“The only function of economic forecasting is to make astrology look respectable.”
- John Kenneth Galbraith

And, so it is with many organizations’ revenue forecasts. However, accurate revenue forecasting is an essential, yet overlooked, aspect of sound organizational management.

When revenue targets bear little resemblance to actual results, overall organizational morale goes down. Development and Executive Directors spend sleepless nights, and Boards get sick to their stomachs.

But, there is a way to avoid this pain.

“There is a planning path that can help organizations grow and prosper in good times and stay the course in rough times—a path that helps to eliminate surprises throughout the year.”
- Dyan Oldenburg, TREC Executive Director

Organizations really must make accurate revenue forecasting a part of every budget approval process. They must devote the time necessary to think strategically about revenue generation using several different analytical tools. The result of this rigor is that more accurate forecasting will be achieved, and more rational organizational decisions will be made based on these accurate forecasts.

A key point of understanding for revenue forecasting is that it is a process that requires focused and deliberate time and thought. Many organizations fail to do this upfront thinking and are met with disappointment or even catastrophe later on down the road.

The issue of accurate revenue forecasting is simple enough at its core. We need to figure out with a fair degree of certainty how much we can realistically collect over the course of the year. The most common sources of revenue to consider are foundation money, smaller membership gifts, major donor and Board gifts, and other money from fee-for-service work, contracts and interest.
One simple rule of revenue forecasting is that as a first step, revenue targets must be computed wholly independent from expense targets.

Often, we are told by those above us that “next year our budget will be X and you must now supply revenue numbers that will total the expenses.” Talk about a cart before the horse process that leads to unsubstantiated assumptions and “Hail Mary” wishes - this is it.

Look at historical trend lines and imagine, rather, a logical process where the person responsible for putting these targets together might determine the revenue forecast before determining the expenses. A good starting point for doing this might be to simply review past results from various sources and base projections on these historical trends.

For example, if three years ago we raised $250,000 from foundations (or major donors), two years ago $275,000 and last year $300,000, we have achieved roughly a ten percent per year increase. A historical trend line alone would tell us that our projection for the year should then be $330,000. Often this is about all the time we spend thinking strategically about our projections, which leads to...

Another simple rule of revenue forecasting—historical trend forecasting is not enough and must be cross-validated by other analysis tools.

Case-by-case analysis is another way to think about forecasting total revenues. Look at each of our foundation (or major donor) funders over the last three years, study their individual patterns, and apply what we know about each funder to her/his future projection.

For example, if the Quaking Aspen Foundation (or John and Mary Smith) gave us $100,000 three years ago, $150,000 two years ago, and $125,000 last year and also whispered to us that there might be more to give us in the upcoming year, we might rate them for a gift of $175,000 as a best case, and $150,000 as a worst case. Such a comprehensive sweep of the entire funder base will then lead to a best case and worst case forecast from foundations and major donors, which leads to another rule of forecasting...

Scenario forecasting is a powerful tool for organizational decision making because we can see what our best and worst case scenario might be. Our expense budget must reflect corresponding best and worst case spending.

- Kim Gilliam, TREC Senior Associate
Critical questions to answer about membership - There are a variety of questions you should try to answer before forecasting membership or smaller gift revenue.

• How many current members do you have and how much did they give last year?

• Of that income, how much came from member renewals, how much from special appeals, and how much from new member acquisition?

• What is our retention rate for members?

• How much emphasis will we place on increasing our total membership next year? Will that be accomplished by higher retention or through new acquisitions? How much will it cost and how much will we net in the process?

• What are our historical trend lines in overall membership revenues and what factors have lead to these trends (e.g. two years ago we had a challenge grant for new members that lead to generating 100 new members who gave average gifts of $35, or $3500 total)?

Small gift target setting - Once all of these questions have been examined, you can set a target number for renewals, a target number for appeals, and a target number for acquisition. These three totaled together become your overall target for smaller gifts for the year.

Another key to revenue forecasting is to quantify the amount of money you expect to raise from new foundations and new major donors. This ‘new’ money can then be added to the total you expect to raise from previous sources to create your total revenues for the year.

This isn’t an invitation to magical thinking, though. Be realistic about your organization’s track record of securing new money in the past few years as well as current economic conditions. If you have a strong record of acquiring new major donors or funders each year, then you might add this to your most probable fundraising scenario. On the other hand, if you haven’t been very successful or previously expended much effort to increase your number of major donors or funders, such predictions might lead to false hope and expectations that will result in a funding gap later in the year. In this case, any additional new donors or funders would only be included in the “Best Case Scenario” and should not be reflected in the corresponding expense budget.

Cash flow and burn rate - The last step in the process is a final check to measure that you accurately project the pace of anticipated revenues collected at any point of the year against your monthly “burn rate” of expenses. This ensures that either your monthly costs will be covered, or you have an organizational plan to deal with the negative cash flow months.

Steps to revenue forecasting in review:
• Detailed and logical analysis of each of your revenue centers
• Adjust them to factor in “new” money for the year
• Cross check them against historical trends
• Cross check them against cash flow

Counting Your Chickens Before They Hatch - ©TREC Page 3
“First cut” projected revenues - Only after you have thoroughly completed these steps are you ready to present your “first cut” projected revenues for the year. These projections can then be compared to the “first cut” expense budget for the year and here's the final big point…

If projected revenues and projected expenses are derived in independent fashion, they must then be reconciled.

To the degree that there is a wide gap between strategically forecasted revenues and planned expenditures, further adjustments must be made in either revenues, expenses, or both. After some back and forth within the organization in which both revenue and expense numbers are fully vetted, if the gap still exists, a determination must be made by the organization's leaders and the Board to either cut expenses further or to draw from cash reserves to make up the difference.

Once final revenue goals for the year have been set, they can then be transferred into the Statement of Development Objectives discussed in Training Resources for the Environmental Community - TREC's Fundraising Planning Report: Preparing for a Busy Year by Planning Ahead, and can and should be used as the benchmarks to monitor progress against for the balance of the year.

Plan the work; then work the plan

The concept is simple. Plan the work; then work the plan. The first step in a good development plan for the year is an accurate revenue forecast for where you must end up—it's like the GPS of fundraising.

TREC Fundraising Assistance Program Team

Author - Kim Gilliam

James (Kim) Gilliam, Senior Associate (kim@trec.org), has been involved in the creation and direction of dynamic fundraising efforts for more than two decades. After several years of working as a VISTA volunteer in various community organizing roles in North Dakota, from 1988-2002 he was the Chief Development Officer for the Southern Environmental Law Center, based in Charlottesville, Va. During his fourteen year tenure the organization grew from a $500,000 to a $5 million annual budget. He was primarily responsible for building a nationally recognized individual major gifts program that grew to generate fifty percent of the organization's annual budget. He also spearheaded the organization's successful $15.5 million Campaign for the Environmental Future of the South from 1997-2000.

Since 2003, he has managed a full time consulting practice working with a national client base in developing fundraising plans and major gift and capital campaign efforts, as well as doing extensive training in environmental fundraising throughout the country. In addition to his training and coaching role with TREC, he also serves as a lead fundraising consultant to grantees of the French American Charitable Trust in San Francisco, a foundation supporting organizations working on root causes of poverty and inequity.
Elizabeth Hospodarsky, Fundraising Assistance Program Director and Senior Associate (elizabeth@trec.org), grew up exploring wild places like the Cascade Mountains and the Appalachian Trail with her mountaineer father. Though her pack was nearly as big as she was, she developed a deep passion for wilderness and biodiversity. Elizabeth brings this passion into her work at TREC by helping clients with fundraising planning, strategies and donor development. She has been a non-profit professional since 1995, helping a wide range of organizations overcome challenges to fulfill their critical missions. Elizabeth has successfully fulfilled the roles of founder, board member, development director, and executive director for organizations working to care for our earth and the plants and animals living on it.

Don Elder, TREC Senior Associate (don@trec.org), has served conservation organizations in a variety of capacities over the past 25 years. Currently, he is also Director of Individual Giving for River Network, a national conservation organization, based in Portland, Oregon. River Network provides technical, organizational, fundraising and networking support for river and watershed groups across the United States. His prior roles include Director of Major Gifts for Western Rivers Conservancy, President of River Network, Program Director for River Network, Development Director for the Nature Conservancy of Alabama, and founding Executive Director of the Cahaba River Society.

Dyan Oldenburg, TREC Executive Director (dro@trec.org), founded Training Resources for the Environmental Community (TREC) in 1997. As executive director, she assists in developing and directing TREC’s programs and provides services to TREC clients. She has worked on numerous legislative, electoral and issue campaigns since 1979. Dyan ably assists environmental nonprofits in growing their leaders, boards and organizations. Her love of the wild people and the wild places and critters that they’ve dedicated their lives to saving is what keeps her going. She is dedicated to helping groups meet their missions and manage change. Her straw bale, solar house at the end of the road is her refuge. She can often be seen riding one of her horses in the back country of the Sangre de Cristo Mountains in Northern New Mexico with her dog Bella running along side her. She is a graduate of Antioch College with a degree in political science, management and community service.