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2006 Sales Performance Study

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Welcome to the inaugural issue of Miller Heiman's Sales Performance Journal. In this monthly publication, we'll concentrate on the matters you face as a sales executive and the innovations you can adopt to move your business forward. This month, the issue on the table is forecasting.

Ten years ago, if you'd stopped a sales executive on the street to ask what he thought of forecasting, he would have said a forecast is a directional indicator, at best. But, businesses today are much more interconnected, and each department is dependent on each other for accurate information. As the business world continues to get more and more competitive, companies realize that they need to operate with much more precision. Forecasting can no longer just be the result of an individual gut-level reaction; it has to be precise.

Many successful companies have dramatically improved their forecasting process by shifting to a client centric approach. To forecast correctly requires an enterprise-wide understanding of how the client is advancing through the sales cycle and what specifically needs to happen to move the opportunity forward. As companies enlist all of their salespeople in a consistent selling process, then they will begin to see predictability in the way opportunities progress and where they are most likely to stall. Armed with this knowledge, they can more easily tie specific actions to expected outcomes and thereby improve their visibility to the business.

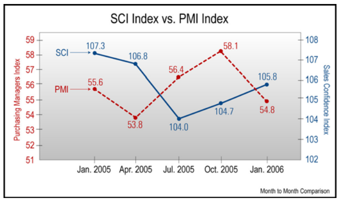
I'd really like to hear your comments and suggestions on the subject. Please email **(info@millerheiman.com)** me to let me know your thoughts.

Best regards,

Sam Reese

President and CEO, Miller Heiman Inc.

Q1 2006 Sales Confidence Index



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Taming the Volatile Sales Cycle *(page 3)*

Do you agonize over the beginning-of-the-quarter sales famine, only to segue into an end-of-the-quarter sales feast? That's not an uncommon cycle. Bob Miller, co-founder of Miller Heiman, advises an unorthodox method of evening out that kind of sales roller coaster. Rather than working the sales process funnel from the bottom up by closing important deals and moving prospective business toward the bottom of the funnel, Miller advocates paying closer attention to the deals that are just coming into the top of the funnel. This ensures a continuous flow of opportunities.

The Importance of Accurate Sales Forecasting: A CFO's Perspective *(page 5)*

As CFO of ePartners Inc, Jamie Miller oversees all financial matters for a fast-growing technology consulting firm with 350 employees in about 20 U.S. and U.K. locations. The Sales Performance Journal talked with Mr. Miller about strategies for building bridges between finance and sales—and reaping more accurate revenue forecasts as a result. From using systems correctly to the importance of speaking a common language, Miller shares his views.

Fast Forward: Next Steps on Improving Sales Forecasting Effectiveness *(page 7)*

Our monthly Fast Forward article takes a look at the concepts we've presented in each issue and then gives you some ideas about how to execute those concepts in the real world. As a sales leader, you understand the benefits of ensuring forecast accuracy. You also know the result of an inaccurate forecast—ranging from internal manufacturing difficulties to angry investors. There are three philosophies you can implement to make your forecasting more accurate: discipline, integrated vocabulary and standard process.

Taming the Volatile Sales Cycle

By Robert B. Miller

Editor's note: Following is an abridged version of an article which was recently published in MIT Sloan Management Review. The full article is available online at www.millerheiman.com

Many companies experience wild fluctuations in their revenues. "It's either feast or famine," is the all-too-familiar refrain. To exacerbate matters, these fluctuations are often unpredictable, as evidenced by the countless companies that miss their revenues projections, unleashing the wrath of Wall Street. And bad sales projections also wreak internal havoc. Few things infuriate the manufacturing division more than ramping up the production of an item that only ends up sitting on shelves.

Of course, every sales cycle has some degree of volatility. Aside from the usual types, such as, for example, a big customer going bankrupt, there's another type of volatility that many executives seem to think is some kind of natural law. At the beginning of every quarter, sales tend to falter; at the end, they often surge. This continuous roller coaster can be a huge problem when big deals fail to materialize at the last minute.

The Sales Funnel

The typical sales process is like a funnel: At the bottom are the deals that are nearest to being closed; in the middle are other prospects in the works; and above the funnel are numerous promising leads that need further investigation. Each of the three areas of the funnel requires different activities. At the bottom of the funnel, the company must remove all remaining obstacles to close those deals. In the middle of the funnel, it needs to do important background work. Above the funnel, it needs to screen the leads to identify which should be pursued. And, of course, it also needs to continue prospecting to ensure a healthy supply of new leads.

Many executives prioritize these activities from the bottom up. But, here's what typically results from a bottom-up strategy: The sales organization closes important deals and is busy moving prospective business from the middle to the bottom of the funnel. This is arduous work and, pressed for time, people just do not get around to generating any new leads. This can lead to a plunge in sales, until the sales organization is able to move a new crop of leads down the funnel, which eventually leads to another sales uptick. Then, the process repeats itself.

The surest way to achieve continuous flow through a sales funnel is to prioritize the three areas of the funnel in the following way: bottom, above and then middle. The only way to ensure that activity above the funnel receives the attention it deserves is to prioritize it ahead of the work that needs to be done in the middle.

By doing so, companies can combat the numerous psychological factors at play. People in general don't like uncertainty, and they prefer to concentrate on the surer things first. Related to that, people tend

About the Author

Robert B. Miller, brings almost forty years of experience in sales, consulting and executive management to help clients succeed in the sales arena. As a recognized expert in complex sales management, Mr. Miller is the co-author of three best-selling business books: *Strategic Selling® (1985), Conceptual Selling® (1987), and Successful Large Account Management® (1991)*, which have been translated into seven languages. A fourth book, *The 5 Paths to Persuasion,* was published in April 2004 by Time Warner Books.

Mr. Miller developed the *Strategic Selling®* programs that he later incorporated into Miller Heiman, Inc. He has built and managed several sales forces at national and international levels.

to focus on the short term at the expense of the long term, and the payoff for working above the funnel typically seems too distant. Lastly, the simple fact is that everyone dislikes the hard (and seemingly thankless) task of prospecting.

Of course, no company can afford to neglect working the funnel's middle. Prospects there must still be shepherded toward the bottom so that those deals can eventually be closed.

Toward Better Funnel Management

Telling salespeople how to manage their individual funnels is one thing; getting them to do so is an entirely different matter. To accomplish that, a company needs to have salespeople regularly monitor and track the activity in their individual sales funnels. It is important to remember that the desired prioritization (that is, working the funnel from bottom, above and then middle) is just the static overall goal. Companies have to keep in mind that each salesperson's time should be allocated in dynamic fashion, given the particular status of that person's different customer prospects.

That said, a company can uncover a number of problems by tracking the overall, combined funnel of its sales force. For example, a general lack of movement through the funnel suggests that people might be incorrectly classifying the different sales prospects.

Consider the operations of a large aerospace company that manufactures its products—all high-ticket items—to forecasts from the sales organization. Unfortunately its sales forecast had been all over the map, with an average accuracy of just 35%. Then the company's new senior vice president of sales implemented a program to teach everyone the fundamentals of funnel management. Definitions were clearly delineated and codified (for example, a customer prospect had to meet specific objective criteria before being considered "in the funnel"), and formal funnel reviews were held each week. The SVP of sales appointed one of his top lieutenants to oversee the organization's entire funnel management. Within one quarter, the accuracy of the company's sales forecasts had improved to 60%. With additional work, that number exceeded 75%, and the change has saved the firm millions of dollars a year because the manufacturing group now has a much better handle on future orders.

For companies that aren't paying enough attention to work above the funnel, a number of practices can help. A good rule of thumb is that, every time people close a deal, they must prospect or qualify something else.

Even though revenues are the lifeblood of a company, many CEOs and other senior executives are ignorant of various aspects of the sales function. The simple truth is that the sales function is a definable, repeatable process that can be tracked, planned and managed, and those that believe otherwise will continue to suffer the many volatile ups and downs of the sales roller coaster.

The Importance of Accurate Forecasting: A CFO's Perspective

By Anne Stuart

Jamie Miller is particularly well qualified to provide a CFO's view on sales-finance relationships and revenue forecasting.

As CFO of Seattle-based ePartners Inc., [Mr.] Miller oversees all financial matters for a fast-growing technology consulting firm with 350 employees in about 20 U.S. and U.K. locations. (ePartners, which experienced double-digit growth in each of the last three years, expects to reach $85 million in revenues in 2006). Previously, he held executive positions at several other public and private companies. From managing seven mergers and acquisitions, Mr. Miller knows first-hand how such massive transactions can change corporate relationships and processes. And, having raised $85 million in venture capital, he's something of a salesman himself.

Representing the Sales Performance Journal, business journalist Anne Stuart talked with Mr. Miller about strategies for building bridges between finance and sales—and reaping more accurate revenue forecasts as a result. Following are the edited highlights of their conversation.

Sales Performance Journal: How would you describe the traditional relationship between CFOs and their companies' sales executives?

Jamie Miller: Historically, the personality types that drive sales and those that drive finance and operations are very different. They tend not to spend time with each other. And that's a mistake. The entire being of any company—whether it's a start-up or an enterprise or at any of the states in between—is fed by its sales organization's ability to drive revenues.

SPJ: What's your own approach to that relationship?

JM: I've always made a special effort to bond with the sales folks. I'm still friends with the VPs of sales at many of the organizations I've been part of. And in our organization, every one of the executives is paired up with one of our four regional general managers to insure this bond is established. I'm paired up with the GM running our southern region.

SPJ: What's the most important factor in building bridges between the larger finance and sales organizations?

JM: The main thing is knowing that you're speaking the same language, especially when it comes to sales forecasting.

Salespeople want to tell you what's going on in their world. If you give them only one word to describe their expectations [such as "forecast"], accurate communication becomes a problem. We use three words to describe our sales forecast. "Commitment" means "I guarantee you that this number is coming in." "Forecast" is more about what the expectation is. And "upside" is the best forecast-able scenario. They only use those words, and when they use them, we know what they mean.

Company Profile

EPartners Inc.
Business: Consulting, support, service for Microsoft business products
Headquarters: Seattle
Founded: 1992
Revenues: About $74 million in 2005
Employees: About 350 in 20 locations worldwide
Web site: www.epartnersolutions.com

SPJ: How important is grassroots involvement in sales forecasting?

JM: Forecasts cannot be open to interpretation. The whole point of a forecast is that it's supposed to give you guideposts for what your actions are, how you allocate your resources, what you spend your time focusing on. At the very base of that, you need to involve the person who is out there actually driving the sale. So we include everybody who sells in that sales forecast.

Obviously, each person's interpretation of where they are in the sales cycle is different. So we've established milestones throughout the sales cycle—all the way from first contact to contract and everything in between. Those are the markers; there are about 10 stages that we look at. That way, there's no interpretation: We ask where they are, and they tell us what milestone they've reached. We use MSCRM to keep track and to keep score.

SPJ: What are the potential consequences of inaccurate forecasts or missed expectations?

JM: You can argue about what killed the whole dot-com era, but at the heart of it was that [the failed companies'] sales didn't meet their revenue forecasts….They built these tremendous organizations based on revenue forecasts that never materialized, and there was no synchronization between [the company's resources and their business activities]. That's an extreme example, but any company that doesn't have an accurate forecasting system will underperform its potential.

[At ePartners,] we have to be profitable in the short run to justify our existence. A lot of what we've decided to do has to do with our ability to forecast. Forecasts drive discussions like: Do I want to invest in Product A or Product B? Do we want to spend money on more consultants, another executive? Or do I want to invest in a new salesperson?

SPJ: You're currently CFO for a private company, but you've held executive positions for public companies in the past. How is forecasting different for them?

JM: With public company forecasts, you've got to be very careful about defining what terms you use for your audience. I can say to [ePartners'] board, 'Our commit level is this, our forecast is this and our upside is this.' Public companies really can't get away with that. They're typically asked to provide a single number, the forecast. They're under a lot more scrutiny. So public companies are much more cautious about their definitions and making sure that they're on the conservative side of those forecasts.

SPJ: How does rapid growth affect sales forecasting? What practices and tools do you use to stay on track while you're expanding?

JM: We've grown a bit through acquisition. When you've got new cultures being introduced to existing cultures, it's even more important to make sure that you're all speaking the same forecasting language. That way, no one's going freestyle and disrupting your ability to predict future resources.

Interview Subject

Name: Jamie Miller
Current Title: CFO, ePartners Inc., Seattle
Previously: Senior Vice President of Corporate Development, ePartners; CFO/COO of Ernst & Young Technologies Inc.; co-founder, CFO/COO of Platform Inc.; COO, DBS Direct Inc.; CEO/CFO/COO of iCat Corp.; earlier positions with Intel Corp. and Wells Fargo & Co.

Education: B.A., University of Colorado; M.B.A., Pennsylvania State University.

About the Author

The Sales Performance Journal contributor Anne Stuart is a former writer and editor for Inc. and CIO magazines and The Associated Press. She is now a freelance writer based in Boston, where she writes for a variety of publications, including CFO magazine.
For questions and comments about this article visit **www.millerheiman.com/forms/ask_expert.htm**

As your company gets larger and larger, the managers become more and more distant from what's going on at the customer level. You need some proxy for that. A good CRM [customer relationship management] system can provide that by giving a glimpse of what's going on through the sales cycles. We definitely live and breathe off of our CRM system.

SPJ: How do you make sure people use such systems—and use them properly?

JM: Making the systems human-friendly is very important. Ninety percent of it is getting people comfortable with those systems [for which ePartners provides training]. But you've got to enforce consistency in terms of putting accurate information into that system. [At ePartners,] people are held accountable for updating their information. We've established penalties for sandbagging—putting in numbers that are too easy to meet—as well as for over-forecasting.

If the information is not valuable, not accurate, it affects everything else downstream. Ultimately, there's a lot of effort that goes into accurate forecasting, but it's important.

Fast Forward: How Sales Leaders Can Ensure Forecast Accuracy
Discipline. Integrated Vocabulary. Standard Process.

Attitudes about forecasting can differ radically from organization to organization, and even within organizations. Some perceive forecasting as nothing more than making a wild guess; others realize that buy-in to accurate forecasting is critical to the overall success of the organization. It's not about gut feelings. It's about science, disciplined thinking and planning.

"You cannot forecast based on hope. It has to be objective and real."

Clark Owen
Sales Vice President
Miller Heiman

Though divergent opinions may even be held within the same company, every executive knows the importance of accurate forecasts, since an erroneous forecast can have disastrous and far-reaching effects, ranging from internal production and manufacturing difficulties to "the wrath of Wall Street," as Robert Miller, co-founder of the Reno-Nev.-based Miller Heiman, Inc. puts it.

"Inaccurate sales forecasts stem from poorly defined processes and inconsistent language based around forecasting."

David Pearson
Vice President of Sales Operations
Miller Heiman

Discipline leads to accuracy. Even if your current forecasting systems are inconsistent at best, Miller has seen forecasting significantly improved in a month's time. "That can happen once an organization commits to a disciplined approach to forecasting." He goes on to say that forecasts that have been constructed in a disciplined fashion stop being wish-lists and become solid and dependable decision-making tools.

Integrated process and vocabulary: Defined, consistent sales processes where expectations are clear lead to reliable forecasts. As you make your way toward a systematized sales process, a shared vocabulary among sales managers is crucial, and must also be integrated across departments and divisions throughout the organization. Once that vocabulary is in place, there's no room for error when setting expectations.

Key Questions: Clark Owen, sales vice president for Miller Heiman, is someone who relies heavily on accurate forecasting, recommends asking questions as the key to a precise forecast. Answers to key questions determine objective criteria that predict the probability of the opportunity. These criteria vary across industries, but similar questions can be asked of each opportunity to determine its likelihood of coming to fruition, such as:

- What are the buying criteria for the potential buyer?
- Does the buyer have money to make this kind of purchase?
- Is the sales manager talking to the decision-maker?

Accurate data assessment: In order to be successful, you need to use both fact-based and credibility-based forecasting, according to David Pearson, Vice President of Sales Operations for Miller Heiman.

Credibility-based forecasting requires sales leaders to use knowledge based on past experiences, both with the salesperson and the account at hand. To successfully perform this type of forecasting, sales leaders can ask themselves questions, like:

- How does this particular salesperson typically forecast?
- How does this particular salesperson typically work deals?
- What kind of sales track record does this particular salesperson have?
- How has the account in question bought from you in the past?

Fact-based forecasting is about defining the steps in your sales process and the steps in the customer's buying process. "Look at historical data to gauge the future, and attack this data from a reasonability perspective to get a good beginning baseline," advises Pearson.

Historical data can illuminate the conditions that exist when you win a deal. By identifying those conditions, you can determine which criteria you should use to weigh the probability of an opportunity becoming a win. Owen says that the *Funnel ScoreCard*SM can help you in this endeavor, since it eliminates ambiguity and the possibility of misunderstandings between sales people, sales leaders and other executives.

The *Funnel ScoreCard*SM:

- Formulates business and opportunity criteria
- Assigns value to each of the criteria
- Defines each of the criteria in detail.

"The companies that forecast sales the best are those that create a position that is solely responsible for holding the team accountable for using the forecasting process correctly. I like to call that person the Funnel Meister," Miller says.

Forecasting & CRM

Many companies feel that a CRM system alone will solve their forecasting problems. Miller Heiman found otherwise, in its 2006 Sales Performance Research Study:

- 72 percent of respondents say their CRM system does not provide accurate forecasting.
- 67 percent say their CRM or SFA system is not integrated with the organization's sales process.

When it comes to accurate forecasting, CRM systems provide value when they are tightly integrated with a disciplined sales process.

Theory Into Practice

Jose Becquer, Executive Vice President of Treasury Management Sales and Commercial Business Development for Wells Fargo, says he and his team do a "large deal review," in which salespeople bring deals forward and run them through an opportunity checklist based on Miller Heiman concepts. The checklist is a series of twenty questions—such as "Do you know who the decision-makers are?"—that rank and prioritize deals, allowing everyone to achieve more accurate forecasts.

In one example of a potential deal that Wells Fargo team members put through the opportunity checklist procedure, the prospect had a great relationship with the incumbent provider and didn't view Wells Fargo's product as having an edge over the incumbent provider's product. Recognizing that these were sign-posts pointing to a deal they were unlikely to win, Becquer and his team didn't waste precious time creating a custom bid for the prospect, instead bidding close to its standard pricing, and they took that deal off the forecast.

The opportunity checklist practice doesn't just benefit the forecast-accuracy side of the equation, but also the percentage of deals won. Previous to implementing this practice, corporate deals at the annual revenue level of $50,000 and above came in at a rate of 25-30 percent. Now, these deals are won at a rate of 50 percent.

Becquer also recommends calculating and tracking coverage of shortfall. "Sometimes people get too enamored with one part of the process," Becquer says. "We're zealots about understanding that, from end to end, you have to have a certain amount of calls that lead to a certain pipeline level that lead to forecasting." Wells Fargo salespeople go on at least 20 in-person sales calls per month. This keeps salespeople focused not just on the current month, but on the big picture.

Results Through Objectivity

By implementing these recommended best practices, you will apply the most necessary tool for an accurate forecast—objectivity. "It forces you to think about and plan for—rather than just hope for—an opportunity," Owen points out. And, while adopting a system will improve your organization's forecasting, it's important to note that sales talent still comes into play. As Miller says, "Good forecasts are still art, not science. Do not pretend otherwise. Nonetheless, forecast results can be improved greatly through disciplined scientific thinking."