

STRATEGIC SALES MANAGEMENT

Sales Forecasting Methods for Informed Decision-Making

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Learning Objectives:

After going through this module, you should be able to:

- Understand the place of selling in the marketing plan
- Apply marketing principles for crafting a strategic sales plan
- **Learn sales forecasting methods to make informed decisions**
- Understand different tools to be used for a crafting strategic sales plan
- Develop models for sales planning

Importance of Informed Decision

- Most companies rely on their **real-time and historical data** to guide them in their decision making process.
- However, making strategic decisions from these **static reports** is easier said than done for most executives and key stakeholders.
- Micro and macro decisions are made every day in large companies with **complex data interrelationships** that no one can visualize.
- This leads to **poor, uninformed decisions** that cost companies billions.

Importance of Informed Decision

- Often or not, these reports and plans are **hard to decipher, no longer accurate or even feasible.**
- Decision makers find themselves in limbo, unable to decide what to do, resulting in last minute, uninformed decisioning that happens in every company.
- The result of this decision-making gap is that plans and business decisions are **not driven by data**, nor aligned with KPIs and business goals – often leading to **below par productivity, performance, and profitability.**

Importance of Informed Decision

- Blockbuster Video turning down the opportunity to buy Netflix



- Yahoo turning down the opportunity to buy Google's PageRank algorithm for \$1 million.



- Business leaders based their decisions on their instincts and experience.

Source: [Forbes-Why businesses need data to make better decisions.](#)

Importance of Informed Decision

- Smarter decision-making means making decisions that are most likely to help companies move towards their goals.
- Traditionally, the driving force behind decision-making has been the **experience and instincts** of business leaders.
- **90% of small businesses and start-ups fail**
- Businesses that base decisions on **data** – not instincts or experience –
- **19 times more likely to be profitable**

Source: [Forbes-Why businesses need data to make better decisions.](#)

What is Informed Decision Making?

- It's the **gathering** of facts and information that may be relevant to the decision.
- It's then **making sense** of or interpreting that information through critical analysis.
- It's **utilizing all relevant sources** of information, knowledge, training and experience.

Informed Decision Making Using Data

- Sales has traditionally been seen as **more of an art than a science**, driven by sales reps' intuitions.
- With **buyers' changing behavior and growing expectations**, sales professionals' reliance on data has grown too.
- For instance, a LinkedIn survey found **56% of sales professionals** using data to target accounts, and a **54% increase** in those using sales intelligence tools since 2018.
- The Covid-19 pandemic, having upended the world of sales, has hastened the shift toward more data-driven sales.

Data Driven Approach to Sales

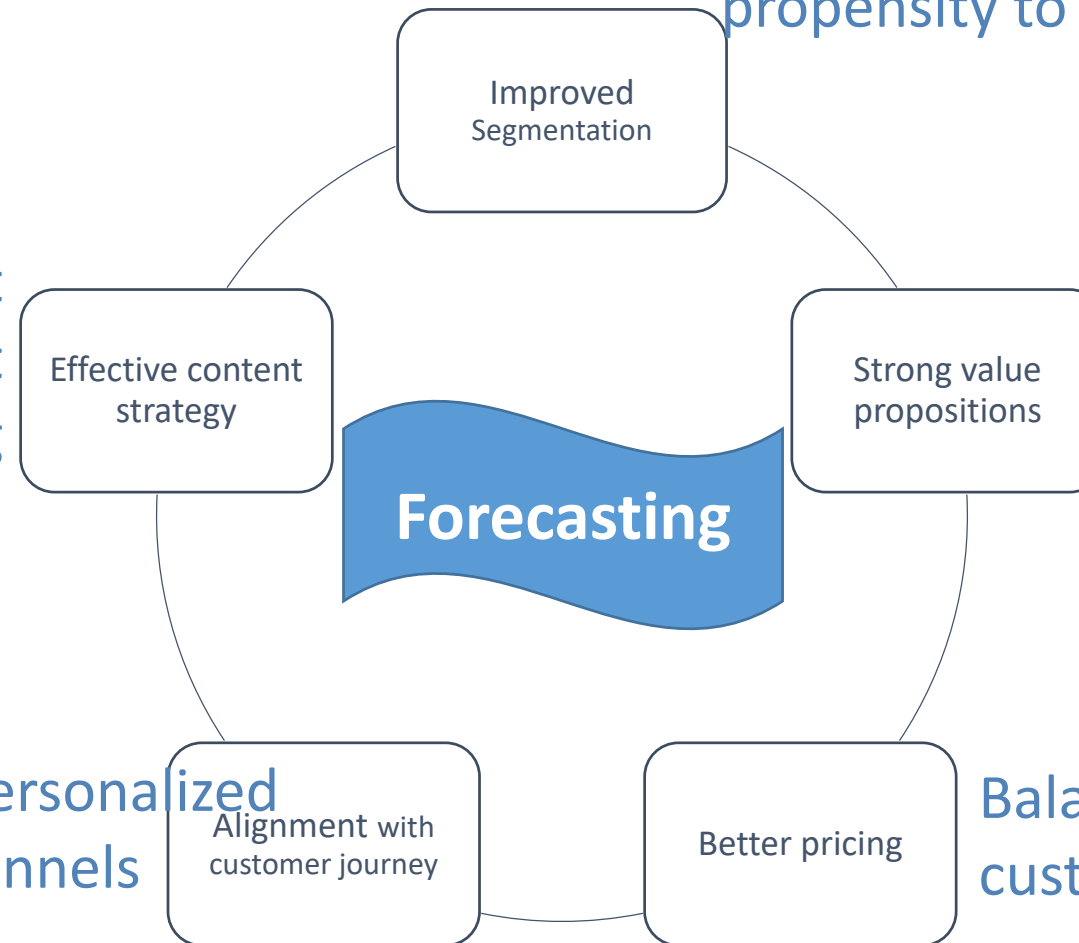
Prioritize high-value customers and those with the highest propensity to buy

What types of content assets are most appropriate for engaging customers?

What value different types of customers derive from their solutions?

Seamless and personalized experiences across all channels

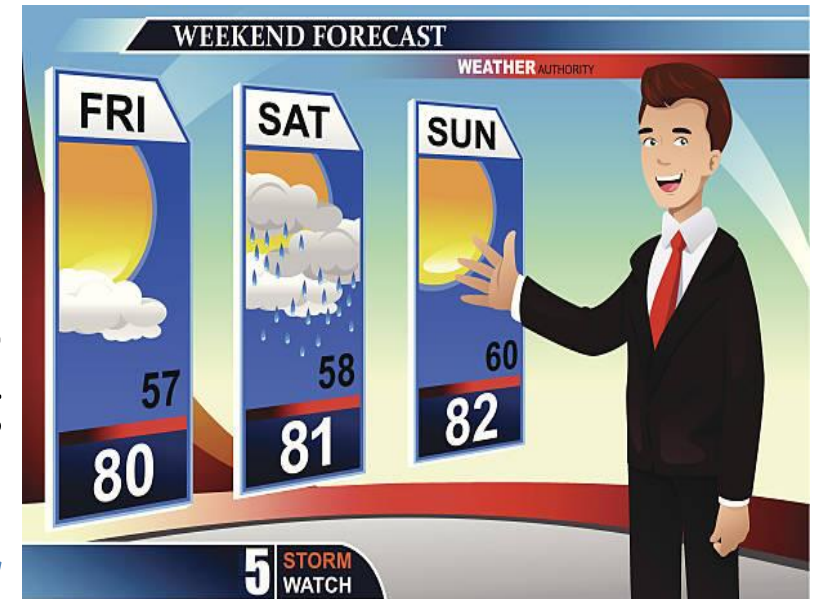
Balancing profitability with customers' affordability



<https://www.forbes.com/sites/forbestechcouncil/2021/02/02/developing-a-data-driven-approach-to-sales/?sh=68232209166e>

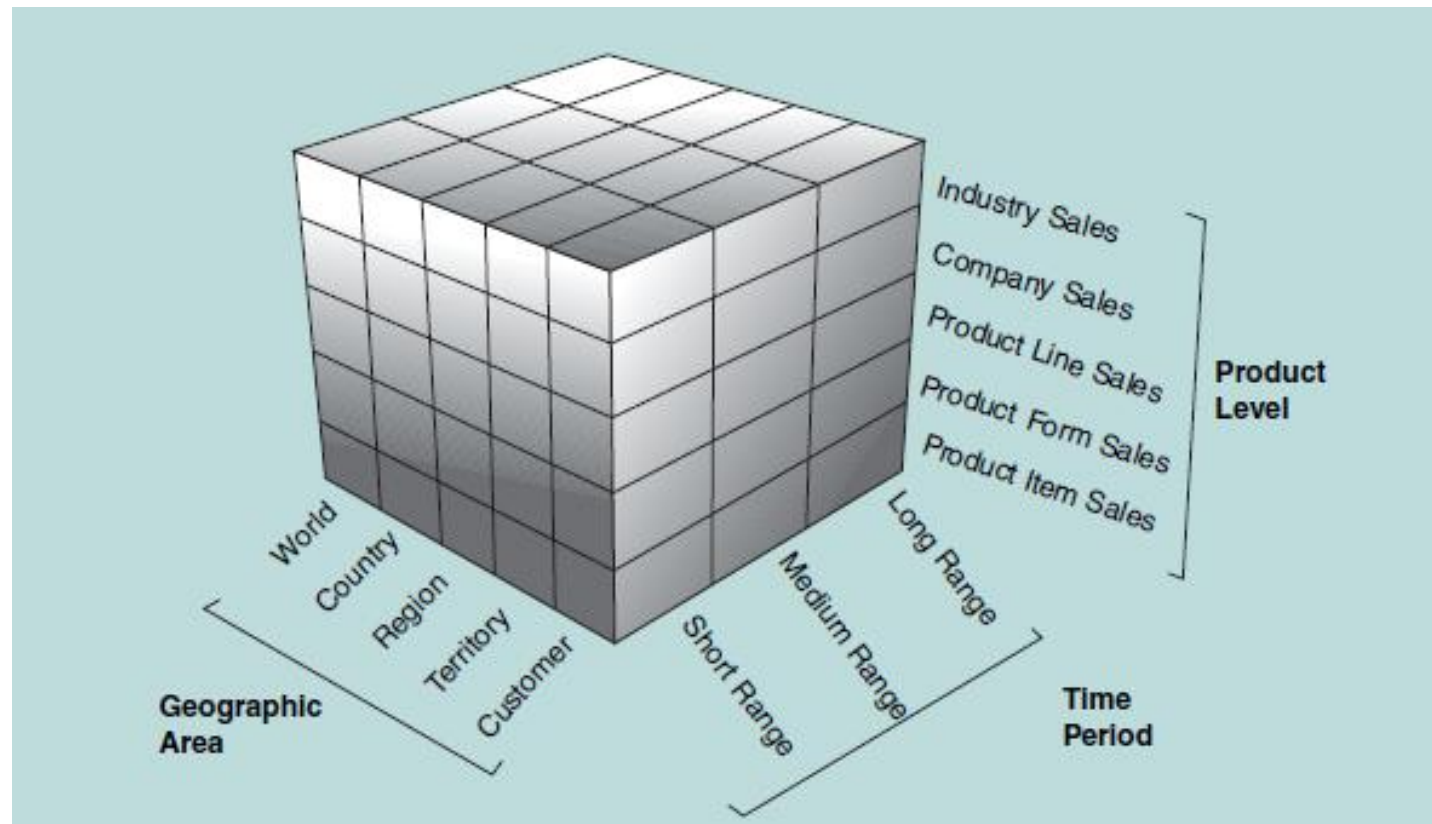
Forecasting

- The business environment is complex and dynamic,
- There are a number of forecasting methods available,
- Often forecasts are incorrect
- Nevertheless, sales managers must continue to forecast and to work on improving their forecasting procedures.
- **Forecasting** refers to *the practice of predicting what will happen in the future by taking into consideration events in the past and present.*



Forecasting

- **Forecast: Product level + Geographic area + Time period**



Source: Ingram, et. al (2019)

Forecasting

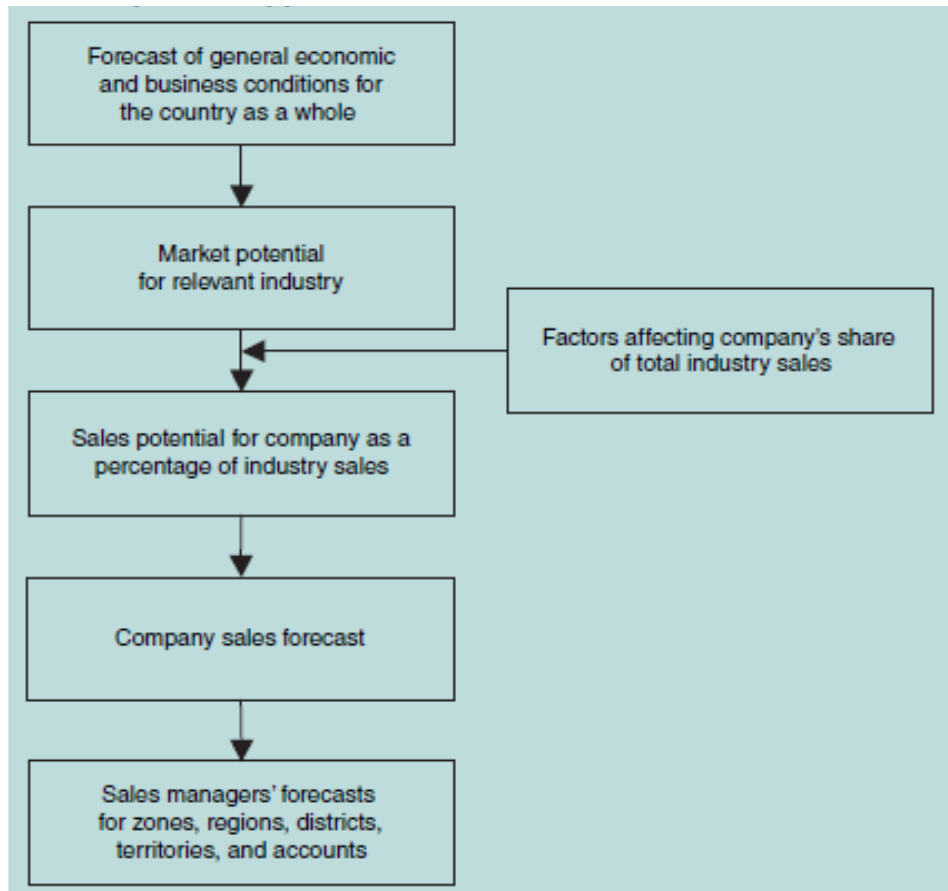
- What is being forecast?

	Best Possible Results	Expected Results for Given Strategy
Industry Level	Market Potential	Market Forecast
Firm Level	Sales Potential	Sales Forecast

- **Market potential** —the best possible level of industry sales in a given geographic area for a specific period.
- **Market forecast** —the expected level of industry sales given a specific industry strategy in a given geographic area for a specific period.
- **Sales potential** —the best possible level of firm sales in a given geographic area for a specific period.
- **Sales forecast** —the expected level of firm sales given a specific strategy in a given geographic area for a specific period.

Source: Ingram, et. al (2019)

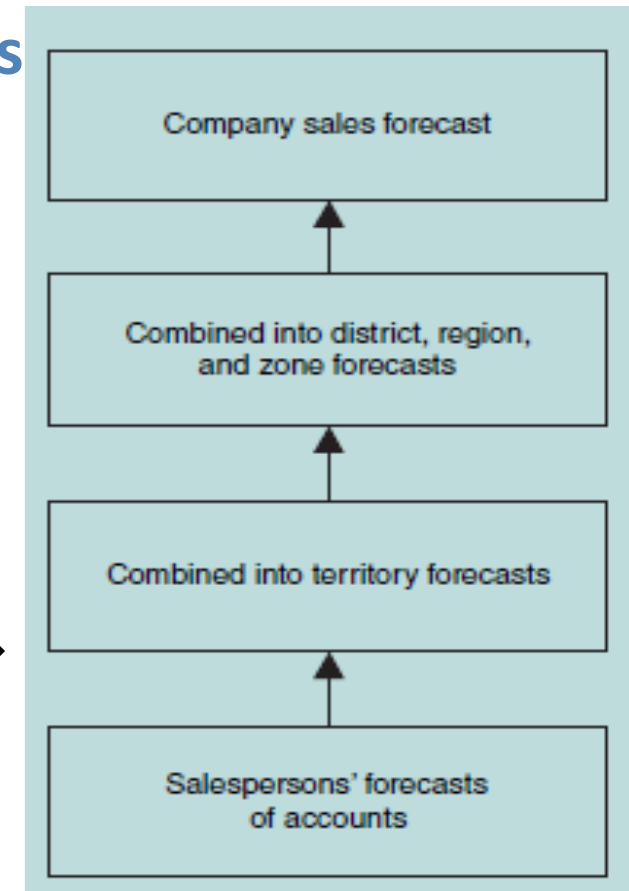
Forecasting



Forecasting approaches

Top-down
Approach

Bottom-up
Approach



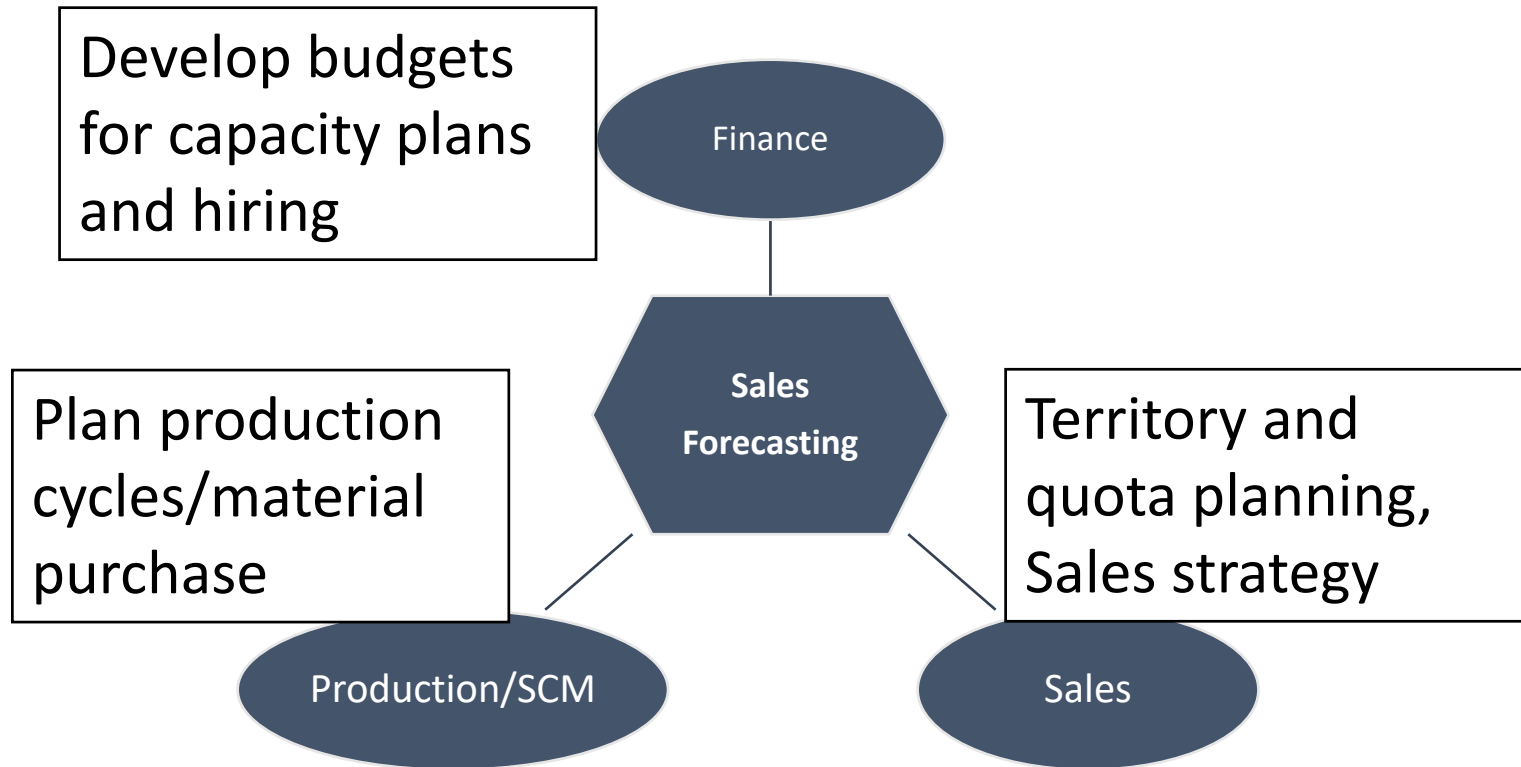
Source: Ingram, et. al (2019)

Sales Forecasting

- Sales forecasting is the *process of **estimating future revenue** by predicting the amount of product or services a sales unit (which can be an individual salesperson, a sales team, or a company) will sell in the next week, month, quarter, or year.*
- At its simplest, a sales forecast is a projected measure of ***how a market will respond to a company's go-to-market efforts.***

Sales Forecasting

- Why is sales forecasting important?

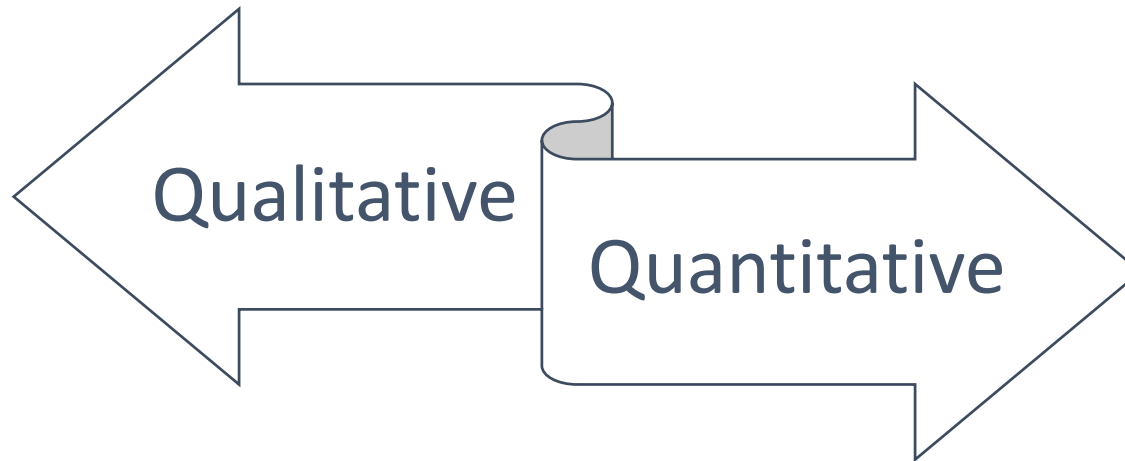


Sales forecasts provide the basis for the following sales management decisions:

- ✓ Determining salesforce size
- ✓ Designing territories
- ✓ Establishing sales quotas and setting budgets
- ✓ Determining sales compensation levels
- ✓ Evaluating salesperson performance
- ✓ Evaluating prospective accounts

Sales Forecasting Techniques

- ☐ Survey of Buyer intentions
- ☐ Jury of executive opinion
- ☐ Delphi method
- ☐ Salesforce composite



- ☐ Moving averages
- ☐ Exponential smoothing
- ☐ Decomposition method
- ☐ Regression analysis

Sales Forecasting Techniques

- **Qualitative – Survey of Buyer Intentions**
- Any procedure that asks individual accounts about their purchasing plans for a future period and translates these responses into account forecasts.
- The intended purchases by accounts might be obtained through;
 - Mail surveys,
 - Telephone surveys,
 - Personal interviews, or other approaches.
- For example, companies such as Dow Chemical and Hewlett-Packard have asked their business customers for feedback regarding intended future needs.
- × Customer intentions may be distorted due to buyers' unwillingness to put much effort into predicting future needs.
- × Buyers are often unwilling to reveal plans for selling a vendor's product out of fear competitors may retaliate if they find out.

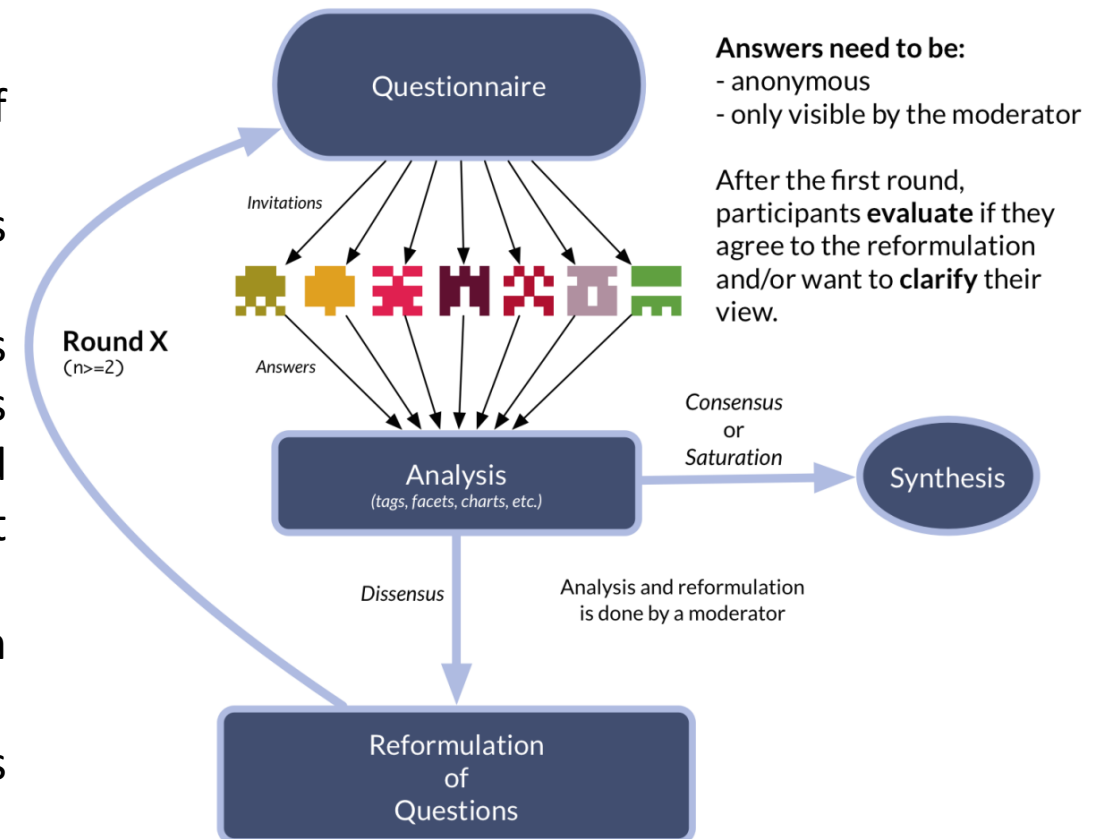
Sales Forecasting Techniques

- **Qualitative - Jury of executive opinion method**
- Any approach in which executives of the firm use their expert knowledge to forecast sales to individual accounts.
- Combine estimates made by executives from marketing, production, finance and purchasing and then average their views.
- Separate forecasts might be obtained from managers in different functional areas.
- These forecasts are then averaged or discussed by the managers until a consensus forecast for each account is reached.
- Team-based approaches such as this are believed to result in more accurate long-range industry-level forecasts than individually based approaches.

Sales Forecasting Techniques

- **Qualitative – Delphi Method**

- I. The basic procedure involves selection of a panel of managers from within the firm.
- II. Each member of the panel submits anonymous forecasts for each account.
- III. These forecasts are summarized into a report that is sent to each panel member. The report presents descriptive statistics concerning the submitted forecasts with reasons for the lowest and highest forecasts.
- IV. Panel members review this information and then again submit anonymous individual forecasts.
- V. The same procedure is repeated until the forecasts for individual accounts converge into a consensus.



Sales Forecasting Techniques

- **Qualitative – Salesforce Composite Method**
 - This method involves each salesperson making a product-by-product forecast for their particular sales territory.
 - Individual forecasts are built up to produce a company forecast, and this is sometimes termed a 'grass-roots' approach.
 - Each salesperson's forecast must be agreed with their manager, and divisional manager where appropriate, and eventually the sales manager agrees the final composite forecast.
- **Modified approach - “Detecting differences in figures” – Bottom-up**

Sales Forecasting Techniques

- **Quantitative - Moving Averages**
- Develops a company forecast by calculating the average company sales for previous years.
- The company sales forecast for next year is the average of actual company sales for the past three years, past six years, or some other number of years.

Year	Moving Averages Forecast		
	Actual Sales	Two-Year	Four-Year
2012	\$8,400,000		
2013	8,820,000		
2014	8,644,000	\$8,610,000	
2015	8,212,000	8,732,000	
2016	8,622,000	8,428,000	\$8,520,000
2017	9,484,000	8,418,000	8,574,000
2018	9,674,000	9,054,000	8,740,000
2019	10,060,000	9,579,000	8,998,000
2020	?	9,867,000	9,460,000

where

$$\text{Sales forecast for next year} = \frac{\text{Actual sales for past two or four years}}{\text{Number of years (two or four years)}}$$

This method weights actual company sales for previous years equally in generating the forecast for the next year.

Sales Forecasting Techniques

- **Quantitative - Exponential Smoothing**

- A type of moving averages method, except that company sales in the most recent year are weighted differently from company sales in past years.

Year	Sales Forecast for Next Year			
	Actual Sales	$\alpha = 0.2$	$\alpha = 0.5$	$\alpha = 0.8$
2012	\$8,400,000			
2013	8,820,000	\$8,400,000	\$8,400,000	\$8,400,000
2014	8,644,000	8,484,000	8,610,000	8,736,000
2015	8,212,000	8,516,000	8,627,000	8,662,000
2016	8,622,000	8,455,000	8,420,000	8,302,000
2017	9,484,000	8,488,000	8,521,000	8,558,000
2018	9,674,000	8,687,000	9,003,000	9,299,000
2019	10,060,000	8,884,000	9,339,000	9,599,000
2020	?	9,119,000	9,700,000	9,968,000

where

Sales forecast for next year = $(\alpha)(\text{actual sales this year}) + (1 - \alpha)(\text{this year's sales forecast})$

A critical aspect of this method involves determining the appropriate weight (α) for this year's company sales.

Sales Forecasting Techniques

- **Quantitative - Decomposition Method**
- It involves different procedures that break down previous company sales data into four major components: trend, cycle, seasonal, and erratic events.
- These components are then reincorporated to produce the sales forecast.

Assume that various analyses have decomposed previous sales data into the following components:

A 5% growth in sales is predicted due to basic developments in population, capital formation, and technology (trend component). A 10% decrease in sales is expected due to a business recession (cycle component). Increased tensions in the Middle East are expected to reduce sales by an additional 5% (erratic events component). Sales results are reasonably consistent throughout the year except for the fourth quarter, where sales are expected to be 25% higher than the other quarters (seasonal component).

A marketer of consumer products might recombine the different components in the following manner to forecast sales for 2020:

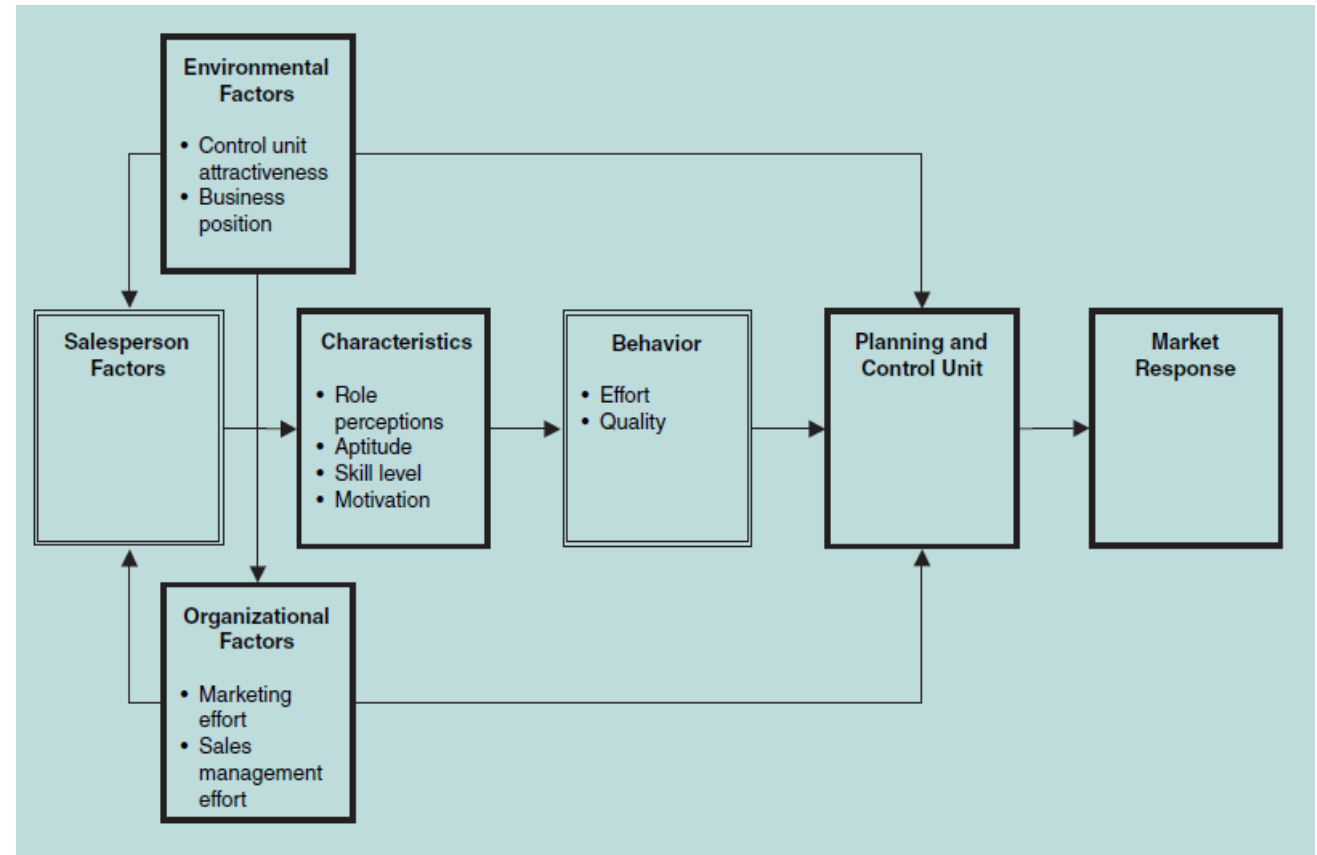
Sales in 2019 were \$10,060,000. The trend component suggests that 2020 sales will be \$10,563,000 ($\$10,060,000 \times 1.05$). However, incorporating the expected business recession represented in the cycle component changes the sales forecast to \$9,506,700 ($\$10,563,000 \times 0.90$). The annual sales forecast is reduced to \$9,031,365 when the erratic events component is introduced ($\$9,506,700 \times 0.95$). Quarterly sales forecasts would initially be calculated as \$2,257,841 ($\$9,031,365 \div 4$). However, incorporating the seasonal component suggests fourth-quarter sales of \$2,822,302 ($\$2,257,841 \times 1.25$) and sales for the other three quarters of \$2,069,688 ($\$9,031,365 - \$2,822,302 \div 3$).

Sales Forecasting Techniques

- **Quantitative – Regression analysis**

- Territory sales = $a + (b1)(\text{environmental factor}) + (b2)(\text{organizational factor}) + (b3)(\text{salesperson factor})$

- × It incorporates only the independent effects of the determinant variables, yet these variables are highly interrelated.
- × This type of equation is linear, yet the determinant variable relationships are probably nonlinear.



Sales Forecasting Techniques

- **Benefits of having an accurate sales forecast**
 - ✓ Improved decision-making about the future
 - ✓ Reduction of sales pipeline and forecast risks
 - ✓ Alignment of sales quotas and revenue expectations
 - ✓ Reduction of time spent planning territory coverage and setting quota assignments
 - ✓ Benchmarks that can be used to assess trends in the future
 - ✓ Ability to focus a sales team on high-revenue, high-profit sales pipeline opportunities, resulting in improved win rates