



## Analytics Manage Risk and Take Uncertainty Out of Forecasting

### Opportunity, risk and uncertainty

Risk and uncertainty are inextricably tied together in the popular imagination though they are as different as risk and reward. A quick check of the dictionary shows that risk is “exposure to injury or loss” while the idea of uncertainty is tied up in “unpredictability, indeterminacy or indefiniteness.” Neither is a good thing to have in business but with risk one can attach some statistical probability to a situation and attempt to manage it.

With the economic downturn many organizations are discovering again that their sales forecasts have both uncertainty and risk built into them and that uncertainty plays a larger role than many people realize or are comfortable with. While we can never expect to completely drive uncertainty out of business, the more that we can convert uncertainty into manageable risk, the better chance we have of business success.

### Knowable unknowns

Sometimes what we don’t know is simply a matter of lacking the sophistication or tools to find out. This type of uncertainty amounts to knowable unknowns and discovering what is knowable transforms uncertainty into simple risk and with that transformation comes opportunity.

In business, knowing something that is unknown to most of the competition is a strong differentiator and it often provides the margin for winning. There is enough uncertainty in a typical sales forecast to provide much of the opportunity to turn an average sales team into high performers — if that uncertainty can be reduced to risk.

### *Risk in the sales forecast*

Risk in a forecast is well known because sales people and their managers often discuss an opportunity’s probability of close. But a typical close probability is not what it seems. It is not based on statistics and it often indicates nothing more than progress through the stages of a sales process. In other words, an opportunity with a seventy percent rating doesn’t really indicate a seventy percent probability of closing; it simply means the sales representative is nearly three quarters of the way through the sales process. This reality suggests that traditional selling actually builds uncertainty into the process rather than removing it.

Many people have spent a good deal of time and effort over the years trying to produce a more reliable set of indicators for closing deals but the efforts have not produced significant improvement. Sales people’s estimates can be notoriously unreliable and overly optimistic; also customers often do not tell sales representatives everything. In the

absence of a direct measurement a sales team must be able to sift through available data to draw conclusions about deal viability and chance of close.

The sales forecast is usually the place where managers look to gain knowledge of their sales teams' positions in various deals. But Beagle Research data suggests that forecasting is not performed often enough. Our data shows that nearly half (46.5%) of the organizations surveyed forecast monthly and slightly more than a third (34.9%) forecast weekly. Weekly forecasting is better than monthly but neither approach is adequate because too much happens between forecasts and the longer a manager has to wait for information before taking action — coaching, suggesting, intervening — the harder it will be to affect the outcome.

Ideally, forecasting should be iterative and when sales people add information to the SFA system, those changes should be reflected in the forecast — without waiting for a formal forecasting cycle, which could be weeks away. Furthermore, an iterative forecast should also show the history of all the deal's changes.

A forecast generated by simple report writer software, spreadsheets — or worse, hand written — does not usually show the changes in each deal over time, at least not in a user-friendly way. A user could trace deal history through a succession of spreadsheets or old reports but as a practical matter there may be too many deals and too many sales people in a manager's charge to do this effectively. Instead, monitoring change or "tracking the delta" can show a manager very early when it might be time to change tactics.

Modern performance management applications from Cloud9 Analytics can make tracking the delta a simple process no more demanding than running a static sales forecast but with much greater impact.

### **Cloud9 Pipeline Accelerator**

Cloud9 developed Pipeline Accelerator in part to help sales people remove some of the uncertainty from selling and to accurately identify risk. The system works with Salesforce SFA appearing as an integrated tab in the SFA application. Rather than supporting passive sales forecasting by enabling a periodic report from the database, the Pipeline Accelerator is an analytic application that updates only what has changed in Salesforce SFA daily across any time dimension without the overhead imposed by conventional forecasting.

So, for example, if a deal slips, if the order quantities change or anything else changes within the SFA system the analytics will be aware of it. Moreover, Pipeline Accelerator is set up to send two kinds of alerts to relevant parties when changes occur.

1. eMail alerts. The frequency of reports is set by administrators and they deliver information about the top five deals in each pipeline change category in an HTML email sent out to sales managers that reflect their role hierarchy (e.g., they only see deals they are supposed to see). There may be more than 5 deals in any of the "waterfall" categories and to view all, the sales manager clicks on a link in the email and is brought directly into the appropriate view in the application.
2. Mobile watch list. In Pipeline Accelerator, sales managers can tick off

deals they want to watch and they can log in to Pipeline Accelerator anytime via their mobile device and see if anything on their watch list has changed. Reporting is color coded — green is good, red is bad. In an instant a manager can know that something has changed and take action.

In practice alerts give managers and others information about deals as they happen so that, for instance, a manager can take action to offer help or make a suggestion to the sales person without waiting for the next forecast or one-on-one meeting.

Pipeline Accelerator contains all relevant information about all deals in the SFA system being worked on by a sales team. Pipeline Accelerator automatically inherits the Salesforce role hierarchy and applies it to users so that they see only what their roles allow. Pipeline Accelerator also supports territory and custom hierarchies (e.g., overlays, different geographies, etc.) and users can select which deals they are allowed to see based on their role to drill into by using filters for deal stage, forecast category and status. Additionally, Pipeline Accelerator enables organizations to integrate external data such as goals, actuals and orders that are displayed in line with pipeline data.

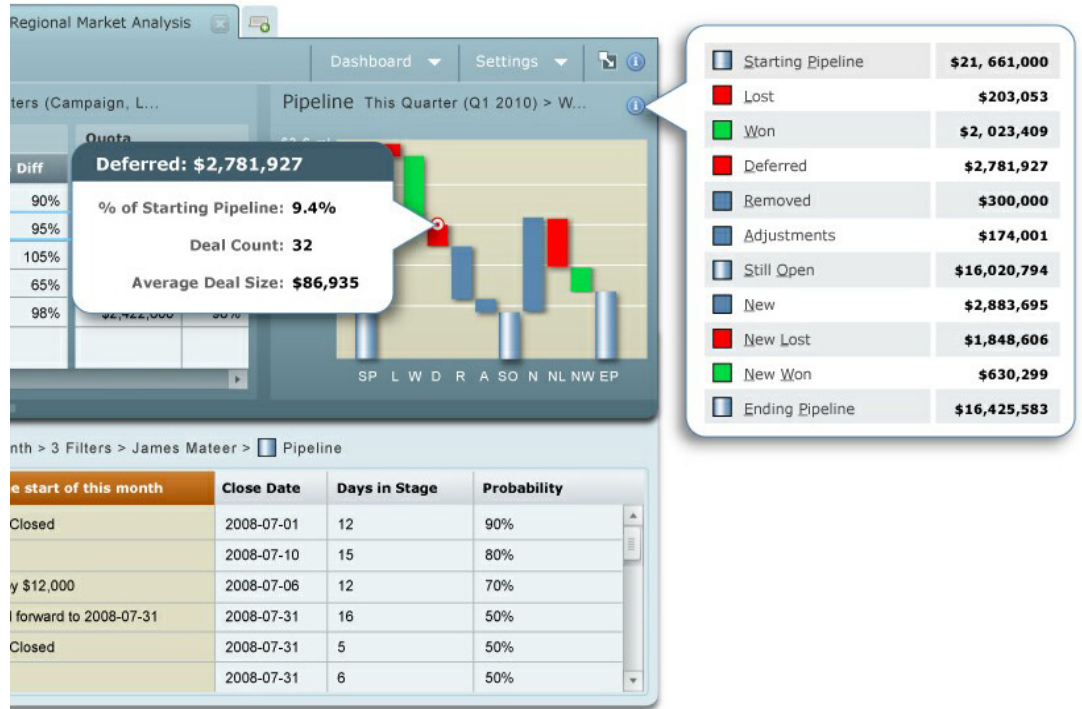
*Using Pipeline Accelerator*

Pipeline Accelerator has a clean and easily readable user interface. The opportunities that meet filter criteria are displayed in a separate pane with owner and opportunity data as links back to the SFA system. Clicking the links brings the user full screens of relevant deal data including all notes in the SFA. The opportunity pane also displays deal amount, weight, what has changed, close date, deal stage probability, next step and more.

**Figure 1: PipelineAccelerator**

Cut away screen showing Waterfall graph and rollover descriptions.

Source: Beagle Research Group, LLC  
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As noted above, we are not convinced of the utility of a probability column by itself but two other columns that can lend it validity flank it. “Stage Age” and “Opportunity Age” track the number of days a deal has been in a stage or in the pipeline. Combining this information with the probability tells anyone familiar with the sales organization whether the probability is valid or if the deal has aged out. Organizations can easily develop metrics that tell whether a Stage Age, for example, reveals a deal that has stalled or one that is viable. Using multiple data points and metrics can quickly give the user the insight needed to take proper action thus removing uncertainty from the forecast.

Pipeline Analysis is a separate pane supporting a chart and is dedicated to pipeline data by month divided into six important categories — Pipeline, Pipe + Won, Weighted, Won Quota and Lost. The information is displayed on an active bar chart and clicking on any element brings the deals and their data to the Opportunities pane that the user can then drill into further.

All this data may sound like a good thing but it can quickly become too much as a sales group grows or as layers of management need more abstracted information. To keep the information meaningful, Cloud9 produces a daily report automatically generated by the system that can contain any level of granularity the user wants. The report we worked with, the Waterfall chart, listed deals by these categories — lost, won, moved out, removed, adjusted, still open, new, new lost, new won.

### **Analysis**

Cloud9 takes uncertainty out of pipeline management and sales forecasting in two important ways. First, it captures real data and processes it using metrics that any sales organization can establish. Second, it actively manages the information it generates through a system of alerts and reports prompting users to act while the information is most actionable.

Pipeline Accelerator works because it enables management by exception, which enables a manager to easily identify and focus on the things that need attention. The system also enables its users to specifically single out deals that are of high interest so that filters and reports can be structured to supply information on the most critical deals first.

Finally, too often sales people keep dead deals alive in a forecast for reasons that can best be described as hope. But a metrics-based approach to forecasting can tell the representative and the manager more about a deal’s propensity to close based on experience. As a result a company can deploy its limited resources in more intelligent ways that will provide better returns on those resources.

### **Conclusions**

Anyone who has ever carried a bag or managed a sales team will understand the value of having unbiased information direct from the field about the deals and opportunities being worked. And being able to rely on a system that digests important information and that will alert a user is even more valuable. Conventional forecasting and reporting no longer offer the granularity and perspective needed — perspective that comes from metrics based analysis of hard data.

Sales analytics is a category that is now catching on, in part because companies need better ways to determine which deals in a pipeline are “real”. No forecasting product is foolproof but sales analytics such as Cloud9 Pipeline Accelerator work because they help to remove much of the uncertainty from the forecasting process.

With the prospect of an extended economic downturn, selling has changed. Rather than selling into ever expanding markets we now see the prospect of zero-sum situations. More than ever managers need better knowledge of the pipeline and Cloud 9 Pipeline Accelerator is a good solution for the times.