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Forecasting

Accurate forecasting is not a nice to have but instead is a critical task of sales management. In the early stages of a company's life cycle, forecasting is difficult because the volume is not there. But after a company achieves product market fit and is ready to scale, in a high volume environment, at its most base level, forecasting can be expressed by the following formula:

Demos Performed X Adjusted Close Rate X Average Contract Value = ARR or Bookings

This formula can be used for individual AEs the entire sales team. Of course, if multiple products are being sold, it should be calculated for each separate product line and then combined. Once the law of large numbers come into effect, it is an extremely accurate way to get a monthly, quarterly or annual forecast. Normally, a seller should be able to forecast within 10% in either direction.

A couple of points to remember when using this powerful formula are:

Demos Performed is typically the number of Discovery calls where the software or solution is actually shown to the prospect.

Adjusted Close Rate is the close rate minus the Discovery calls that were performed over the time period of the close cycle.

Average Contract Value can represent ARR or if multi-year deals, services etc. are included then it could also represent bookings.

While the above is a great macro tool, sales management often needs to better understand what is actually happening in each AEs pipeline as to understand what is going to close in the immediate time period. For this purpose, a more granular forecast model can be used.Each deal is placed in one of the following individual buckets: Pipeline, Upside and Commit depending on various buying signals. Pipeline is defined as having less than a 50% chance of closing in an established time period and typically 10% is used as a marker. Upside, means that it has a 50% or grater chance of closing. Finally, Commit is defined that there is greater than a 90% chance of the deal closing in the given time period. Prospects that are put in the commit bucket need to close unless the earth stops spinning.

Generating a Forecast

To generate a forecast, each AE places its deals in the appropriate bucket and then multiplies the value of deals by the corresponding bucket percentage. For example:

Pipeline: **10 deals totaling $200,000: $200,000 X 10% = 20K**

Upside: **5 deals totaling $100,000: $100,000 X 50% = 50K**

Commit: **5 deals totaling $100,000: $100,000 X 90% = 90K**

In this example, the sales team would be expected to close approximately $160K.

The key to making the above process meaningful is to ensure that everyone on the team is using the same criteria for each bucket. This is done by applying buying signals to each deal being reviewed.

Buying signals for Pipeline include:

- The product or solution was demoed.
- A second meeting was scheduled.
- The fact pattern of the prospect meets the minimum criteria of the product or solution.
- A proposal was generated and sent to the prospect

Buying signals for Commit include:

- Multiple people have been involved in the buying process.
- A senior resource from the selling company has been involved.
- Legal or procurement has gotten involved in the sales process.
- A verbal acceptance has been obtained.
- The actual decision maker has been involved in the sales process.
- A reference has been given and contacted by the prospect.

Buying signals for Upside include:

- Champion commits to involving others in the decision process.
- A detailed pricing discussion occurred.
- A proposal call occurred.
- A reference has been requested.
- A detailed understanding has been obtained of the buying process including timeline, approvals needed etc.

Of course, the above is simply a guide as the actual buying signals depend on the product being sold.

info@prospectiq.ai