using the EV technique. Consequently, the initial discounting factors of 20 percent, 40 percent, and so on must be periodically revised based on real world data. Over time, this process will hone the discounting factors to precise predictors of future business.

Conclusion

Accurate forecasting is the natural bedfellow of the ability to execute a customer-driven strategy. This is the key to a short, effective and high percentage sales cycle. With the skills to incorporate the customer's point of view into sales strategy, accurate forecasts are the natural by-product of a good sales pipeline tool.