

# Revenue Forecast For Decision Making? Here's How To Use It...

6 min read



## Key Takeaways

- Can you trust your revenue forecast? 3 signs of a trustworthy revenue forecast.
- Flawless Cash Flow Management: Revenue forecasting helps business owners better anticipate and plan for cash flow shortages due to the business's seasonality, payroll schedule, loan payment schedule, tax payment schedule, and accounts receivable schedule.
- Perfectly Timed Hires: Revenue forecasting can help you avoid over or under-staffing your company.

If you needed a sign to update your revenue forecast, this is it.

Too many CEOs either don't trust their revenue forecasts or choose to forgo revenue forecasting altogether.

Whether they view the numbers as unreliable, assume they don't have enough data or see the practice as a pure waste of time that could be better spent on higher-value tasks, business owners who do not use revenue forecasting to make better business decisions are making a huge mistake.

## **What Happens When You Don't Forecast Revenue?**

When you don't forecast your revenue, you're forced to run your business without truly knowing where you've been or where you're going.

Failing to forecast revenue results in unforeseen cash flow problems, missed opportunities, and surprise challenges – and any one of these issues could put the success of your business at risk.

Put simply, the lack of insight into historical data, your current financial position, and numbers-based direction results in poor decision-making.

[Revenue forecasting](#) acts like a map to help navigate your business's future and the decisions you make. It helps you take steps for growth when they're most appropriate, steps to slow expansion when prudent, and adjust your business strategy when necessary to achieve future success.

## **Can You Trust Your Revenue Forecast? 3 Signs of a Trustworthy Revenue Forecast**

Although revenue forecasting is essential to making good decisions on behalf of your business, not all revenue forecasts are created equal. Depending on how they're produced, some revenue forecasts are more reliable than others.

Here are three signs that you can trust the information presented in yours:

### **1. You Have Enough Data**

Most businesses base revenue projections on historical data and past metrics. If your financial records are accurate and complete, then you should be able to trust your revenue forecast.

If you're a start-up or a business with spotty financial records, however, you can struggle to forecast revenue accurately due to their general lack of data. If you can't rely on past performance to inform your future projections, then it's essential to take a close look at your industry, competitors, market demand, and your market share when forecasting revenue.

If this is the case, a good starting point might be to look at [Industry benchmarking](#), allows you to see how your company is performing against the industry average. And more importantly, it allows you to accurately assess your performance.

## **2. You Haven't Over-Simplified the Process**

If the line projecting your company's growth is shaped like a hockey stick, ascending up and up and up indefinitely, then you likely haven't thought carefully enough about your revenue forecast.

Be careful not to fall prey to over-simplification and too much optimism.

Yes, past growth can be an indicator of future success and used as a metric to project your company's growth rate. However, your revenue projections should also anticipate inevitable downturns (as well as upturns) in the economy, seasonal sales lags, industry changes, and other potential challenges that will undoubtedly temper your company's growth at one point or another.

If your revenue forecast reasonably reflects these unavoidable realities of doing business, then you can trust your numbers.


## **3. Your Numbers Are Realistic**

Don't let your revenue forecast suffer due to your own confirmation bias. People have an inherent tendency to cherry-pick or interpret data in a way that confirms their existing beliefs.

To avoid this problem and ensure your revenue forecast's feet are planted firmly in reality, always include all the data that's available to you – even if something doesn't seem to fit the mold. The easiest way to do this is to automate as much as possible. With all your financial data accurately and automatically recorded, you'll have continual access to a complete set of accurate, up-to-date financial reports.

**TIP:** Another way to ensure accurate reporting? Consider working with a remote accounting team. Their expertise will optimize your accounting system with the best tools and technology available for your industry, show you how to use it, and help you interpret your business's financial reports. (Plus, 70% of businesses cited cost-cutting as the primary reason for outsourcing).

“The accounting reports I get and make decisions on are very, very accurate. I now have a team of accountants that I can go to and ask questions about my financial reports, to help understand them better and to get some ideas on how I might be able to tweak the company to improve profitability.”

- Allan Weatherford, President, Liberty Pipeline Services. [Read the full story on how this business went from break even to \\$1 million in profit in only one year](#)  [here.](#)

## How to Make Better Business Decisions Using a Revenue Forecast

Once you know you can rely on your revenue forecast, you can start using it to make better business decisions and lead your business toward a more successful future.

## Flawless Cash Flow Management

Poor cash flow management and unexpected cash flow shortages are one of the most common reasons would-be successful businesses prematurely close their doors.

Revenue forecasting helps business owners better anticipate and plan for cash flow shortages due to the business's seasonality, payroll schedule, loan payment schedule, tax payment schedule, and accounts receivable schedule.

As a result, you'll have [a better handle on when to expect cash flow](#) to be tight so that you can put a plan in place to ensure your business operations can continue without any detrimental interruptions.

## Master Your Marketing Campaigns

You might not expect a revenue forecast to relate directly to your company's marketing strategy, but it does.

Through the process of creating and reading a revenue forecast, you'll gain insight into which revenue channels are most profitable for your business. You can then build your marketing strategy around this data and allocate your marketing budget properly.

[Marketing and biz dev effort drive sales- and sales lead to business growth.](#)

Seasonal business or not, a revenue forecast will also help you predict which revenue channels perform better at different times of the year. Your marketing team is now armed to ramp up campaigns for seasonally popular services at the proper time or focus efforts on increasing brand loyalty and drumming up interest during slower parts of the year.

## Perfectly Timed New Hires

[“When should I hire more employees?”](#)- It's likely at some point in your journey as a business owner you've asked yourself this question.

Revenue forecasting can help you avoid over or under-staffing your company.

Your business might require additional help during busy seasons or maybe it will soon need to add new staff members as a result of growth. Revenue forecasting can help you anticipate increased demand and growth rates to determine exactly when you need to hire new employees so that they will be fully trained and up to speed as soon as they're needed.

### **Improve Strategic Planning**

Whether you use revenue forecasting to foresee and plan for challenges or to project business growth and plan for reinvestment, revenue forecasting will improve your strategic planning. You can use your forecast to make decisions now that will position your business for future growth while sheltering it from future hardships.

## **What Happens If You Don't Automate Your Back Office?**

If you currently take a pass on revenue forecasting because it takes up too much of your time, then it's time to build a better back office for your business.

With technology designed to streamline expense tracking and allocation in addition to automating revenue reporting, you can enjoy the benefits of highly accurate and reliable revenue forecasting – without worrying about the drain on your time or resources.

However, it is the combination of the right team and technology that will generate the most results. Professional, remote services are available to help small and medium-sized businesses flourish with affordable, automated, outsourced back offices.