Forecasts Or Honest Information?

by **PAUL PEASE**

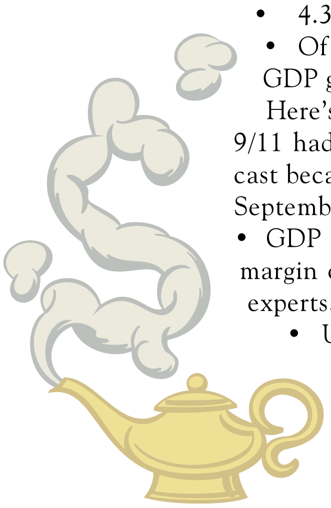
The predictability of future business through the eyes of the field sales force is critical to effective decision-making on the part of any executive. What is the trend? What is changing? What's over the horizon? Knowing this can help the executive make the necessary strategic decisions that keep a company in step with the changing marketplace and ahead of the competition. The problem is most organizations use an outdated business school approach to getting this information: sales forecasts.

Every December, *Business Week* solicits the expert predictions of 54 of the top economists in the country. In 2000, their predictions for 2001 were:

- 3.1 percent GDP growth (average of the 54).
- 4.3 percent jobless rate.
- Of the 54, the lowest prediction for FY 2000 GDP growth was 1.7 percent.

Here's what actually happened in 2001 (Note that 9/11 had no appreciable bearing on the 2001 forecast because the forecast is for FY October 1, 2000-September 30, 2001):

- GDP grew at less than 1 percent — a three-fold margin of error as the predicted average of the 54 experts.
- Unemployment hit 5.7 percent, 33 percent higher than the gurus predicted.
- To add insult to injury, the closest expert (the lowest of the 54) was off by a whopping 70 percent (and he was noted as being the best of the best in the article).



Conclusion

- Economists can only predict upswings in the economy, and then only by luck. They may hit the number, but not for the reasons they predicted.
- They can't predict downturns, which is really the only time they need to get it right.

Question: If the best minds that are paid to predict the economy can't get it right, why do we ask our salespeople to predict outcomes?

Forecasts from the Field

Getting forecasts from field sales is more challenging than ever. It's difficult enough to get quality, timely communication from the field. Forecasts are worse. Why do salespeople hate forecasts?

- They hate doing any reports.
- They get punished (beat up) for doing them.
- Their experience in field sales tells them the future is not predictable — they will hear "no" more than they will hear "yes." Consequently, they don't know which ones will hit.
- A naïve management (to the sales process) has hounded them to bring in the orders — make the

numbers. This is the birth of sales orders á la Enron smoke and mirrors.

A CFO of a $6-billion company (who loved to beat salespeople up on forecasts) was asked: "What mergers do you have in the pipeline, what are the odds of them happening, and when do you expect them to happen?"

CFO: "I can't tell you that."

"Why not?"

CFO: "Because it's privileged information."

"Privileged, or are you afraid you're going to screw it up and/or get beaten to the punch? Funny we only ever hear about the mergers after they happen and never about the ones you screw up because that's 'privileged' information. How convenient."

Conversation over.

Why does management need forecasts?

- Resource allocation planning — personnel, financial, materials, capital equipment, production scheduling, etc.
- Forecasting shows if sales activity is in line with the business strategy.
- It gives management and stockholders a feeling (albeit a false one) of assured growth.

The problem isn't that forecasting isn't prudent business practice, nor is it that forecasting is a waste of valuable sales time. The problem is management doesn't know how to get salespeople to give them what they really need: good information.

Forecast or Threat?

In the early 1980s, Gould went on a business buying spree. One company they bought in 1981, Gettys, started to suffer greatly during the 1982 recession. Gould then decided to push Gettys' sales to "make (up) numbers." They asked the Gettys' sales engineers to "forecast" 1983 territory numbers, as long as each territory grew by $1 million. That's not a forecast — it's a threat. Which is a typical use of sales forecasting. Then Gould started to maneuver more numbers — holding the sales books open past the end of a month, shipping products early to make the monthly numbers, shipping partials but invoicing for the complete order, and so on. Gould eventually disappeared. Enron isn't the first — nor will they be the last — company to "cook the books." It usually starts with unrealistic forecasts and the fact that management and Wall Street will not accept reality — which is occasionally in the form of bad news.

The economy expands, then it pulls back. It always has, it always will despite our meager efforts to forecast infinite growth. The sooner management accepts lowered forecasts as a warning of business contraction rather than a confrontation with field sales, the sooner management will start getting some real information and be able to make better decisions to mitigate the effect of the downturn.

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Specific Sales Are Unpredictable

Any manager who beats up a salesperson for "not getting the order at XYZ company or not making forecast" has never spent a second of their business lives in the field on a sales call. Not the pre-arranged guaranteed feel-good sales calls; real sales calls, where the executive has to negotiate — and the outcome may very well be "no."

Now an exec will say, "But I want to see the trend." Fine. Get copies of field correspondence and read them: the quotes, proposals, etc. If execs are close enough to field sales, then they will also know the predictability of these events.

This brings up another issue about forecasting: probability of closure. How consistent is that over the span of the sales force? The optimists disappoint management because they don't bring in everything they hope to bring in, and the pessimists are accused of sand-bagging. Furthermore, there is no such thing as getting 70 percent of an order. Either you get the order, or you don't.

The Solution

Copies of correspondence, candid communication, mutual action planning.

In addition to copies of correspondence to customers, the other important aspect of getting information from the field is for any manager to be in continuous

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verbal contact with their field salespeople. Taking notes of pertinent comments made during conversations is the best and most accurate way information flows because it is unconditional and voluntary.

The third element of good information flow is for each sales territory to have a mutual action plan with the home office. This mutual action plan aligns a successful local selling strategy with the overall corporate strategy. It also serves as a focal point for decision-making and territory growth management.

Without question, it is critical that the executive suite of any business get accurate information from field sales as to what the trends in the marketplace are. The problem is that there are far too many executives that go about this the wrong way — which leads to no information flow or bad information flow. Forecasting as a means to extract meaningful information from field sales is an approach that has never led to the desired result — nor will it ever. Continuous information flow via candid and unconditional communication built around a mutual action plan will give the executive what they need: a clearer picture of trends and changes in the marketplace. ❐