BRIDGING THE FORECAST GAP

Reconciling the Disconnect

Between Financial Reporting &
Sales Planning

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A White Paper by

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Legacy Forecasting

Forecasting and budgeting are important planning tools for any business, and in larger organizations, this traditionally falls under the purview of the Finance & Accounting departments. The importance of financial forecasts and budgeting in the goal-setting process is undeniable, but is too often one-dimensional and ignores operational data that has significant impact on potential future performance.

Financial Planning & Analysis

Financial Planning & Analysis (FP&A) uses the output from financial records and other associated metrics to forecast future needs. However, the process is often disjointed from reality, slow to react to rapidly changing market conditions, and fails to take the broader organizational picture into account.

Historical Data

FP&A isn't relegated to historical data exclusively, but prior period financial performance underpins the logic behind projections, with trends across multi-year financial statements forming the fundamental assumptions pushing future estimates.

Market Assumptions

Assumptions about the broader macro-environment are a key element of pro-forma financial forecasts, and this translates into forecasts that can fail to detect changes in the micro-business environment. What's true of the broader economic setting may not always hold fast at the organizational level.

Top-Down Approach

Financial Forecasts often look at top-line results and market predictions then work backwards from these benchmarks to determine the performance targets that shareholders want to hear. By ignoring insights from the field, resulting sales goals can easily overshoot or fall short of actual potential.

Shortcomings of Traditional Planning

While FP&A may be grounded in existing data, the nature of the process leaves a lot of factors unaddressed. Analysis categories are often formed and defined according to market appetites, and forecast attributes tend to center on items like pricing considerations, inventory management, share price, and other dimensions more closely related to Profit & Loss statements than sales pipelines, prospects and the perspective of front-line sales personnel.

Information Silos Restrict Collaboration

Perhaps the most problematic deficiency in the FP&A process is the inherent disconnect between Financial Forecasting and Sales Planning, and FP&A performance targets are handed-down based on the top-down assessment of future sales estimates. FP&A predicts future sales based on a narrow set of financial data, and tends to set goals that are disconnected from the business realities that drive actual sales opportunities. Forecasting shouldn't happen in a vacuum; in real life it needs to consider all available information. This means collecting non-financial data on real world activities and customer-centric metrics from across organization instead of parsing each function out into discrete financial units.

Questionable Accuracy of Sales Goals

FP&A forecasting relies heavily on historical data and qualitative judgements which don't always take all available information into account. This is particularly true in regards to pipeline potential, as there is no accounting line-item for "possible" sales deals that have yet to materialize. Furthermore, investigating variances generated by FP&A analyses is useless unless the underlying assumptions behind the original forecast were accurate. Sales goals should change based on the feedback you get from each sales period. Reviewing team members' individual goals will show you what went right and what went wrong. You can learn from this and continue to create actionable, attainable sales goals.

Inefficient Allocation of Resources

Inconsistent or uninformed forecasts result in inefficient resource allocation, which shifts efforts from proactive to reactive. Complex forecasts on the financial side can be disjointed from reality, the upshot of which are forecasts that miss the mark. Selling too much can actually be as bad as not selling enough. Underestimating business volume can have considerable negative consequences on brand equity by overloading delivery and production capacity, quality, and generally stretching resources too thin. In this regard, being wrong on either side of a forecast can have painful and undesirable implications.

Fact Based Planning

Data is factual information, and using facts from across the organization as an integral part of the planning process is the single-most powerful exercise in reconciling the disconnect between organizational units. Bridging the gap between profit centers and operational support results in forecasts that consider the entirety of the business context and translates financial forecasts into sales goals that make sense.

Sales Planning & Analysis

Mapping out future possibilities not only helps provide context to operational preparation, but paints a clear picture of opportunities and threats looming on the horizon. Financial statements are interested in certainties, but planning and analysis need to consider intangibles, including low-probability outcomes that could, even if unlikely, have significant impact on the bottom line. That's where Sales Planning & Analysis (SP&A) comes into play. SP&A looks to corroborate or augment top-down sales goals set by the Finance department through tying historical performance to transaction-level operational data.

Bottom-Up Analysis

If the top-down analysis is the forest, then building forecasts from the bottom up can be expressed in terms of an aggregate glimpse of every single tree. The bottom-up analysis looks at things with a much more granular focus, analyzing business activities at the transactional level and seeking input from profit centers and operational units alike. While more time-intensive on the front-end, this method of analysis has the ability to be much more accurate, with the potential to save both time and money by improving accuracy in the organizational decision-making process.

Modeling Real World Activities

With the detailed information gleaned from data collected at the transaction-level we are better able to model future opportunities from the ground up. Anyone can set sales goals, sometimes without considering what it will take to get there. But how can one be certain that these targets are realistic or attainable? SP&A forecasts go beyond hard financial data and seek to correlate intangibles by determining what specific business activities are associated with a given financial or economic outcome.

Continuous Improvement

The versatility of SP&A may be one of its most powerful advantages, as the lack of timely preparation can be minimized by taking efforts to dial in your plans at shorter intervals. This means agility and responsiveness in the decision-making process, and can help an organization hone in on opportunities for improvement.

Technically Measuring Success

We've touched on measurement of business realities and using the data gleaned from the SP&A process to develop forecasts that more accurately mirror real world results. But where does the data come from? Sales has long been considered an intangible soft skill. Recognizing that there's a distinct science behind the art of sales, however, is the first step in assembling a robust plan to get the most out of your data.

Thanks to recent innovation, it's now possible to track and measure the smallest of metrics, and the most powerful tool at our disposal can be found in Customer Relationship Management (CRM) platforms. We start by establishing what we want to measure, but can ultimately use these results as a leading indicator of what should be measured. There are signals in the data if we know where to look. The places that deserve extra attention will stand out as distinct correlations emerge between activities and outcomes.

Customer Segmentation Using CRM

Accounting systems don't always identify customers by category; CRM systems do. The latter can also generate sales reports around specific products and categories. By taking a thoughtful approach in defining our parameters, (i.e., setting the CRM system to delineate sales goals by region instead of just by product) we can have a much better idea as to exactly how and where resources should be deployed to meet those goals.

CRM platforms allow us to categorize clients on a range of dimensions, then segment those clients based on specific attributes. Next, look at which clients are the best fit for your business model. Consider how to adapt your business model not only to better serve your most valued clients, but also to help you better identify the best clients to target in the first place. Start out by creating three to five core customer segments, then assign those attributes to all of your clients. That will drive reports that will examine the amount of business you're receiving from each category.

Defining Parameters

Consider your different types of customers. Which of these segments bring the most value? Think of "servicing efforts" as a cost that debits against the lifetime value and profitability of a given customer, even if that customer accounts for a sizable share of total revenues.

From here you can use customer segmentation as a means to measure the value each client brings to the organization. This analysis, done properly, is going to help you see which customer segments are most profitable.

Tracking Activities

What efforts are my team taking to manage client relations? How are these activities correlated to success when it comes to finding new customers and better serving existing clients? These are the types of questions that a well-constructed CRM strategy is going to help answer. We frontload the CRM with parameters that reflect these questions, and by monitoring new leads through the entire sales process we can track which types of leads ultimately result in sales.

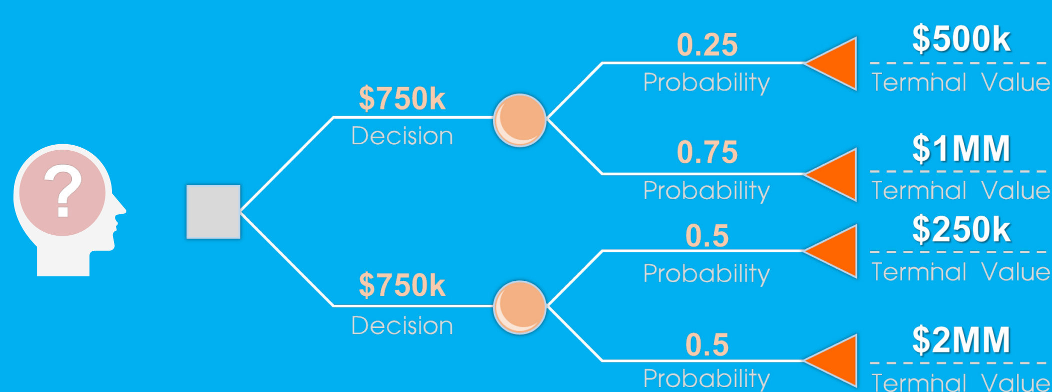
Tracking & analysis helps us identify the most profitable customers, illuminating exactly where we need to expand the sales team's situational fluency when it comes to segmentation. Armed with carefully curated customer data, your sales team is now able to sell more effectively to these groups. This has the potential to increase your sales team's average opportunity of accounts in the pipeline, effectively using this info to expand the sales funnel.

What-If Analysis

Sales Planning & Analysis relies more on intangibles (i.e., risk profiling & uncertainty of future outcomes) in defining the overall value of available sales opportunities. By collecting the data points on existing as well as potential customers, we can start to get a clearer picture of what the value of all potential future deals in the pipeline might look like. Through unifying financial and operational data, sales forecasts can be more reliably estimated. Organizations can subsequently take action to position and deploy resources in a manner that effectively meets the anticipate levels of demand.

Optimizing Pipeline Potential

Prospects enter the decision model and are then assigned a probability of conversion at each step. As they progress through different stages, the likelihood of converting to sales increases, as does their estimated potential value. A pipeline analysis will calculate the number of new opportunities needed based on their average size and likelihood, which informs planning and decisions around that data.



Better Outcomes, Better Incomes

More detailed inputs means higher validity of outputs. In the case of using CRM strategy to map out more accurate goals we are better able to explain the differences between the model and actual results. The set of assumptions about future performance and business conditions can then be adjusted, often in real time, to more accurately reflect the true environment. Connecting forecasting functions to sales activities isn't just an exercise in data analysis, as it has the potential to bring about dramatic improvements in real-world performance by joining non-adjacent divisions of the company.

Feedback from Across the Organization

By incorporating perspectives from across the company into a unified sales plan we start to get a better view of the big picture in its entirety. By encouraging the sales team to participate in setting their own goals, fact-based introspection stands to increase engagement, spur collaboration, and facilitate sharing of information between departments. That feedback is indispensable and may lead to adapting growth projections that now include areas of your business that might previously have gone unnoticed. Realistically, the information gleaned from CRM data should alter your projections on a monthly, and even weekly, basis.

Better Forecasting & Reporting

SP&A translates to considerable improvements in forecast accuracy and means better decision-making not just at the aggregate level but down to the customer level. Client acquisition is expensive, and loyal customers are the most profitable. The more you can correlate any goal to a set of specific actions, the more control you and your team will have over achieving organizational objectives.

- Customer Needs & Lifecycle Stages
- Customer Acquisition Costs (CAC)
- Customer Lifetime Value (LTV)

Making Informed Decisions

With better forecasts comes better decision-making. The value of creating sales targets and benchmarks that are logically connected to financial forecasts should be self-evident. Developing a more tangible strategy will help locate and utilize information that is relevant to everyday issues and should be used as an operation-wide tool, not just a point solution. For instance, by taking a more granular look at performance metrics, we can now assign tasks to different sales team members based on their individual strengths and match their skill sets to the tasks, territories, or topics of expertise to which they are best suited.

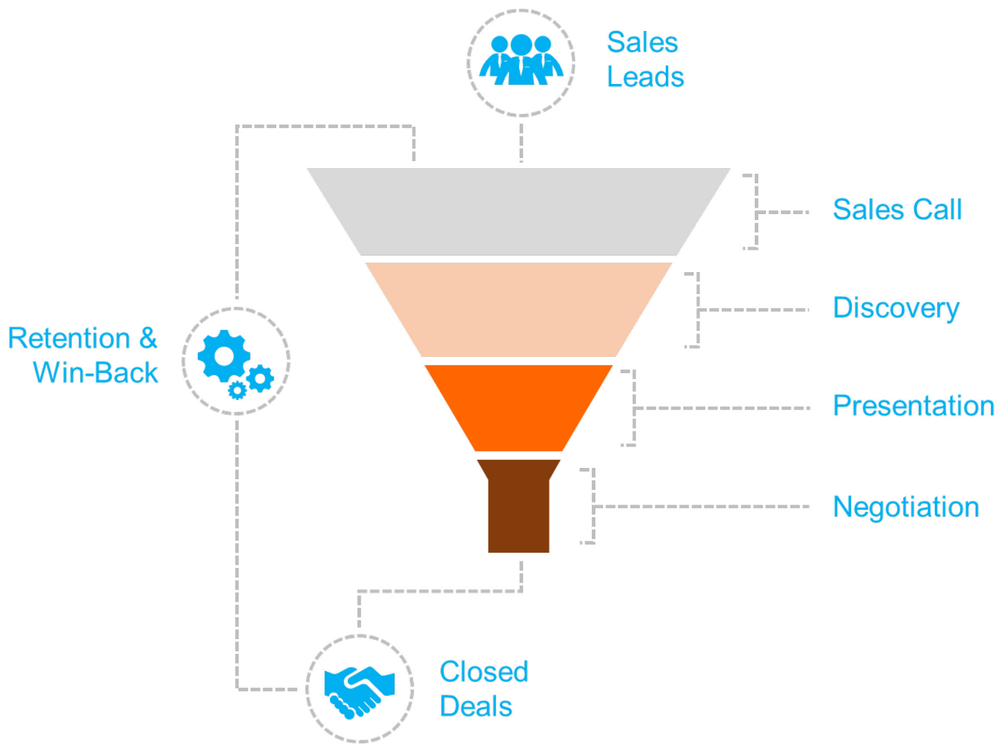
Leveraging the Data

Applying CRM strategy to Sales Planning & Analysis is not just about collecting data, but also analyzing the output and taking appropriate actions. Over time, carefully executed CRM generates a positive feedback loop. Tracking results helps make better decisions. Implementing these decisions, particularly alongside a robust CRM solution, will make it easier to track the efficacy of those decisions. From there, decision-makers can prescribe precise planning activities based on CRM data. This helps you find the correlation between informed decisions and success.

Funnel Management

There are some clear parallels between the Sales Funnel concept and the Decision-Tree model used to illustrate pipeline analysis. In fact, these are more or less just different methods of expressing the same general idea. Leads come in, some fail to materialize, and others are deliberately disqualified for a variety of potential reasons.

Essentially, the sales funnel is a visual representation of pipeline opportunities that have been measured and identified throughout the planning and analysis stages. Management of opportunities at each stage in the funnel is the most effective operational forecast of your sales. How the sales funnel is conceived and constructed is fundamental to the idea of SP&A, and it boils down to knowing the potential value of your pipeline.



Planting Seeds that Grow

It's not just about what's best for the customer; it's also about determining what customers are best for the business …

Fact based analysis of prospects in the sales funnel provides a deeper knowledge of client attributes through more methodical targeted segmentation. By understanding the full range of implications, sales teams are better able to manage relationships throughout customer lifecycles. SP&A is not solely concerned with identifying opportunities; eliminating unqualified leads is just as important as adjusting strategy to avoid servicing less profitable customer segments.

Identify Unmet Demand

Search for underserved or unmet demand that has not yet been articulated or has just begun to emerge

Improve Pipeline Conversion

Enhance competitiveness & conversion rates by gaining a more nuanced understanding of customer requirements

Increase Average Opportunity

Explore openings to add value to existing customers by expanding product offerings and lines of service

CRM Strategy as a Management Process

An ordering system isn't going to help you figure out why sales are happening; you need to understand which customer categories yield the best returns. A business management platform that records and manages data from planning through settlement is critical to effective Sales Force Automation. Paying attention to signals broadcasted from the CRM data allows for on-the-fly analysis and ad-hoc simulations; both vital components of agile, real-time planning and decision-making.

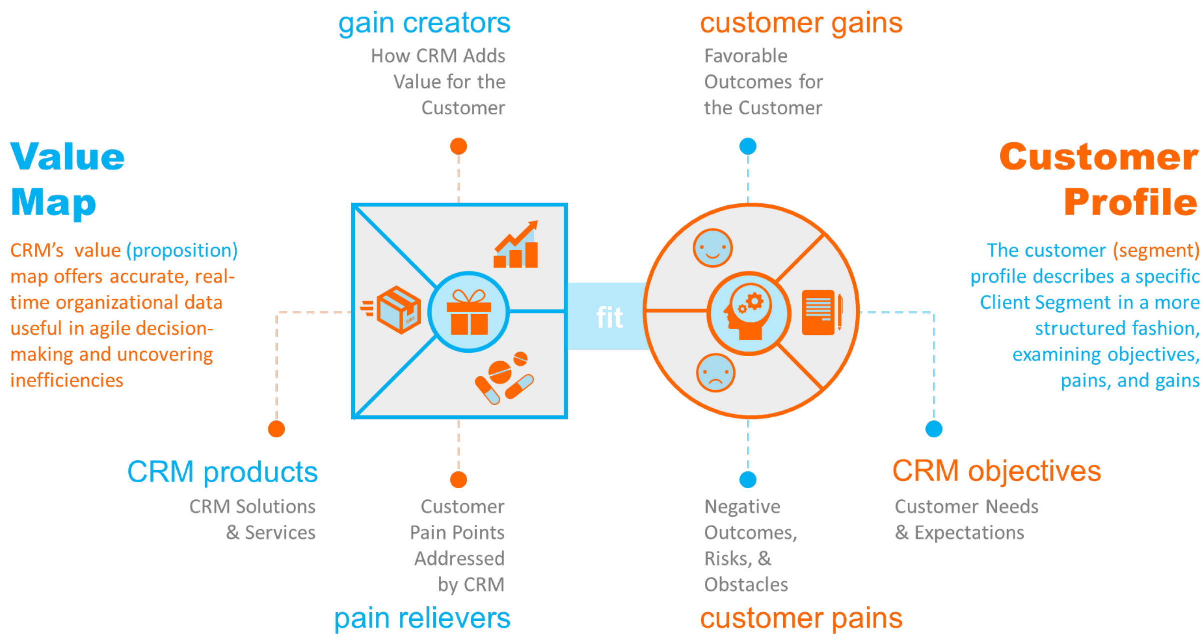
Prioritizing the Long-Term

The purpose of fact-based forecasting is to make decisions about future events in the context of SP&A insights. CRM facilitates end-to-end planning and customer lifecycle support in a continuous, ongoing, and cyclical fashion by extending the horizon beyond the immediate term. The key to making the right decisions lies in effective sales funnel optimization, keeping customer acquisition & retention costs at a minimum, and determining actions that prevent prospects from leaking out of the sides of the funnel.

Value Proposition of CRM Forecasting

The extensive incorporation of qualitative, subjective judgement about future uncertainties may, for some, be a point of criticism of the SP&A approach. Some are uncomfortable with the perceived notion that these elements indicate a lack of empirical validation, but this couldn't be further from the truth. This only serves to frustrate the disconnect. By carefully implementing cloud-based CRM to support planning and forecasting, SP&A can provide its own validation.

Insights gained through routine and recurrent examination of customer cohorts and their respective attributes not only tells us which segments are most profitable, but also sheds light on how these groups are best served. Detailed analysis of segments helps find the best fit between client needs and the offerings designed to meet those requirements.



Investing in the Future

Risk itself is a model of future uncertainty. Investments, by their very nature, carry risk. Getting your CRM system to a point where it's generating measurable returns requires substantial up-front investment and there's no guarantee you're going to get it right. It needs to be logically connected to your accounting system in order to provide a 360 degree view of customer activities.

The important thing to note is that SP&A, used in tandem with a robust CRM strategy, helps mitigate future risk. It's true that sales monitoring takes time and can be viewed as cumbersome extra work when viewed only in the near term. However, after time, money, and effort are invested in initiating a well-designed CRM strategy, the ROI comes in the form of preparedness, productivity, and profits.

Setting CRM Up For Success

When it comes to implementing CRM strategy, meticulous attention to detail on the front-end means more meaningful insights on the other side. Gaining buy-in can be tricky, and talk of databases, mining tools, call centers, sales force automation, and web-based self-service can sound overwhelming to some stakeholders. But it's not about being complicated for the sake of complexity; it's about discovering how simply these tools can accomplish complicated objectives and tasks.

Plugging these objectives into your CRM system in a way that makes sense may require you to rework more than just your sales process, but that's what drives the value. The CRM platform has to become the focal point of all sales activities. If sales calls are made, they need to be entered into the system. Orders need to be logged and tracked. Without a comprehensive focus on the integrity of data collection, you won't be building a meaningful and accurate profile of the customer.

Bringing the Cycle Full Circle

Planning & Forecasting with CRM is not a plug-and-play process by any means. Implementing the platform and mapping out a strategy is merely the beginning. You need to find a consistent way to translate things like financial forecasts and performance objectives into activities that lend themselves to operational data collection and subsequent analysis. Over time you use the feedback generated by CRM to tighten it down.

CRM-driven strategy requires ongoing effort and attention. As time goes on, you may even find that you need to redesign the entire forecasting process. If the data isn't conclusive, you might decide to get more granular with segmentation, or perhaps even run an aggregate forecast compiling estimates by customer. The key thing to remember, however, is that the more you put into it, the more you get out.

Fertile soil, alone, is not enough to keep your plants alive. They also need plenty of sunlight and an abundance of water to live and grow. If things don't go as planned the first time around, we will at least have the data to figure out where things went wrong. Refining parameters and honing in on how that should inform strategy is the only way to keep your SP&A efforts alive, thriving, and bearing fruit.