



# MaRS | ENTREPRENEUR WORKBOOKS

## Sales & Revenue Forecasting Series

# Building an Early-Stage B2B Sales Forecast

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# Introduction

## What to expect

This workbook guide was produced by MaRS Education and is designed specifically for entrepreneurs in the high-tech space that are in the beginning stages of selling their technology.

The outcome of completing the exercises in this workbook guide will be a spreadsheet that you can use to capture sales data and monitor and manage your sales forecast. Note that what we are aiming for is a somewhat crude tool—a starting point that later can be refined as your company grows and as you develop a better appreciation for the particular sales activities that make you successful.

In order to make the methodology available to as many entrepreneurs as possible, we have devised exercises that do not require specialized skills in using spreadsheets. That should not discourage entrepreneurs that do have such skills from utilizing their expertise to develop their own spreadsheet solutions.

## Building an early-stage B2B sales forecast

An *early-stage sales forecast* is something you do to help manage ongoing sales activities. A [sales forecast](#) is the process of projecting what your sales revenue will be for a specific period in the future (i.e., in the coming month, quarter or year). An accurate sales forecast is essential not only to understand and manage sales activities, but also for financial planning purposes such as:

- understanding and managing the company's [cash flow](#)
- planning your procurement, production and logistics capacity
- developing the fundamentals of revenue projection (needed if you seek external financing)

Forecasting is a process that has both inputs and outputs. Many advanced forecasting methods rely on statistical methods that have little relevance for small companies that might not have started their revenue-generating activities, as you will not have much of the historical data that those methods require.

The absence of historical data will mean that your forecasts must rely on assumptions and metadata, many of which are based in industry standards or your experience (and the experience of those around you). Initially, your forecasts must yield a result that is “in the ballpark,” which will enable you to make the necessary arrangements with regards to liquidity and capacity planning.

Most start-ups in the B2B environment begin with some form of personal and direct sales activities before determining whether to enter into agreements with a marketing [intermediary](#). For this workbook guide, we will assume a direct sales model when exploring various forecasting models that are currently in use.



## **Sales forecasting processes and methodology**

Once you have regular sales activities, you should prepare sales forecasts on a monthly basis for the upcoming month and include a rolling update for the next three months. Update forecasts more frequently if a major change takes place in your revenue expectations.

Most Sales Force Automation (SFA) software contains functionality for predictive analytics, which can automate this process for you. Even if you have access to an SFA software package, it would be useful to go through this workbook, especially if you find yourself in a situation where you have little or no experience in sales forecasting and your company is just getting started with sales activities. You will not be able to fully benefit from an SFA tool until you have developed a solid understanding of the variables that affect the accuracy of your forecast.

## How to use this workbook

### 1. Get your team together!

We recommend that you make the creation of your sales forecast a team effort and work through the exercises thoroughly, but as efficiently as possible. Developing your sales forecast can be very time-consuming, especially if neither you nor anyone on your team has any experience related to sales forecasting. Our goal is that this workbook can help you focus your sales forecasting efforts on the parts that are essential to start-ups and thus make the time spent developing your sales forecast as productive as possible.

### 2. Use the icons for help

The workbook guides are structured under the assumption that this is the first time you, the reader, has undertaken a sales forecasting exercise. To help provide context for some of the ideas in these workbooks, we have clarified the ideas by defining key terms and offering real-world examples. In addition, we have provided links to articles on the [MaRS website](#). For this reason, you may find it easiest to use the workbook guides on a computer with an Internet connection.

Look for these icons:



denotes a key term that will recur in this workbook guide



indicates an example drawn from a real-world business in order to illustrate an important idea



denotes a link to a more in-depth article, video or template on the MaRS website



appears wherever you are asked to record something in the accompanying spreadsheet template while completing the exercises

# WORKBOOK:

## Building an Early-Stage B2B Sales Forecast

### 1. Building your forecast

For the purposes of this workbook guide, we will limit our exercises to sales of a single product or brand and only one geographical market. The reason for this limited approach is that the metrics used in a bottom-up approach often will vary based on the product, customers and geographical markets.

Nevertheless, the process we use here is scalable. If your company sells more than one product to more than one market [segment](#) or geographical market, you will be able to apply the same thought process to each to build a complete revenue forecast for your company.

#### The value of your sales funnel

The starting point for a bottom-up sales forecast is your [sales funnel](#). In your sales funnel, you can retrieve the information about your sales opportunities that will allow you to establish the necessary metadata (i.e., information about your sales process) required for your forecast. In the first exercise of this workbook, we will represent the particular variables that make up a sales funnel in a spreadsheet format so that you can begin the process of calculating the value of your sales funnel.

#### a. Prepare your spreadsheet

To begin to determine the value of your sales funnel, you need to prepare a spreadsheet in which you can record your sales data. The steps below will guide you.



1. Open a regular spreadsheet. It may be an MS Excel, Google Docs or any other type of spreadsheet. The spreadsheet we create here will only require standard functions (although users possessing advanced spreadsheet skills will quickly find ways of making their forecast more sophisticated.)
2. Determine which product and market this forecast applies to and indicate this information in your heading (e.g., Solar Panels – Standard – Ontario). Select a product/market combination where you have had some sales activity already.
3. Create your columns. Fill in these basic column headings:
  - a. Sales rep (this can be omitted if you are the only one)
  - b. Sales opportunity
  - c. Account
  - d. Contact person
  - e. Lead source



- f. First contact
  - g. Product/service
  - h. Quantity
  - i. Price
  - j. Value
  - k. Stage
  - l. Probability
  - m. Closing date
  - n. Next steps
4. Name the spreadsheet and save it.

## b. Define the key variables in the sales funnel

### **Variable 1: Sales opportunity—quantified by size and volume**

The unit measured in a bottom-up forecast is a "sales opportunity." To avoid any confusion over the meaning of this metric, it is critical to understand what it includes and what it does not include.

As a metric, a sales opportunity is different from a customer, in that it is often possible to have more than one sales opportunity from a given customer (e.g., a large corporate organization). A sales opportunity can also be different from a product because more than one product could feature in a sales opportunity (although in this case, we will not be covering more than one). *A sales opportunity is associated with a separate sales process, so if you are discussing a specific order with a customer, that equates to a sales opportunity.* Expressions like "sales objective" or "sales initiative" are sometimes used with the same meaning. If more than one opportunity is pursued with one customer, treat each of them separately from a forecasting perspective.



### **Enter the sales opportunity in the spreadsheet:**

1. Start by entering the name of the sales staff responsible for the opportunity. (As a separate key task for your business, ensure that you analyze each sales rep's productivity over time to determine best practices.)
2. In the column "Opportunity," enter the sales opportunity. Give the opportunity a unique name, in case you end up with more than one opportunity per account.
3. For columns c) and d), fill in the customer's name and the name of your main contact person for the opportunity.
4. Add the source of the sales lead. Where did it come from? Was



it through a referral or a trade show? Or was it a “bluebird” (i.e., the prospect called you unprompted)? Over time, this information can be used to identify the most fruitful lead sources so that you can both cultivate and estimate the value of those leads.

5. Enter the date for the first contact with the prospect. Later when you add the closing date for deals that close, you will gain a feel for the length of your sales cycles.
6. Add your product or service to the sales opportunity. This is important if you have more than one offering and if in the future you want to consolidate your forecasts.
7. Save the updated spreadsheet.

### Variables 2 and 3: Deal size and value

For most businesses, understanding the size and value of your average deal is essential to manage sales and revenue expectations. Average deal size is less relevant if your business involves large, capital-intensive projects such as airplanes or bioenergy plants. However, if your company sells relatively standardized products such as software licenses or solar panels, the average deal size becomes a very important metric. The metric “average deal size” is not the same as price per product. Instead, the metric looks at the average volume and value of each contract that you close. Not only does average deal size help you to create a better sales forecast, it can help you to prioritize your sales resources.

Note that average deal size is calculated by using actual closing data—the deals that you have already done. As many start-ups won’t have such data early on, the metric can be calculated temporarily by using the expected deal size for later-stage deals only (see below for more on stages of the sales process). This is illustrated in the following example.

#### **Example: Average deal size for X-Calc Software in Q3-2009**

Account	Product	Price	Quantity	Expected value
ABC Bank, Treasury	X-Calc Software v2.0	\$1,100	10 users	\$11,000
Y-Life, SMB Division	X-Calc Software v2.0	\$1,000	20 users	\$20,000
GA Finance, Commercial lending	X-Calc Software v2.0	\$1,150	5 users	\$5,750
ZLife Insurance, Credit & Risk	X-Calc Software v2.0	\$975	20 users	\$19,500
Zero Savings Bank, Treasury	X-Calc Software v2.0	\$1,075	10 users	\$10,750
			<b>Average deal size:</b>	<b>\$13,400</b>





### Enter the deal size and value in the spreadsheet:

1. Under column h) ("Quantity"), enter the volume (e.g., the number of products, tons of biomass, user licenses) that you expect to sell for this sales opportunity.
2. Fill in expected price per unit of sales.
3. Enter or build a formula that calculates the total value of the sales opportunity. *Value = Quantity × Price per unit*
4. When you have entered all your sales opportunities, calculate the expected average deal size as per the example above.
5. Save the updated spreadsheet.

### Variable 4: Stages of the sales cycle

At any given time, you will have sales opportunities that are at various [stages of a sales cycle](#). It is critical that you develop a realistic understanding of what distinguishes sales opportunities at various stages. Typically the various stages in the sales process are determined through a combination of specific buying signals shown by the prospect and the types of sales activities done by you. The examples below illustrate these.

#### Typical buying signals:

Buying signal	Stage
Client agrees to a meeting to discuss their business needs	Client moves from being a "Lead" to a "Prospect"
Client confirms that your solution is a fit for their need	Qualification
Client helps identify potential red flags to navigate	Committed
Client helps co-develop a plan	Qualification

#### Typical sales activities:

Sales activities	Stage
Place introductory call to verify interest, urgency and competition	Prospect
Confirm which stakeholders are involved, their issues and motivations	Qualification
Identify your best solution and resources for the client	Qualification
Develop/deliver proposal to client	Committed





Every company is different; as you gather more experience, you will be able to determine which buying signals and sales activities are aligned with the various stages of your company's specific sales process. Please bear in mind that sales processes vary with product and, to a degree, with geography/business culture, so try to make the right distinctions in each case.

How can you use sales-stage metrics in your business? Consider the following examples:

- Understand what kinds of sales activities are effective when moving a sales opportunity from one stage of the cycle to the next.
- Understand how much time it takes to move an opportunity from one stage to the next.
- Look across the sales funnel to see whether you have a good distribution of opportunities at the various stages. While you should have significantly more opportunities in the early stages, avoid draining your funnel before starting work on new opportunities so that you avoid peaks and troughs in revenue and activities.



#### Enter the stage of the sales cycle in the spreadsheet:



1. Use the information in the article [Stages of the sales funnel](#) to determine the stage of your opportunity. Label each opportunity with one of the following terms as you enter it in the spreadsheet under column k):
  - a. Lead/suspect
  - b. Prospect
  - c. Qualified prospect
  - d. Committed
  - e. Transacted
2. For each stage, assign a [conversion rate](#). The rate is linked to the relative number of opportunities at each stage that you would expect to [close](#). If you lack historical information on conversion rates, you can use the following conversion rates for each stage:
  - a. Lead/suspect: 5%
  - b. Prospect: 10%
  - c. Qualified prospect: 20%
  - d. Committed: 33%
  - e. Transacted: 100%

3. *Optional:* Depending on the complexity and length of your sales cycles, you might want to create additional stages to achieve a more granular and thus more accurate description of the stage. If, for instance, your sales process involves numerous stakeholders and/or technical reviews, it might make sense to split the “Qualified prospect” stage into two parts. However, if your company is just starting out, we suggest you avoid making it more complex until you gain a solid understanding of how the typical sales process unfolds.
4. Save the updated spreadsheet.

### Variable 5: Probability of closing

The probability of closing is a metric that is somewhat related to the stage of the sales funnel and the associated conversion rate, in that the probability of closing should increase the further down the funnel you get. However, for each opportunity, there might be individual and situational reasons why the probability of closing should be calculated separately from the stage of the sales funnel. These reasons might be related to the competitive situation (e.g., single sourcing vs. bids), the buyer’s organization (e.g., ongoing mergers or other organizational changes) or your relationship with the economic buyer (e.g., long-standing and close vs. no prior relationship). These situational factors affect the overall risk (a.k.a. “red flags”) present in the deal.

Notwithstanding these factors, you might be able to advance your sales opportunity from stage to stage through the funnel. However, once these risk factors are considered, they could affect the probability of closing positively or negatively.



Depending on your specific sales cycle, it might not be prudent to assign a probability of closing until you have reached a certain stage, say that of “Qualified prospect.” This would be the case if a relatively large share of your leads (i.e., more than 99%) never makes it past your initial qualification process. For more details on closing rates, see the article entitled [Sales metrics](#).



### Enter the probability of closing in the spreadsheet:

1. Consider the situational factors present in each of your deals.
2. Assign a higher probability of closing to deals that feature key factors such as:
  - i. an established relationship with economic buyer
  - ii. no regulatory or industry turmoil
  - iii. no foreseeable mergers or acquisitions



- iv. no reorganization affecting your economic buyer
- v. no foreseeable corporate-wide spending freeze

This probability can be entered as a percentage.

3. Assign a lower probability to deals where no established relationship with the economic buyer exists, or if any of the last four factors above are present or probable. Take 100% as a starting point and deduct 20% for each risk factor present in your deal.
4. If you are analyzing data from one or more members of the sales team, allow that the probability data will be tempered by each salesperson's ability to judge the sales process and by their own closing skills, including their experience, personal relationships, and particular strengths and weaknesses. In time, you will also be able to identify other risk factors and increase your ability to predict the impact they will have on your sales opportunities.
5. Save the updated spreadsheet.

### **Variables 6 and 7: Closing date and next steps**

The closing date provides value in terms of understanding when you can expect the revenue from any potential deal to enter your accounts. You should also analyze the closing date in terms of the stage and the red flags present in your deal. A mutually agreed-upon plan between you and your prospect must allow sufficient time to deal with any significant red flags so that you can avoid forcing a premature close. If a mutually agreed-upon plan does not yet exist, you can estimate a closing date by determining how much time is required to deal with outstanding red flags.

From a sales-management perspective, it is important to hold sales staff to their estimates of closing dates. This will ensure that they prioritize spending time on opportunities that are in the advanced stages and bring in deals that they have forecasted to close. However, allow room for sales executives to judge the timing of their closing approach so that they do not force the prospect to make a decision before they are ready.

Column n), "Next steps," is included in the forecast to get an understanding of what needs to be done to move each opportunity forward in the sales process. Also, "Next steps" can relate to other information provided for each opportunity, such as Stage and Probability, in that the next step must be appropriate for the stage and effective in moving the opportunity forward.



#### **Enter closing date and next steps in the spreadsheet**

1. Choose a date format.
2. Determine the month for closing the deal. Enter the final day of that month for closing the deal, even if you think it will close



earlier, as it provides a consistent data set to analyze.

3. The larger the deal, the more complicated the closing process will be in terms of finalizing the paperwork and getting necessary approvals and signatures. Make sure that this is reflected in the timeline.
4. Enter the next steps as free text.

### c. Finish your forecast calculations

With all the variables for your sales forecast defined, you should now be able to calculate a simple monthly sales forecast. The basic formula for calculating the value of each opportunity looks like this:

Value of opportunity = Deal size × Probability of closing × Stage

#### **Example: Value of opportunity**

Opportunity (Opp.)	Deal size	Stage	Probability	Value of opportunity
ZLife Insurance, Risk Dept	\$20,000	Committed (33%)	80%	$20,000 \times 0.33 \times 0.8 = \$5,280$

The forecast for any given month is the sum of the value of all opportunities closing in that particular month. The critical question is whether to include deals that have a plan to close in a specific month where the prospect has not yet been qualified to an advanced stage. Until you have more historical data available, proceed cautiously and only include deals that are in the Committed and Transacted stages when calculating your forecast.

#### **Example: August forecast—X-Calc Software Pipeline value:**

Account name	Opp. name	Deal size	Value	Stage	Probability	Expected closing	Opp. value
ZLife	Risk Dept	10	\$20,000	C	80%	August	\$5,280
YLife	SMB Div	10	\$19,500	Q	50%	September	\$1,950
BankXYZ	Retail	20	\$38,000	Q	60%	August	\$4,560
QInsurance	Risk Dept	5	\$6,000	C	90%	August	\$2,000
ABC Bank	Retail	15	\$15,000	B	40%	August	\$600
<b>Pipeline value</b>							<b>\$14,390</b>



**August forecast:**

Account name	Opp. name	Deal size	Value	Stage	Prob-ability	Expected closing	Opp. value
ZLife	Risk Dept	10	\$20,000	C	80%	August	\$5,280
BankXYZ	Retail	20	\$38,000	Q	60%	August	\$4,560
QInsurance	Risk Dept	5	\$6,000	C	90%	August	\$2,000
<b>Total forecast</b>							<b>\$11,840</b>

**Interpretation of the forecast:**

- The forecast amount is adjusted for risk; it contains the expected amount of revenue for August. The risk adjustment gives you an amount you can plan for with certainty from a cash-flow perspective.
- If this was a sales forecast from an individual sales rep, then their forecast would probably be \$26,000, based on the deals where the customer had committed to the transaction.
- The difference between the individual sales rep's forecast and the company's forecast is that a sales rep does not have to concern themselves with the bottom line. Therefore, the sales rep does not need to risk-adjust their forecast, whereas the company would run into serious problems if it did not adjust for risk, especially if it is in the business of selling few, but expensive products.
- Deals that were at the prospect stage have not been included in the forecast; neither have deals that were forecast to close the month after.
- In practical terms, if the deal at ZLife goes through, the sales revenue will be \$20,000, which is much higher than the entire forecast. With very few deals in the forecast and the outcome of the sales process stochastic, variability from month to month must be expected until you gain more experience (e.g., with the length of sales process, your company's ability to close, and typical deal sizes). This will increase forecasting precision.

## 2. Honing and refining your forecast over time

As you build your business, you need to sophisticate your forecasting methodology. The most straightforward approach would be to analyze the variability of the key variables that affect your forecast so that you can extract and apply factors such as mean and standard deviation.

Other ways of using statistical methods include extrapolating trends that drive your sales, while adjusting for cyclical and seasonal patterns.

You can also use more qualitative approaches such as expert panels, as well as a variation called the Delphi method.



The key is for a start-up to learn and discover by making conscious choices, and then to seek to understand whether it was the right choice.

Forecasts should be done by product category, subcategory and brand. If you forecast at a more detailed level, it will be too much work and provide too many details. On the other hand, if you forecast at a higher level (i.e., on the department level or for the company as a whole), you risk capturing too little detail to make the forecast useful for planning purposes.

Internally, the sales team should share its forecast with the finance and operations teams. Upon reviewing the sales forecast, those departments must determine the implications for cash flow, production, inventory and procurement. Even if manufacturing is partly or wholly outsourced, service level agreements with external manufacturers would normally require some projections of upcoming needs. Providing an accurate forecast to an external manufacturer will reduce waste and save both money and time. In other words, accurate sales forecasting is directly linked to achieving and maintaining competitive cost levels.