

WHITE PAPER

BoostUp[!]

Mastering Consumption Based Forecasting

How to Forecast Accurately With Usage-Based Revenue

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The Rise of Consumption-Based Revenue

Over the past several decades, the pervasiveness of consumption-based revenue has increased exponentially. A recent survey found that approximately 61% of B2B SaaS companies currently use some type of usage-based revenue model representing a 125% increase over the past five years. While the manufacturing and medical device industries were some of the first to embrace consumption-based revenue, of late, B2B SaaS has been the fastest to adopt, with a five-year CAGR of 17.7%.¹

The growing prevalence of usage-based revenue stems, in part, from companies' improved ability to measure consumption. Thanks to a ubiquitous internet, solutions that continuously transmit data related to system utilization and health, and "smart" monitoring agents that interpret and respond to this information, companies are more connected than ever to customer consumption patterns.

The rise of usage-based revenue models can also be attributed to their inherent appeal to both consumers and vendors. Consumers recognize the equity in paying for what they use. Additionally, they may view utilization rates as a tangible proxy for the value they're receiving. Meanwhile, vendors find that consumption-based models provide an easy way to attract and ramp lucrative new customers via "land and expand" tactics. Infrastructure as a Service (IaaS) companies, for example, have become extremely adept at transforming small initial transactions into multi-million dollar revenue streams.

While usage-based revenue models offer many benefits, their associated uncertainty also presents challenges--revenue projections, sales compensation, and demand planning to name a few. In the face of these issues, companies are developing new forecasting techniques to more accurately predict revenue and more effectively hold revenue-facing teams accountable for delivering incremental value.

Accurately Projecting Consumption-Based Revenue

Over the lifetime of a customer relationship, vendors capture valuable data that can be used to project consumption-based revenue streams. When combined with AI-driven modeling techniques, this data can be transformed into customer-specific revenue yield curves that anticipate the monetary value of consumption over time. The techniques used to generate these curves generally fall into one of three levels of sophistication.

Level 1

Simple Historical Run Rate.

Analysts plot historical consumption over time and then extend the resulting revenue curve based on the current trajectory. This approach requires minimal resources but estimates are fairly coarse and are only directionally accurate.

Level 2

Multivariate Historical Run Rate.

Similar to simple historical run rates, the multivariate approach projects future consumption based on historical patterns. However, an array of additional variables are added to the analysis.

These include industry and company-specific cyclicity, macroeconomic factors, and revenue performance at a product, region, and customer segment level. While analog modeling techniques can be used to render projections, companies will typically rely on AI models given the volume of data and complex correlations among variables.

Level 3

Real-Time Forecasting.

Predictions from Levels 1 and 2 stem from the analysis of historical structured data. Real-time forecasting adds an additional layer of sophistication by analyzing real-time data, such as unstructured customer sentiment data, from email, call recordings, and ad hoc notes, support ticket data, real-time website and product usage data, etc.

LLMs are used to perform the analysis and project outcomes such as an increase or decrease in product usage. Unlike historical usage data which is retrospective in nature, real-time customer sentiment is considered a leading indicator, and therefore dramatically improves the accuracy of consumption-based forecasts.

Tackling the "New Customer Challenge"

To effectively apply level 1-3 modeling techniques, companies need large quantities of customer-specific data. So how do companies project revenue for new customers when there's no data to analyze? In these situations, they need to rely on proxy cohort data.

To form cohorts, companies analyze their existing customer base, grouping accounts that exhibit a strong correlation in revenue performance. These accounts may share common characteristics like industry, size, or regional concentration. But oftentimes, correlating factors may be more subtle (e.g. growth stage or capitalization structure). AI excels in performing a more nuanced cohort analysis.

Once the cohorts are formed, revenue yield curves can be generated for each cohort. Level 1-3 techniques are used to analyze each cohort's aggregate data set and build a revenue yield curve.

Lastly, algorithms are developed to analyze new customers and correctly match them to the appropriate cohort. At that point, a revenue projection for the new customer can be generated based on the relevant cohort revenue yield curve.

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Why Accuracy Must Be Paired With Accountability

Building accurate revenue projection models will allow companies to correctly anticipate the organic run rate for a given customer. However, most companies attempt to "bend" those trajectories by deploying fleets of sales reps and account managers to generate additional business. To maximize the impact of these resources, companies must reliably separate organic vs. non-organic revenue and then hold teams accountable for capturing the non-organic piece of the pie.

Using the techniques described in the previous section, companies can establish a baseline for organic growth that can be achieved without any involvement from sales reps or account managers. These teams should then be required to project the incremental business they can generate based on their understanding of the account and their ability to position the value of the company's products and services.

When leaders require reps to "commit" to a number and then use a standardized set of processes and tools to hold reps accountable, outcomes improve. In 2007, Gail Matthews published research that quantifies the impact of documenting goals and associated action plans.² In a study involving 149 participants from around the world, she found that individuals who documented their goals were 50% more likely to achieve them than those who did not.

A consumption-based forecasting tool is an essential component of rep accountability. It catalogs the rep's call and provides opportunities for inspection and discussion.

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To effectively address the nuances of the consumption use case, the forecasting tool should support the following requirements.

Sales & Account Management

Mirror the structure of the sales and account management team. For example, a company may want to roll up a forecast by showing each account manager in a given region, each parent account and subsidiary that the account manager owns, and the various kinds of workloads that each account is projected to consume. In this case, the hierarchy is formed by combining account managers, accounts, and workloads into a single hierarchical structure.

Historical Usage Data

Display historical usage data in the same view the reps use to input their call. Rep inputs will be more accurate if they can easily review customer usage patterns. To render this view, the forecasting tool will need to pull data from multiple data sources and combine read-only and editable fields (i.e. the rep can “read” historical usage data and “edit” their judgment in the same view).

Tools to Perform Analysis

Deliver excellent performance. Reps often use forecasting tools to perform “what if” analysis, changing the amounts of individual line items to reach an overall target. If the tool can't display updated information and associated calculations in real time, reps won't use it.

Once the appropriate processes and tools have been implemented, leaders can hold teams accountable for achieving their commitments by taking specific actions weekly, monthly, and quarterly. Each week, managers review commits with reps, noting week-over-week movement and formulating plans to address forecast shortfalls. Each month, RevOps can compare actual consumption to rep calls and determine rep-specific forecast accuracy. Enablement programs can be implemented to close associated skill gaps. Finally, once companies understand organic vs. rep-driven revenue growth, they can deploy quarterly compensation plans to compensate reps for the incremental usage they drove during the previous 90 days.

A New Era

The power of consumption-based revenue models stems from their ability to directly align vendor and customer interests. As more products and services are monetized via usage-based models, companies will place greater emphasis on account management and associated expansion efforts. In doing so, the balance between "hunters" and "farmers" may start to skew towards the latter.

Additionally, as companies refine their ability to separate organic from rep-driven growth, compensation systems will focus on the incremental value reps generate. Underlying all of the changes, a robust set of tools and processes will effectively project consumption-based revenue, transparently represent the contribution of sales reps and account managers, and motivate them to generate even greater value for their customers.

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References:

¹ [OpenViewPartners.com, Usage-Based Pricing: The Next Evolution in Software Pricing](https://openviewpartners.com/usage-based-pricing-the-next-evolution-in-software-pricing/)

² Gail Matthews, [Goals Research Summary](#), 2007

About BoostUp

BoostUp's AI-powered Revenue Command Center equips sales organizations with the forecasting, sales coaching and deal inspection tools they need to deliver predictable and consistent growth. Companies such as MongoDB, Cloudflare, Teradata, and Udemy rely on BoostUp to increase sales productivity and accurately project revenue.

[See how BoostUp supports any revenue model.](#)