How Much Risk is in Your Forecast?

By Jim Naro, President of The Naro Group (Originally published in Mass High Tech)

Forecasts are supposed to be built from pipeline opportunities that have a high probability of closing within a specific timeframe, which is often 90 days. To create a forecast, sales people typically look at their pipelines, attribute a revenue number to the deals they think might close, and then roll those numbers up.

With sales force automation tools, sales people can even just check off a box and directly feed those deals into the forecast. While helpful, this simple activity makes it easy to inflate the numbers, especially if the sales people are strongly influenced by pressure from above to achieve revenue goals.

Regardless of how sales people build their forecasts, if opportunities are moved into the forecast prematurely just to meet revenue expectations, a certain amount of risk is automatically introduced. It's the job of sales management to access the risks and discern the degree of risk before they create their own forecast. Here are some clues to help determine forecast risk.

1. Are the sales people having conversations with the right people?

By the time an opportunity gets into the forecast, a sales person needs to have established several contacts within the prospect organization. These contacts help to, a) confirm that the sales person's solution is a good match for the needs of the prospect, and b) identify who the decision makers are, including those involved in getting the solution sold, funded and implemented.

If there is an opportunity in the forecast and those contacts have not yet been established, then there is a possibility that this is not really a 90-day revenue opportunity. Sales management needs to understand what inroads have been made and what the quality of the conversations were to determine the degree of risk.

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About The Naro Group

The Naro Group specializes in helping technology companies capitalize on their investment in sales process and sales training. Contact Jim Naro, President, by email at: jnaro@TheNaroGroup.com.

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2. Has the buying process been clarified?

The clue here is whether or not the sales person understands the buying process of the prospect. For instance, if an opportunity is in the forecast, a sales person should know whether purchasing, other vendors, or third-party consultants will be involved. Additionally, the sales person should have already sufficiently proved that his or her solution does what the buyer needs it to do. Implementation planning should already have been discussed and documented as well.

Also, there should be no show-stoppers regarding legal terms and conditions, especially liability or indemnification clauses.

Once again, if any of this is not in place, sales management needs to assess the validity – and associated risks – of the opportunity and the potential of it extending beyond the forecast window.

3. Might the deal be lost to inertia?

Unfortunately, great sales cycles can end with a buyer deciding to do nothing. In fact, research shows the largest single competitor, and therefore the largest risk in forecasting, is no decision at all.

Therefore, unless buyers understand that it's more painful to bypass a buy decision than it is to make the purchase, then there is a no-decision risk.

It's key to find out if the sales person has effectively facilitated a cost/benefit analysis for ROI calculations that internal champions can use in securing funding. A lot of building value like this falls short because sales people are not effective in facilitating this type of analysis.

So if this isn't already in place, consider opportunities at this level full of risk.

The risk associated with each of the above three scenarios can be eliminated by building steps, processes and training into the sales cycle. When it gets right down to it, unless sales people know that only opportunities that have met the criteria and qualifications mentioned above can be put into the forecast, there will be risk. So it's up to sales management to decide if they want to play a game with high risks – or minimize and even avoid risk with a few process modifications and a bit of coaching and selling skills development.

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