Definitive Guide to Forecasting Methods

(And Which One Is Right for Your Organization)

Optimizing your revenue operations is a journey, and Clari is here to help guide you. We broke down the top methods used to forecast sales into forecasting processes, techniques, and tooling.

Sales Forecasting Methods by Business Process

Business process sales forecasting starts with the sales goals of the company to develop your forecast. While every team should track these critical sales forecasting metrics, the number you forecast by is dependent on each company or team's individual goals.

- Sales Forecasting by Total Revenue
- Sales Forecasting by Business Segment
- Sales Forecasting by Product

Sales Forecasting by Total Revenue

Who it's for:

Both small and large businesses. It is commonly measured by annual recurring revenue (ARR).

ARR is the amount of revenue a company can expect to receive from a customer in one year.

If the goal for your team is to drive revenue growth, then your team should be focused on that number. If your business incorporates a subscription business model, the total revenue number would include net new ARR, renewals, cross-sell, and upsell.

Even if you sell in a subscription business model, you might still generate revenue from one-time services, such as implementation or proof of concepts. When this becomes an important part of the business, it can be useful to track and forecast against those one-time activities.

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Sales Forecasting by Business Segment

Who it’s for:

Smaller companies focused on showing customer validation. The more logos, the better. If your strategy is to land and expand, you may care less about initial contract value and more about getting into as many accounts as possible so you can upsell or cross-sell from the inside.

Sales Forecasting by Product

Who it's for:

Mature businesses with multiple product lines that generate varying levels of revenue.

This method helps teams account for each product or product line individually in their forecast. This allows you to anticipate the future sales of a certain product or product line to not only determine the health of that product separate from the rest of the business, but also plan for re-investment into the development of new product based on the sales forecast.

Sales Forecasting Methods in Practice

People, processes, and technology are key to accurate forecasting. The techniques in this section are all about the people on your revenue operations team that are looking at data and calling their number. These sales forecasting techniques incorporate a variety of methods, each with pros and cons.

- Top-Down Sales Forecasting
- Bottom-Up Sales Forecasting
- Qualitative Sales Forecasting
- Quantitative Sales Forecasting

Top-Down Sales Forecasting

Who it's for:

Young companies that lack historical sales data and mature enterprises with multiple product lines, a global footprint, and years of sales data.

Top-down sales forecasting starts by identifying your total addressable market or TAM for each business segment. According to the Corporate Finance Institute, your TAM is developed by researching market valuations from reputable sources, such as Gartner. You then estimate how much market share you'll be able to capture and the revenue you'll be able to acquire. Calculating revenue is done by multiplying the TAM by the percentage of market share you think you'll be able to achieve.

So let's say you're in the event software space looking to expand into Europe, and your research shows that the TAM for European event software is valued at $500,000. You think you can capture 2% of that based on quantitative or qualitative analysis of historical deals. Your top down sales forecast would be $500,000 × 2% = $10,000.

The only con is that top-down models are limited by the simple fact that they're just that: models.

Bottom-Up Sales Forecasting

On the opposite spectrum is bottom-up sales forecasting, which starts with the reps instead of the managers, and actual opportunities in play instead of models. Every rep calls their number based on the opportunities they have in pipeline. Managers work with reps to inspect pipeline, understand projections and look through sales activity data in order to justify the forecast.

The benefit of a bottom-up sales forecast is that it's based on real-world opportunities happening in real-time. The challenge with forecasting sales with the bottom-up method is that reps and managers must have clear visibility into the health of their deals, including sales activity and customer engagement data that help signal how deals are progressing.

Who it's for:

Companies with historical sales data looking for more realistic, granular item-level forecasting (by product, region, etc.) and companies looking to decide where best to allocate resources.

Qualitative Sales Forecasting

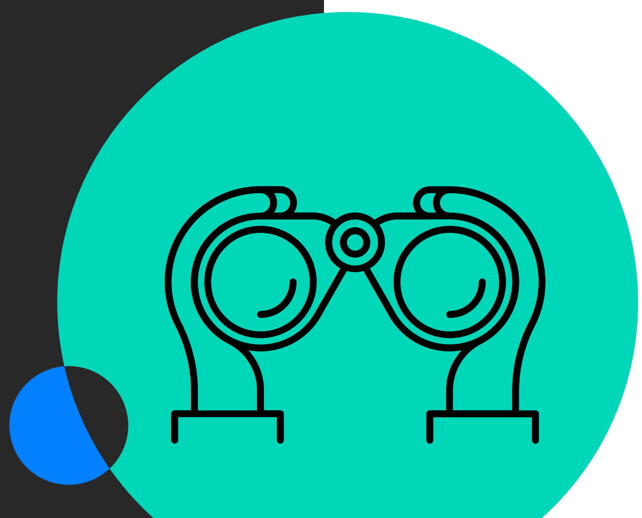
Who it's for:

Companies that anticipate sales to deviate from historical projections, which can be the result of a supplier shortage, new market entry, changing industry trends, or changing government policy.

Qualitative sales forecasting involves the estimation of sales performance based on long-time expertise or well-versed industry knowledge.

Organizations typically use qualitative sales forecasting when entering into a new market or if historical data isn't available. For example, if hurricane season is predicted to be much worse next year in a disaster-prone area and you're in the insurance industry, you might anticipate an unusually higher demand which would be a departure from the performance of previous sales periods.

With qualitative sales forecasting, you're often relying on insufficient data, with no guarantee that your sales forecast will be positively accurate. This is challenging because it's often based on observations rather than real data, which can be risky and require a lot of resources to build models.



Quantitative forecasting model uses historical sales data to calculate accurate forecasts. There are two ways to utilize the quantitative forecasting model. One method is a time-series model, which looks for patterns in the data to build the forecast and predict where you'll land based on current sales pipeline coverage. The second method is called the associative model, and it uses assumptions to build a linear regression-based forecast. The linear regression shows where you'll end up based on those assumptions.

This model is highly dependent on an accurate data set, analysis of historic performance, and complete visibility into pipeline. With these insights in hand, it's possible for organizations to land within 2% of their forecast, just weeks into the quarter.

Quantitative Sales Forecasting

Who it's for:

Established companies with historical sales data looking for objective forecasts, companies looking to surface trends and predictability, and companies looking to make short- to mid-term forecasting.

Tools To Implement Sales Forecasting Methods

Once you've identified your sales forecasting method and process, you'll need some tools to help you manage, monitor, and execute your sales forecast.

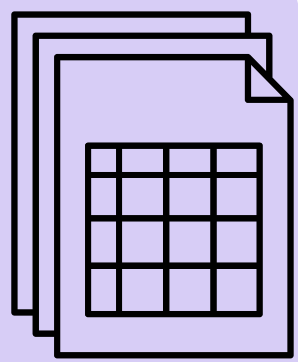
- Using Spreadsheets for Sales Forecasting
- Using CRM for Sales Forecasting
- Using DIY Combination of CRM, Spreadsheets, and Business Intelligence Tools
- Using a Revenue Operations Platform for Sales Forecasting

Using Spreadsheets for Sales Forecasting

Who it's for:

Smaller organizations that don't have enough resources to purchase a more sophisticated platform.

Using spreadsheets is easy to share with the team, but spreadsheets become obsolete the moment data gets manually added. Without an automation tool to automatically add this data in real-time, the forecasting approach is never truly accurate.



Using CRM for Sales Forecasting

Who it's for:

Small to medium organizations typically use CRM reports for sales forecasting when manual spreadsheets become too laborious to maintain and teams need a tool to aggregate those numbers.

While a CRM does serve as your system of record to track and manage every opportunity, one drawback to using your CRM for forecasting is that a database is only as good as the data that gets put into it. This means your forecast accuracy is tied to the diligence of your sales team. Are they updating their fields accurately and in real-time? Are they capturing all of the opportunity activity in CRM?

What a CRM doesn't do:

- Track history, which means they don't have enough data to "teach" machine learning algorithms for AI insights.
- Process deal signals coming from other systems in your stack like Marketo, Outreach or Gong.
- Allow you to adapt easily when you launch a new product line or growth initiative, due to the fact that they depend on relational databases.

Using DIY Combination of CRM, Spreadsheets, and Business Intelligence Tools

Who it's for:

Growing companies whose forecast has become more complex and sales forecast accuracy is more important.

Organizations typically turn to a DIY combination for sales forecasting that gives them more control over building the forecast but still requires manual upkeep and reliance on accurate data input by reps. Plus, it might also take a long time to develop this approach to meet your business needs.

Unfortunately, this disconnected arrangement of spreadsheets and reports from business intelligence systems is not scalable and impossible to standardize, requiring a heavy lift from sales operations to validate, standardize, and consolidate the myriad reports into a single document.

Using a Revenue Operations Platform for Sales Forecasting

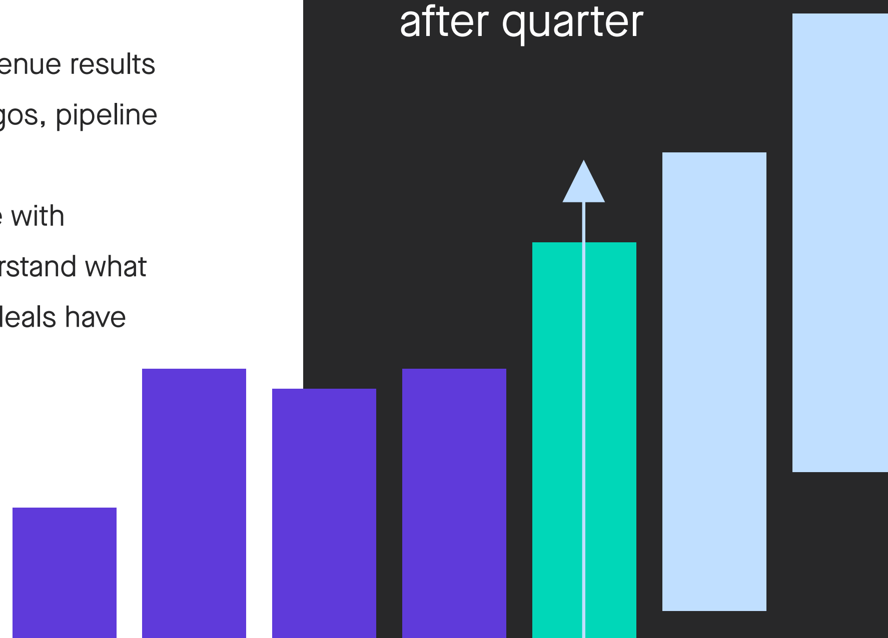
Who it's for:

Any revenue team interested in nailing their forecast quarter after quarter

With the emergence of AI and automation, new tools are available that make sales forecasting more connected, efficient, and predictable. Revenue operations platforms bring a new way to generate revenue with the same level of transparency and rigor that companies expect from any other mission-critical business process.

This can include:

- Trustworthy data and automation. Automated data capture and history snapshotting across your rep and buyer activity signals.
- Deeper revenue insights. AI-powered visibility into all engagement and activity data to show you sales pipeline risk and opportunity to help you allocate resources.
- Consistent execution. AI-driven automation and user experiences that make all members of your revenue team more productive and efficient, from sales to marketing to customer success.
- Predictable forecasting. Ability to accurately predict revenue results for any segment of your business, including net new logos, pipeline creation, upsell, cross-sell, renewals, and churn.
- Pipeline inspection. Gain total visibility into your pipeline with advanced analytics for every revenue movement. Understand what coverage you have in current and future quarters, how deals have progressed, and what's driving pipeline changes.



How to Decide Which Sales Forecast Method is Right for You

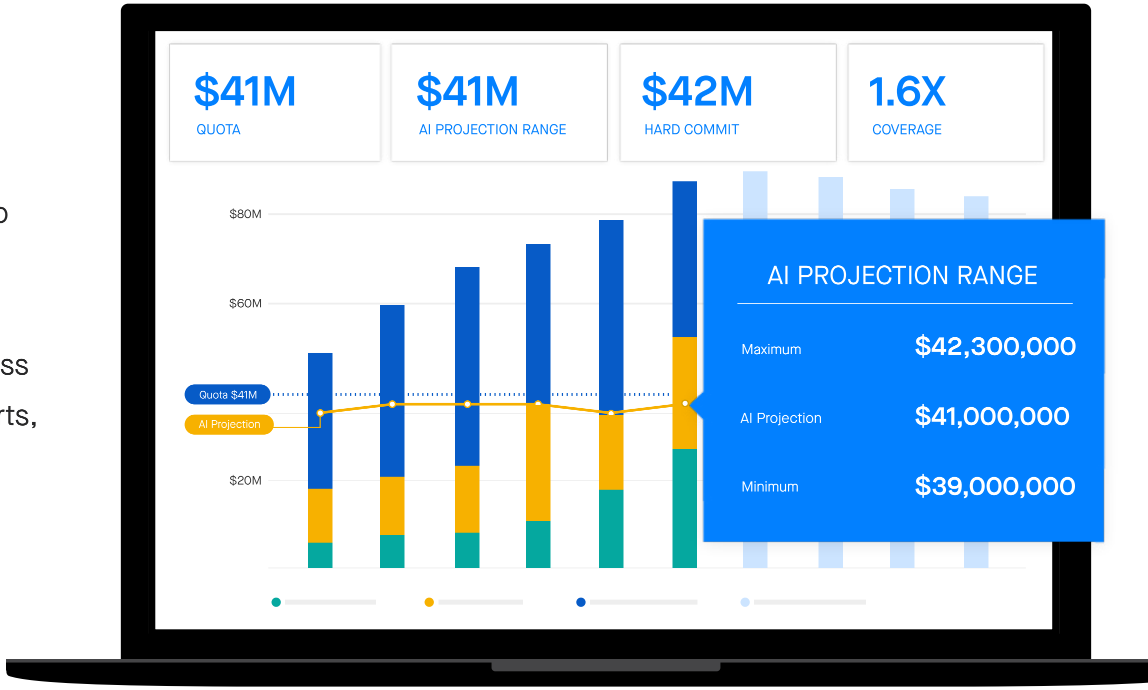
You might find that you try out several different sales forecast methods before settling on one. Or you may find that you start out with one but soon outgrow it. The important thing to do is look at where your business is today and where you want it to go in the future—and are using technology that is flexible enough to grow with you.

Unless you're using a revenue operations platform like Clari, the reality is that all of these methods typically require manual data collection and consistent collaboration and accountability with your entire revenue team.

Let Clari take the guesswork out of sales forecasting and set you up for success using purpose-built data-driven insights.

Develop forecasting as a real-time function that guides your business instead of scrambling to consolidate spreadsheets, disjointed reports, and time wasted with manual data input.

Clari adds a whole new layer to sales management beyond what your CRM can provide. By automatically capturing activity data, as well as leveraging AI-powered insights to improve team productivity, you'll be able to drive and convert more pipeline, accurately forecast the business and reduce churn. These types of insights are impossible with manual sales forecasting methods.



Clari's Revenue Operations Platform improves efficiency, predictability, and growth across the entire revenue process. Clari gives revenue teams total visibility into their business, to drive process rigor, spot risk and opportunity in the pipeline, increase forecast accuracy, and drive overall efficiency. Thousands of sales, marketing, and customer success teams at leading companies, including Okta, Adobe, Workday, Zoom, and Finastra, use Clari's execution insights to make their revenue process more connected, efficient, and predictable. Visit us at clari.com and follow us @clari on LinkedIn.