

# Opportunities Guide

## Sales Forecasts



Improve Performance.  
Drive Revenue.

### 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](mailto:jnaro@TheNaroGroup.com).

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

### Do your sales forecasts reflect reality, or guesswork?

Because pipelines are notoriously misleading, sales organizations have typically adopted a variety of formulas for forecasting revenue flow. I've seen highly sophisticated sales organizations use a simple multiplier to predict what annual revenue flow is needed in a consolidated pipeline. For instance, if there is an annual revenue goal of \$80 million, they shoot for an "ideal" pipeline of 3x, or \$240 million.

The problem with this kind of formula is that you really don't know how healthy your pipeline is at any given point in time. You may be able to venture a good guess if you have a benchmark or baseline of success at an opportunity level to measure your actual pipeline against, but that's still only a guess.

Without a trusted method, your forecasting formula can lead to uncertainty, and this can become precarious. Let's take a look at another option — a model that actually reflects how opportunities "flow" through your pipeline.

The "Ideal Pipeline Model" presented below is based on the concept of velocity, and it represents how revenue flows through the pipeline. In this model, you measure how long each stage of the sales cycle should take, which helps keep real opportunities moving toward closure. Unless there are valid reasons for an opportunity to remain at a certain stage beyond a pre-determined time limit, opportunities that are stagnant are qualified out. This model also takes into account revenue volume, distributing the volume across milestones (or process steps) within the sales cycle.

### **The Ideal Pipeline model includes the following parameters:**

1. Annual quota: dollar revenue number (established per sales person and then consolidated).

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2. Average sales cycles per year: the number of consecutive sales cycles that occur in a year. For example, a six-month (26-week) sales cycle has two occurrences per year.
3. Milestones: the process steps that apply to your particular product or service, from the identification of a prospect to the final closing negotiation.
4. Time spent at each milestone: an estimated allowance of time for each step. For instance, the evaluation of a sophisticated product might typically take 90 days in a sales cycle that averages six months (180 days). This milestone would then be assigned 50 percent of the sales cycle's allotted time.
5. Probability of closure: In the early stages of a sales cycle, this might be only 10 percent, whereas in the final stages of negotiation, the probability of an opportunity closing might be 90 percent.

Based on the above parameters, the Ideal Pipeline formula then calculates what the "ideal" volume should be at any given time, at each step, based on annual quota. You can then take a snapshot of the actual revenue in a sales pipeline from your CRM system and compare it against the Ideal Pipeline.

Now you can examine the ideal and actual revenue at each step of the sales cycle and gauge how your sales organization is performing. This provides a much more accurate idea of what revenue you can expect quarter by quarter, as well as what level of business development is needed to fill the pipeline.

When adopting a more accurate pipeline model like this, you may find your pipeline is initially reduced by 50 percent. This is because you've cleaned out "opportunities" that never were going to close anyway. While shocking at first, you'll see the revenue begin to quickly rise, with increases in productivity as high as 100 percent as your salespeople focus on the real opportunities in their pipelines.

If you would like to start working on your own "Ideal Pipeline" model, start by gathering data for the pipeline parameters outlined above. Then calculate the ideal for your key milestones by multiplying "annual quota" by "percent time at milestone" divided by the "number of sales cycles per year" multiplied by the "milestone percent closing probability."



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