Boltt

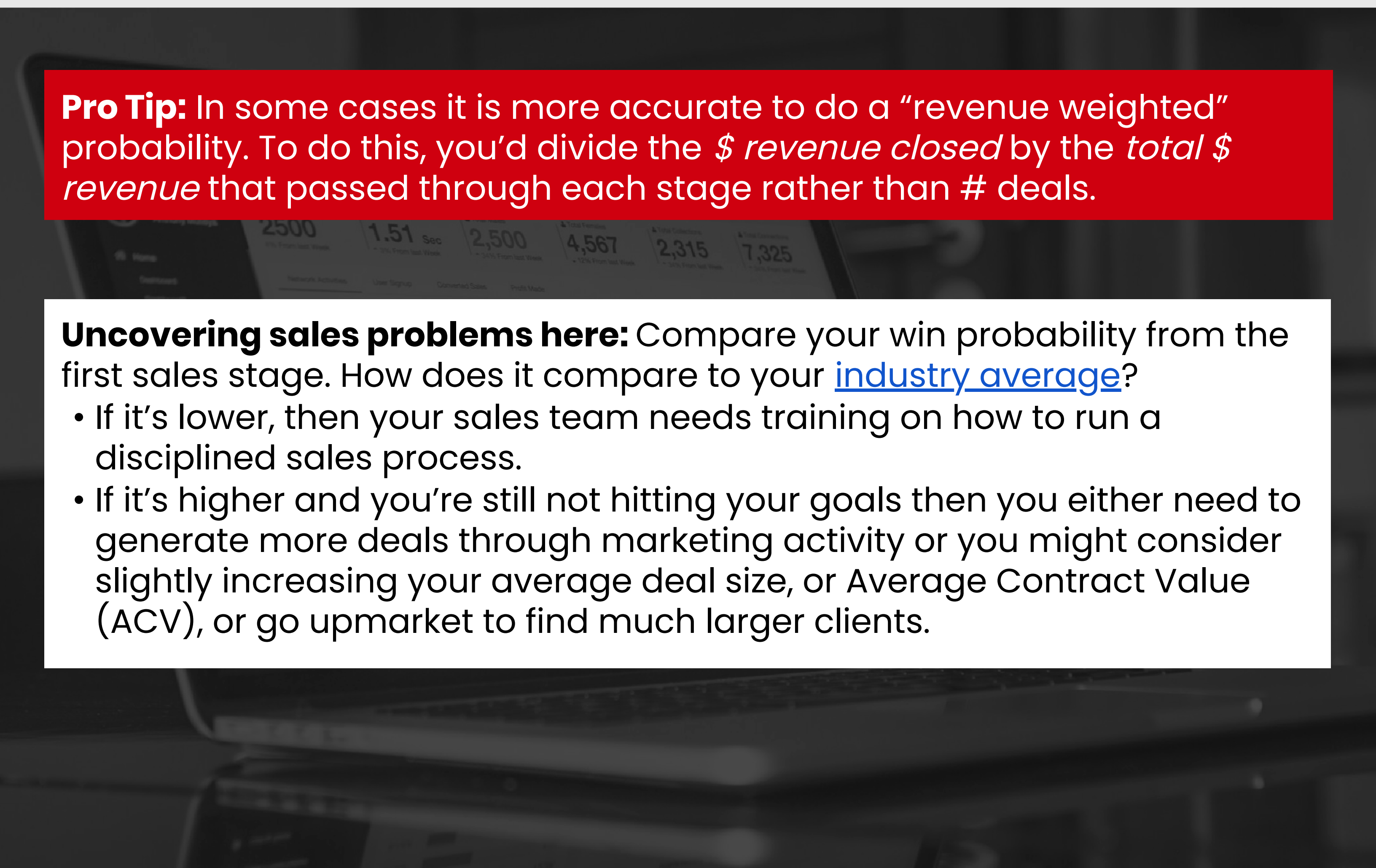
White paper for Fractional CFOs

How to Diagnose Sales Problems Using Sales Forecast and Return on Sales

Diagnosing Sales Problems Using Sales Forecasts

01 Compute win probability for each funnel stage

Divide the number of deals you've won from each stage by the number of deals that have passed through each stage. This will yield the win probability from each funnel stage.
For example, let's say you closed 107 of the 536 deals that passed through the Sales Qualified Leads (SQL) stage, your win probability from the SQL stage is 107/536 or, 20%.



Pro Tip: In some cases it is more accurate to do a "revenue weighted" probability. To do this, you'd divide the *$ revenue closed* by the *total $ revenue* that passed through each stage rather than # deals.

Uncovering sales problems here: Compare your win probability from the first sales stage. How does it compare to your industry average?

- If it's lower, then your sales team needs training on how to run a disciplined sales process.
- If it's higher and you're still not hitting your goals then you either need to generate more deals through marketing activity or you might consider slightly increasing your average deal size, or Average Contract Value (ACV), or go upmarket to find much larger clients.

Compute average number of days to win from each funnel stage

02

Average how long it took deals to close from each funnel stage. Don't include how long it took lost deals to exit the funnel. This will artificially bloat your sales cycle, especially in highly inefficient sales orgs who let stagnant deals fester.

Uncovering sales problems here: Compare your overall sales cycle to your industry average or by ACV average.

- If your sales cycle is materially longer than the average, it means you have an inefficient sales process. This is problematic for two reasons:
    - One is straightforward -- you're slower at earning revenue than competitors.
    - The other is less obvious -- have you ever heard the expression, "Time kills all deals"? This means that you're actually losing more deals than you would if your funnel had greater velocity.

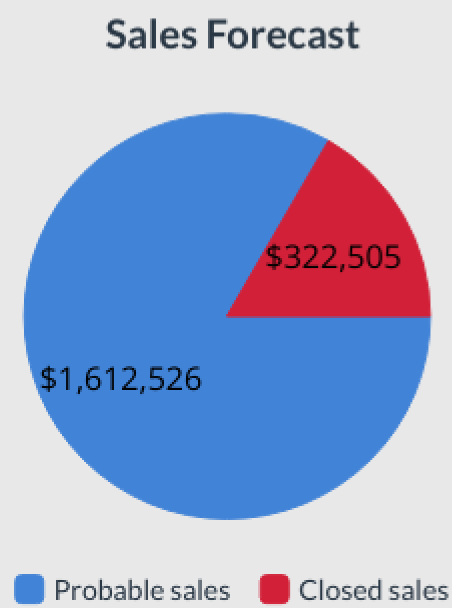
Pro Tip: You may also want to compute the variance of days to close for each funnel stage. The more variance, the more you should consider using a time range instead of an average when you do sales forecasting.

Compute sales forecast by funnel stage

03

To compute sales forecast by funnel stage, simply multiply the probability times the revenue for each stage.

For example, if you have $1,612,526 at the SQL stage and you multiply by the SQL win probability of 20%, you should expect to close $322,505 from this stage.



To determine the days to book revenue by stage, simply use the average number of days to close from that stage that you computed above.

Uncovering sales problems here: If your sales forecast by stage shows that you will fall short of goals in any time period, you can advise your sales leader where you forecast any shortfalls.

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Step 1
Compute Customer Lifetime Value (CLV)

One method you can use to compute CLV is to sum all revenue for churned customers and divide by the number of these customers. You might want to remove obvious outliers if you think they will inappropriately skew your data.

Step 2
Compute Customer Acquisition Cost (CAC)

Sum all your sales and marketing costs in a given period. Now look at all the revenue for that period, but shifted back by the length of your sales cycle. Divide this number by costs to get your CAC ratio. For example, if you sum your costs for 2022 and your sales cycle length is 2 months then use revenue during the period of March 1, 2022 to March 1, 2023 to properly match it to the costs it took to generate that revenue.

Uncovering sales problems here: Your customer acquisition is neither profitable nor efficient if your CAC ratio < 1. But generally speaking, your ratio should be > 3. The higher your ratio, the more efficient your marketing and sales processes are. But if your ratio is much higher than 3, you may be missing out on profitable customers whose acquisition cost is above your current bid cap.

Boltt offers on-demand fractional and interim sales leadership execution. Contact us to fix sales problems and accelerate revenue.

Find out more at boltt.io