

5 NON-NEGOTIABLE SALES FORECASTING METRICS FOR EVERY SALES LEADER

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ABOUT THE AUTHOR

Jeff Williams is an Operating Partner at Bain Capital Ventures, where he focuses on infrastructure software and security. Jeff has more than 25 years of operating experience helping early-stage enterprise software companies to scale and grow into market leaders.

Prior to BCV, Jeff led sales at organizations such as GlobalCenter (acquired by Exodus Communications in 2001), IntruVert Networks (acquired by McAfee in 2003), and IronPort Systems (acquired by Cisco in 2007). Most recently, Jeff served as Senior Vice President of Sales at FireEye, a leading enterprise security platform. Jeff was FireEye's first sales leader and helped transform the company into a market-leading enterprise security company, culminating in a successful public offering in 2013. In addition to his formal roles, Jeff has also served on the Board of Directors of cloud infrastructure startup Meraki Wireless (acquired by Cisco in 2012), cloud security startup OpenDNS (acquired by Cisco in 2015), and Adallom (acquired by Microsoft in 2015).

INTRODUCTION

Sales reps are often asked: “Will you hit your number this quarter?” Our answer: let’s rethink the question. Meeting quota is table stakes. The better question is: “How can you exceed your number this quarter?” The key to successful sales forecasting starts with pipeline measurement — consistent tracking in each stage of the sales cycle will bring consistent results. Careful focus on five areas will strengthen the sales forecast process to drive better capacity planning, smoother operations, and most importantly, more revenue!

METRICS

ACCURACY

VARIANCE

PIPELINE COVERAGE & MIX

COMPLIANCE & COMMITMENTS

LINEARITY



METRIC #1
ACCURACY

The ability to predict the business accurately drives the entire company operating plan. Driving accuracy from day one of the quarter is critical, so leadership can apply timely adjustments and potential investments to the GTM strategies to influence in-quarter results if needed.

While increasing your forecasting cadence can bring more accurate results, it is critical to maintain trust and drive greater productivity with your team by striking a balance between timely data and accountability. As your numbers increase, or if you are a publicly traded company, the cadence becomes more frequent to ensure greater accuracy. Never have your forecast call the day following quarter-end; give your team a break and allow them to catch their breath and update their forecasts to make sure you have a complete view.

DEFINITION

Forecast accuracy is the variance of the projected forecast to the actual number for a given measurable period.

TIP

I find it useful to leverage data from pipeline pushed from the previous quarter, current pipeline, renewals, and upsell or cross-sell opportunities. Then I apply historical forecast accuracy, as reps hedge differently — and we all know how to hedge the sandbaggers.



METRIC #2
VARIANCE

Measuring and understanding the differences between committed and actual results is critical to success. At the end of every quarter, leadership should measure where committed deals landed and their close percentages. This historical variance can be incorporated into future forecasting analysis. Throughout the quarter, first-line managers should conduct regular, detailed evaluations to answer the following questions:

- **Do the leading indicators prove the deal should be committed?**
- **Is the customer fully engaged and committed to closing the deal on or before the date forecasted?**
- **Can your committed deals stand up to these pressure tests:**
  - Legal Agreement completed?
  - Committed Budget?
  - Executive Sponsorship committed to the Close Date?



DEFINITION

Variance is the distance between the commit and the upside in the pipeline. It also measures how much the sales forecast changes from the beginning to the end of the quarter.



TIP

Don't get trapped by verbal updates from reps, as they may not always be good indicators of deal health on commit numbers.



METRIC #3

PIPELINE COVERAGE & MIX

Pipeline coverage is the leading indicator of the health of the forecast and the probability of success. But while coverage is important, the pipeline is only as good as the quality of its mix. Qualified pipeline should be analyzed for both total $ amount and volume of deals. Swing deals — or elephant deals — may help crush your number, but logo velocity deals will consistently exceed it.

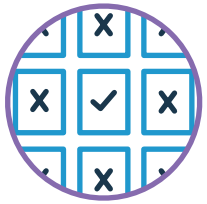
Pipeline coverage ratios are often debated: should yours be 2x, 3x, 4x, 5x? The answer depends on how you measure your pipeline and which stages of the sales cycle fall into your ratio. Close rates, average deal sizes, and length of sales cycle can influence the pipeline ratio. If the pipeline includes renewals or expansion sales with existing customers, higher close rates may also lower the ratio. Whatever your ratio, it must be set on day one of the quarter — or earlier — in order to exceed your goals. This will enable better predictability and consistent results quarter over quarter.

DEFINITION

Pipeline coverage is the assessment of pipeline size to evaluate whether forecast goals can be met or exceeded. Pipeline mix is the content and makeup of your pipeline, including not only deal size, but also deal strength and probability to close.

TIP

About halfway through the quarter, once the team has locked in numbers, I like to apply what deals will push and what standard pipeline will build to see if the ratio will hold for the next quarter. With that insight, you can turn up the necessary pipeline nobs if needed.



METRIC #4

COMPLIANCE & COMMITMENTS

Every sales leader must commit a number at the start of the quarter, and the entire sales organization must be accountable to it. Independent of opportunity stage roll-ups, all managers and reps should explicitly discuss and agree on commits. Leadership should answer these questions:

- **Have all reps submitted a forecast?**
- **Does the team follow a clear sales process with agreed definitions for each stage?**

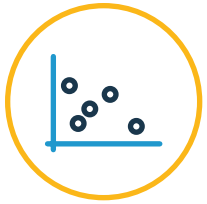
Most sales leaders hedge their reps' forecasts up and down based on historical performance. An inaccurate forecast — in either direction — can have profound negative impacts on the business. If you sandbag and blow out your number, the company could have lost an opportunity to invest and accelerate growth in the business. If you overpromise and under-deliver, the company could have adjusted tactics mid-quarter to engineer a positive outcome.

DEFINITION

Compliance and commitment numbers indicate whether all sales team members have submitted an accurate forecast and proper close dates for all committed opportunities.

TIP

The forecast is only as good as the data! With timely, complete forecast data, you can make statistically informed decisions and potential investments to drive more company success.



METRIC #5

LINEARITY

A forecast may be weighted more heavily toward the end of the quarter or spread evenly throughout. Closing a large percentage of business on the last day of the forecast period is not a sound strategy. This pattern can put extreme pressure on the ability of Operations and Finance to close out the quarter and recognize billings or revenue properly.

Leaders should also ensure each opportunity has an accurate close date. Too often, a rep will just put the last day of the quarter as the close date, which kills the ability to influence linearity.

Here are some key suggestions to drive linearity:

- **Close out any deals that slipped from the last quarter in the first month of the quarter.**
- **Drive three closes to every quarter; every month-end is a closing opportunity and should be an inflection point to drive deals to closure.**
- **Leverage financial incentives for customers to close earlier in the quarter.**
- **Spiff your reps to drive better linearity.**



DEFINITION

Linearity illustrates the balance of deals closed over the course of a quarter.



TIP

If you evaluate deal close dates regularly, you will increase linearity. Revisit close dates in your weekly meetings with reps to ensure your pipeline has a healthy balance.

SUMMARY

More than just a number, the sales forecast drives the operating rhythm of the entire organization. It determines broad strategy and tactical decisions — so when it comes to sales forecasting, predictability and precision are key. In my career, I've found the use of consistent metrics to evaluate the sales forecast is the first step toward predictability and a stronger sales organization. Armed with valuable data, sales leaders can make informed decisions about how to run their businesses for more successful outcomes.

HOW CLARI CAN HELP

Clari simplifies the sales forecasting process and gives unprecedented visibility to sales executives, managers, and reps. Through data science and machine learning technology, Clari empowers sales organizations and sales leaders to make those better, smarter decisions — quarter after quarter and year after year.

ABOUT CLARI

Selling is hard. Clari makes it easier.

As a team, we know and live sales. We obsess over how to apply data science, beautiful design, mobile, and cloud technology to create a user experience people love – all to make sales teams more effective and productive.

We help sales executives know whether they will hit their forecast and how to ensure record quarters in the future. We help sales managers coach their teams to become top regions. We help sales reps crush their quota by making them smarter about their prospects, and less bogged down by admin, like CRM updates.

We are committed to this because we believe sales is a noble profession. Sales drives growth... and shareholder value. We are inspired by sales teams at companies like Cisco, Box, and VMware who use Clari to close more deals, faster.

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