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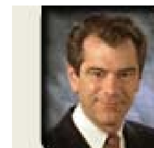
Eight Signals that Your Pipeline is Bogus



David Taber

Oct. 13, 2009

It's easy to make cynical jokes about sales forecasts, but that's not particularly actionable. Forecasting really is hard, and you can't achieve decent levels of consistency and accuracy without some solid process in place. In this article, we'll examine 8 forecasting issues, with things to look for in a direct sales organization using Salesforce.com. Due to differences in SFA systems, vertical industries, international standards, and sales/channel design, there will be endless argument about the priority and interpretation of these issues. Let the firestorm begin!

Weekly Bottoms-up Process
For pipeline forecasting to work, it has to be a regular process that can be repeated and "tuned" over time. I recommend weekly cycles because many organizations have monthly quotas, and bringing the quarter in to a soft landing requires weekly updates of the entire pipeline. Forecasting more frequently than that will become annoying overhead for most sales teams (although a midweek forecast in the last couple of weeks of a tricky quarter is reasonable). The forecast should be bottoms-up: look at every deal from a rep's perspective, and evaluate/filter the roll up at each level of sales management.

> *What to watch for: forecasts that are sporadic, developed entirely in spreadsheets, done as a firedrill, or mandated "top down" (by any level of management) are likely to have a high bogosity factor. If you're an SFDC customer and aren't using the Advanced Forecasting module, get on it!*

Wild Pipeline Coverage
Typically half or more of the deals in the pipeline won't close, so you'll need extra pipeline coverage to make your number. The correct pipeline coverage multiplier depends on industry, country, channel structure, and sales culture...but it's almost always a matter of the Sales VP's opinion, rather than a statistically modeled coefficient. In many direct sales organizations, 3x pipeline coverage is a good rule of thumb. But whatever the factor, it should be consistently applied.

> *What to watch for: Pipeline coverage above 4x or below 1x for a quarter. Beware pipeline coverage that jumps around, particularly upward movements after having been under-par. This can be shown with a simple report summarizing pipeline coverage on a weekly basis - which typically declines gradually during the quarter.*

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Top Down Mandates (that Beg to be Gamed)

Of course upper management needs to set the quota and inspire the troops to higher targets. But a command-and-control mandate about the forecast isn't going to change the customer's behavior. If the mandate includes specific MBOs or measurements that can be artificially satisfied, the psychological and financial incentives are for the reps to do just that.

> *Keep your eyes open for emails from senior management that telegraph to the field "we need $165M of pipeline!" - if the pipeline jumps to that number in microseconds, you've just pinned the bogometer.*

Logistically Impossible Deals

Deals must go through a series of time-bound steps in order to actually close. While deals can jump forward, there's only so much magic in the world. If the pipeline is made up of deals that have no evidence of progress, yet the assumption is that they can make it through selection, negotiation, and the closing process in a week, there's trouble ahead.

> *Run a report showing how frequently Opportunity records are being updated, and how often related lists (Activities, calls, notes, etc.) are being touched. Run another report showing how long the Opportunity has been in its current sales stage. Deals that aren't moving aren't likely to make the quarter.*

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Deals Moving Backwards

Deals typically move through the sales stages in a fairly uniform manner. Unfortunately, most sales reports don't highlight the ones that are moving backwards or sideways. So when a rep makes a change to the close date, sales stage, or dollar value of the deal, the moves may be hidden (especially if you use an expected revenue weighted average, as the rep can decrease the probability and increase the dollar value without being detected).

> *Look out for deals that are moving sideways or backwards. Write a report showing any deal whose probability, stage or value has decreased over the last week, or whose close date has moved out in time. Some of this is natural and inevitable, but a spike in receding deals is a big warning sign.*

Flimsy Pipeline Model

The model of how the pipeline develops, matures, and produces revenue shouldn't be left to the sales VP alone. Marketing, customer support, professional services, production, and operations all have a role to play in the revenue-generation business process. And they should be involved in understanding what can be done to make the sales cycle more predictable. A good model of customer behavior is at the heart of good forecasting - and it's not simple to validate.

> *Ask the Sales VP for his model of the pipeline. It should include the definition of each sales stage (including entry criteria and exit triggers), expected time in stage, and conversion rate. It should include a sales rep productivity ramp function. It should be different for channels and international markets. If it's a single spreadsheet with all-manual entries or just a powerpoint, watch out.*

Activity Markers Supplementing Deal Forecasts

Considering that many pipeline forecasts are a summary of the sales organization's "gut," it's amazing how often the forecasts are accurate. But the collective opinions of the field should be supplemented with objective signals of prospect behavior that validate the progress and likelihood of a deal close. These signals are best provided by the prospect's actions, but can also be generated by your pre-sales, customer support, and web organizations.

> *If you use a formal sales methodology, make sure that its key prospect interactions are represented as field values or workflows in SFDC's object model. Collect prospect-activity data (or at least internal markers that imply prospect activity) in your SFA system, and link them to the Contacts that are actively involved in the Opportunity.*

> *Make sure that every active Opportunity is linked to Contacts and Contact Roles. Create reports that show the prospect activities and interactions with your company to validate that deals really are progressing from the customer's perspective. If you don't have any of these in your system today, you're flying blind.*

Incentives for Accurate Forecasts
Ask a sales rep, and they'll tell you the only thing that matters is making the number. But "making the number" means allocating the right resources - and in a big company that depends on a forecast that doesn't mislead management. Once the basic forecasting disciplines are in place, it's important to provide salespeople specific measurements and incentives for accurate forecasting. This means some analysis to develop feedback loops that predictably reinforce the right behaviors.

> *Even if you don't have any incentives for accurate forecasting today, look out for incentives (psychological or monetary) that encourage reps to hide negative information. If the rep feels the need to hide deals that are going south, management can be completely blind-sided. Ask around - if you find that reps are scared that stalled deals will get them fired, your forecast may be in trouble. Develop reports that flag deals that suddenly die in weeks 11-13, and develop a set of early warning signs of "surprise deaths."*

David Taber is CEO of SalesLogistix.com.

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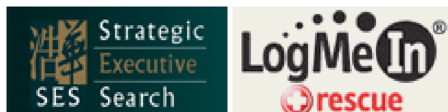

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