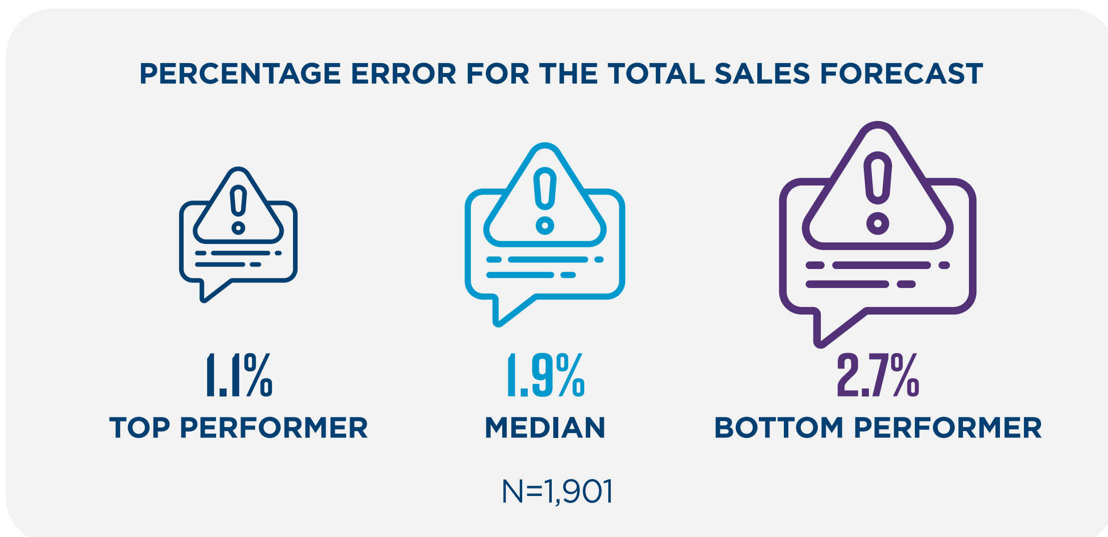
MEASURE CATEGORY: PROCESS EFFICIENCY

PERCENTAGE ERROR FOR THE TOTAL SALES FORECAST

Source: *Open Standards Benchmarking Assessment in Planning and Management Accounting*

Sales forecasting is a discipline that any strong finance team will want to master and is especially important in industries where the majority of an organization's operating costs are fixed. When it's reliable and accurate, the sales forecast can help leaders better manage staffing levels, production schedules, capital expenditures, and other business activities with greater confidence.



Metric Calculation:

THE ABSOLUTE VALUE OF [(PROJECTED – ACTUAL SALES) DIVIDED BY ACTUAL SALES] X 100

INTERPRETING THE DATA:

In 2020, APQC saw the cadence of forecasting accelerate dramatically in many organizations as they worked to adjust to COVID-19. Forecasting enabled CFOs and their finance teams to keep their boards of directors informed, keep leadership teams focused, and drive better decisions in a pandemic. While some finance leaders may argue against the merits of the traditional budget and the corporate budgeting process, you won't find many people who would argue against the value of an accurate forecast.

APQC finds that top performers have a forecasting error of 1.1 percent or less, while bottom performers see more than twice the rate of error at 2.7 percent or more. For an organization with five billion dollars in revenue, the difference between top and bottom performance amounts to $80 million in expected-but-unrealized revenue.

Three Practices to Produce More Efficient and Accurate Sales Forecasts

1. Strive for Integrated Data - Identify the information you need to prepare a forecast and ensure you will have access to that information. System reports, historical data, and even employee observations are key to producing a comprehensive forecast.

2. Create a Culture of Forecast Accuracy - When organizations incentivize forecast accuracy with rewards, they encourage employees to game the system by presenting overly conservative or overly optimistic (rather than realistic) forecasts. Bias seeps into the forecast as a result. Rather than incentivizing accuracy, it's best to focus your team on presenting unbiased, reliable information. There can be measures of reliability and usefulness for the forecast that are aligned with strategic objectives without the need for accuracy-based financial incentives. This can be achieved, for example, by rewarding relative performance or improvement. This approach shifts the motivation of the forecast toward making the best, most realistic estimates rather than manipulating the forecast to make the results look better.

3. Incorporate Stakeholder Feedback Into the Forecast - Collaborating to create the forecast makes it more likely that your actual results in future periods will be aligned to the forecast produced today. Forecasts not only benefit from complete quantitative data, but also qualitative insights from across the enterprise. When stakeholders help to build the forecast, these forms of implicit knowledge are made explicit and become part of the forecast. This not only helps to improve forecast accuracy but also helps drive greater buy-in for the forecast and the plans that come from it.

For more information on this topic, read the full article.

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