Contract Lifecycles Are Key to Accurate Sales Forecasting

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Executive Summary

Predicting the probabilities that leads and projected opportunities will actually become sales, and produce revenues, is essential for virtually every business. Yet, all too often, achieving accurate sales forecasts is limited by poor data sources that require prognosticators to be not just skillful, but artful as well. As a result, instead of forecasts delivering the needed accuracy, detail, and resolution of a professional digital photograph, they often appear more like fuzzy 19th century impressionistic paintings.

Sales force automation (SFA) systems were originally conceived as a way to resolve this problem. By creating an application for tracking sales-related data, the thinking went, C-level executives could easily get their hands on the information they need to ensure effective business management. Sadly, this hope remains mired in the reality that SFA solutions are not always widely adopted, and when they are, the data entered does not always accurately reflect real conditions.

The good news is that since a sale is really a metaphor for a closed contract, objective sales forecasting data can be obtained by tracking contract lifecycles. Although this may represent a change in focus, the change is not operationally significant; contracts are, after all, a key part of the sales process. With a robust contract lifecycle management (CLM) solution that can be seamlessly integrated with an SFA solution, companies can have it all—effective sales tools and accurate sales forecasting capabilities.

Black Magic is No Way to Run a Business

There is no question that there are several stages in a sales cycle, and that each time a new stage is reached, the likelihood increases that the underlying opportunity will translate into a closed contract. Issues do arise, however, in the ability to accurately determine these probabilities. The problem here is a general dearth of reliable data that forces executives to rely on scratch pads, spreadsheets, and black magic formulas to convert available information into meaningful forecasts.

But, try as they might, the value of these forecasts is limited by that old adage, “garbage in, garbage out.” Although best efforts may be applied to manually research sales records, contract status, and other historical metrics, sales forecasting has remained an arcane practice, not the precise science that could so dramatically benefit a company’s management capabilities.

Contract Lifecycle Management as a Metaphor for Sales Forecasting

Fortunately, that picture now can be improved significantly with CLM solutions that offer analytical features to predict the probability that any given contract will close. This capability is possible because the technology enables an evaluation of historical performance throughout a contract lifecycle that could include the following steps:

1. request
2. assemble
3. internal approve
4. negotiate
5. executive approval
6. sign
7. close

As a contract passes through these lifecycle stages, the likelihood of the contract closing increases. Yet, much of this process is not—and cannot be—tracked with conventional SFA tools because they lack an ability to analyze past contract successes, cycle times, and customer and contract metadata.

By comparison, with the ability to perform such evaluations, a CLM solution can create an accurate short-term revenue forecast based on the probability that a contract will close. By documenting for example, that it typically takes longer for a contract to be negotiated with a telecommunications provider as compared to a software vendor, then the accuracy of a prediction about when a contract will close for similar companies will be more accurate.

The Contract as a Sales Tool

The percentage of sales—and revenues—linked to contracts is rapidly increasing. According to a recent Aberdeen Group report, this figure, already at 56 percent, is projected to increase to 68 percent by late 2008. As a result, the importance of contract data when making sales forecasts is becoming increasingly clear and, to ensure that sales forecasting is as accurate as possible, requires that a contract boilerplate be introduced into the sales cycle as early as possible.

If a prospect requests a detailed contract after a first round of reviews, then the contract lifecycle begins at this point—and so does the ability to predict its closure. An added benefit of this approach is that by making the contract process more collaborative, companies may be able to demonstrate their willingness to adapt to the requirements of prospects, possibly a big step in closing a sale.

It is widely accepted that an SFA solution cannot provide a highly accurate sales forecast. But by factoring the contract lifecycle into sales forecasting efforts, this problem can be resolved and the ability to make accurate and meaningful business decisions will increase dramatically. Since the contract has already become an integral part of the sales process, it is clear that now is the time to turn to a CLM system for improved sales analytics.