



Best Practices in Rolling Forecasts

Christoph Papenfuss, Business Unit Executive, IBM Cognos Innovation Center
Stephen Brook, Manager, IBM Cognos Innovation Center

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Session Objectives

In today's session we will:

- Review the need for **solid** forecasting practices
- Learn about the **rolling forecast** philosophy
- Discuss critical aspects of an implementation



„Expect the Unexpected.“

David Axson



What is a forecast?

Forward Looking

Fact-based



Flexible

Focused on Risks & Opportunities

„The end result ... is not an accurate picture of tomorrow, but **better decisions** about the future.“

Peter Schwartz, The Art of the Long View

Information Management 

Good forecasting practices create value



Reputation **Career** **Performance**

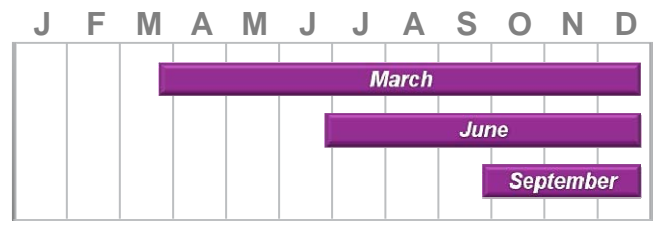
Cognos.
software

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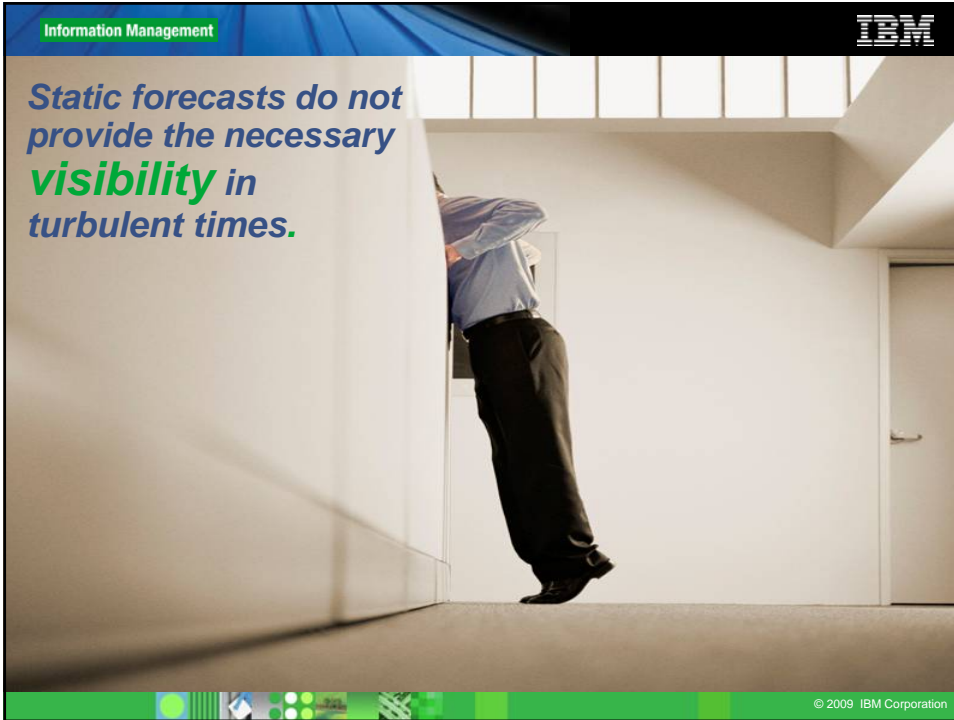
The traditional template....

	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL	YTD Actuals Variance	YTD Act Var %	Total Variance	Total Var %
	Actuals	Actuals	Actuals	Actuals	Actuals	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast					
Revenue	143.00	150.00	176.00	166.00	200.00	180.00	181.00	190.00	200.00	200.00	210.00	200.00	2256.00	-65.00	-7%	256.00	13%
COGS	92.95	97.00	114.00	109.00	131.00	117.00	117.00	125.00	131.00	132.00	140.00	160.00	1484.95	-957.05	-64%	84.95	6%
Margin	50.05	53.00	62.00	58.00	69.00	63.00	64.00	65.00	69.00	68.00	70.00	80.00	771.05	-22.95	-7%	71.05	10%
Margin %	35.00%	35.33%	35.23%	34.94%	34.50%	35.00%	35.36%	34.21%	34.50%	34.00%	33.33%	30.77%	34.39%	0%		-0.65%	
Salaries	19.00	19.00	19.00	19.00	19.00	19.00	19.00	22.00	22.00	22.00	22.00	22.00	243.00	-1.00	-1%	-3.00	-1%
Bonus	1.43	1.50	1.76	1.66	2.00	1.80	1.81	1.90	2.00	2.00	2.10	2.60	22.56	-2.35	-9%	2.56	13%
Benefits	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.22	0.22	0.22	0.22	0.22	2.43	1.35	55%	-0.07	-3%
Insurance	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	1.80	0.00	0%	-0.10	-5%
Rent	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	34.80	0.00	0%	-1.20	-3%
.....																	
Utilities	3.00	2.00	2.50	1.50	1.00	1.00	1.20	1.40	1.50	2.00	2.50	3.00	22.77	0.92	8%	-1.23	-5%
Office Supplies	0.11	0.20	0.15	0.20	0.07	0.37	0.14	0.42	0.49	0.34	0.38	0.43	3.30	0.07	9%	1.00	43%
Travel - Air	7.15	7.50	8.80	9.00	15.00	9.00	9.05	9.50	10.00	10.00	10.50	13.00	118.50	-17.45	-50%	13.50	13%
Travel - Hotels	1.43	1.50	1.76	1.66	2.00	1.80	1.81	1.90	2.00	2.00	2.10	2.60	22.56	-3.35	-8%	7.44	25%
Travel - Car	0.72	0.75	0.88	0.83	1.00	0.90	0.91	0.95	1.00	1.00	1.05	1.30	11.28	-2.68	-178%	6.28	126%
Travel - Train	1.30	1.00	1.50	1.00	1.20	1.00	1.00	3.00	2.00	2.00	2.00	3.00	20.00	-1.50	-33%	9.00	82%
Gifts & Misc	0.50	0.00	0.00	0.50	0.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00	6.00	0.00	0%	-1.00	-14%
Maintenance & Repair	0.35	0.14	0.06	0.43	0.30	0.36	0.31	0.42	0.03	0.41	0.05	0.13	3.64	0.02	1%	0.04	1%
Marketing	2.00	0.00	0.00	9.00	4.00	7.00	0.00	4.00	5.00	2.00	0.00	1.00	59.00	-3.00	-15%	5.00	5%
Net Income	9.83	16.17	14.35	9.90	20.18	17.53	17.53	16.24	14.62	20.98	15.01	27.66	200.01	15.43	28%	0.01	0%

The traditional approach...



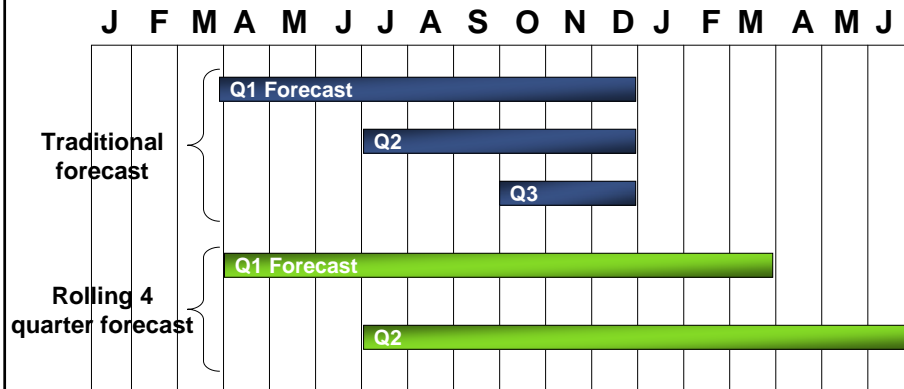
Static forecasts do not provide the necessary **visibility** in turbulent times.



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software

Rolling Forecasts.
An **effective** approach.

What is a Rolling forecast

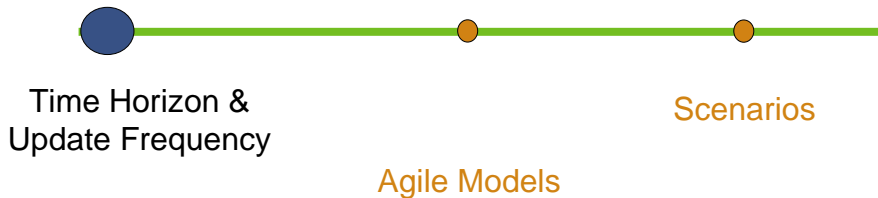
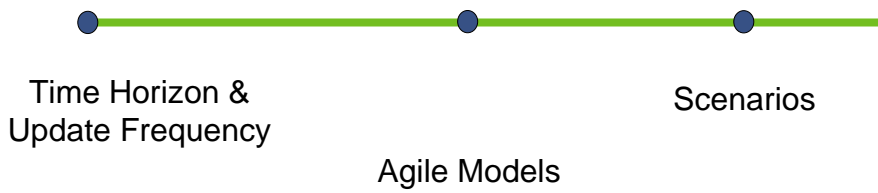
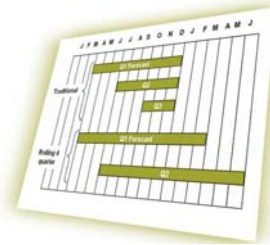


Why are rolling forecasts attractive?

- Increased visibility
- Consistent time horizon
- Less reliance on budget
- Solid baseline for new plans



Some elements of a successful forecast



Rolling Forecast = 12 month quartely?

*No. It depends on **your business!***

Match the time horizon to the rhythm of your business

Short cycles

Long cycles

Industry

- Consumer electronics
- Retailing
- Investment banking

- Oil exploration
- Pharma development
- Infrastructure investment

Function

- Advertising
- Cash flow
- Overtime

- Plant construction
- Infrastructure investment
- Research & development

„Best practice companies
move towards more
frequent & event-driven
updates.“



Time Horizon &
Update Frequency

Scenarios

Agile Models

Remember this template?

	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL	YTD Actuals Variance	YTD Act Var %	Total Variance	Total Var %
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Salaries	19.00	19.00	19.00	19.00	19.00	19.00	19.00	22.00	22.00	22.00	22.00	22.00	243.00	-1.00	-1%	-3.00	-1%
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Marketing	2.00	0.00	0.00	9.00	4.00	7.00	0.00	4.00	5.00	2.00	9.00	1.00	49.00	-3.00	-15%	5.00	6%
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Can we answer critical questions with this information?



„Simplicity is the ultimate
sophistication.“
Leonardo da Vinci



Utilize drivers – the language of business



Opportunities
Pipeline
Number of employees
Customer Satisfaction

VS.

634172 - Revenue (New Accts)
665891 - Office Supplies (Paper)
665892 - Office Supplies (Pens)
677199 - Gifts, Misc.



Revenue?

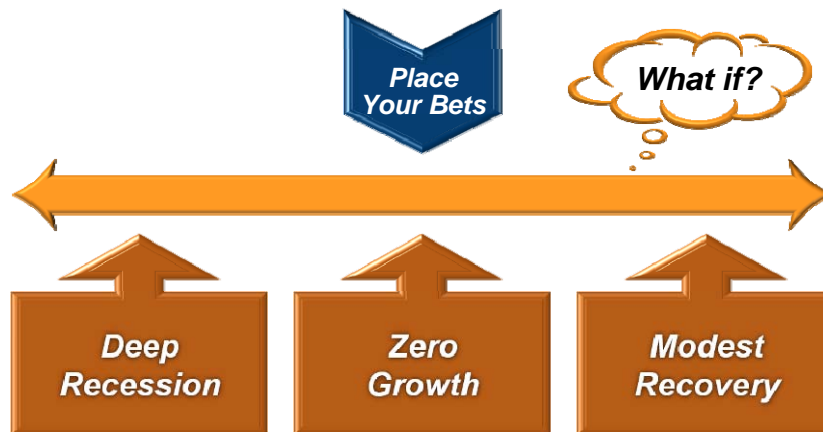


Time Horizon &
Update Frequency

Agile Models

Scenarios

Plan for Multiple Scenarios



But developing scenarios can be very tedious



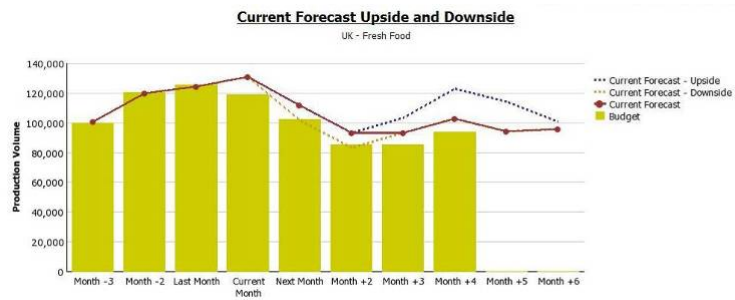
- Multiple scenarios
- Floating assumptions
- Data volumes

Consider a simpler approach

		Q1	Q2	Q3	Q4	Total	Comments
Upside	Customer 123	100	50	0	0	150	New product introduction likely
	Customer 234	150	0		250	400	Customer anticipates new orders
Downside	Customer 543	-100	-300	0	-50	-450	Main buyer at customer is leaving
	Customer 673	0	0	-125	-10	-135	Rumors about economic issues
Total		150	-250	-125	190	-35	

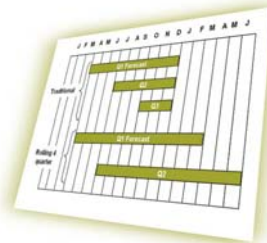
Upside Exceptions
 Base Case (most likely)
 Downside Exceptions

Consider a simpler approach



Upside Exceptions
 Base Case (most likely)
 Downside Exceptions

Summary: Some elements of a successful forecast



Time Horizon &
Update Frequency

Agile Models

Scenarios

Rolling Forecasts – a silver bullet?

- **No one-size-fits-all approach**
- **Agile models & process required**
- **Technology as enabler**
- **Forecast culture required**





Implementing a Rolling Forecast

Process management is critical



May Forecast / June Forecast / **July Forecast**



New version

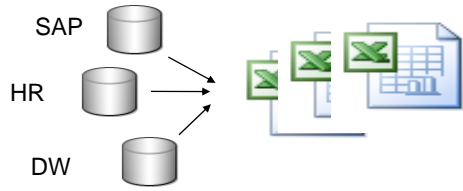
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0.0	0.0	0.0	0.0	C
0.0	0.0	0.0	0.0	C
0.0	0.0	0.0	0.0	C
0.0	0.0	0.0	0.0	C
0.0	0.0	0.0	0.0	C

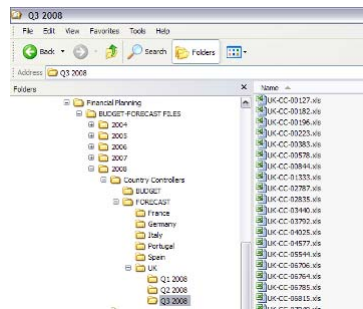
Update Models



New version



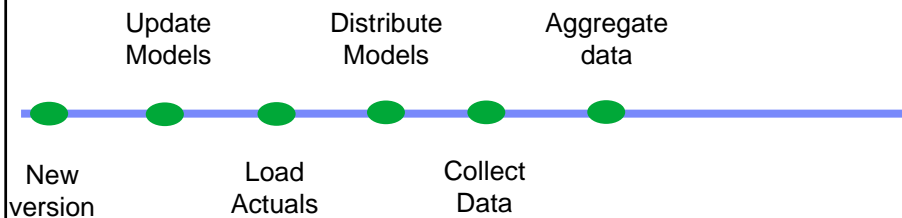
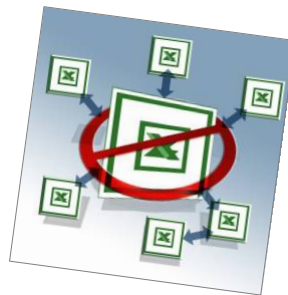
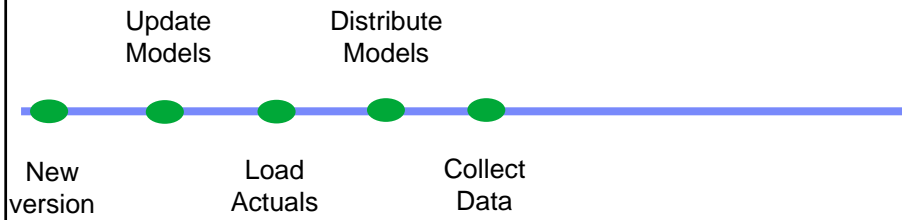
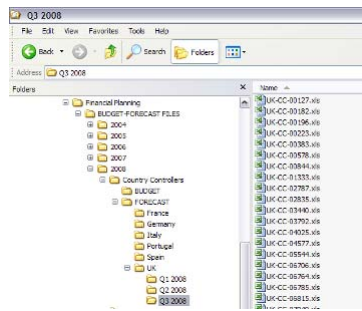
Update Models

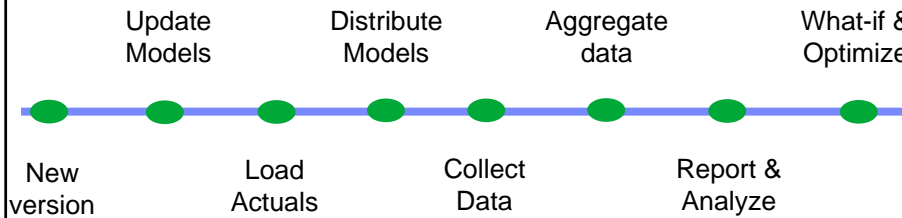
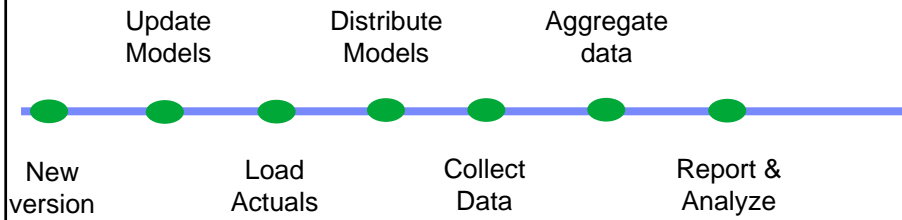


Update Models

Distribute Models







Resulting key challenges

- **Manual** processes
- **Labor intensive**
- **Exploding** data volumes
- **Lack of data integrity**
- **Long** cycle times



Technology boosts your performance

- Centralized model maintenance
- Automated interfaces
- Integrated Reporting & Analysis



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Demand Forecasting Demand Analysis Public Folders My Folders

Forecasting Tools Back to the default entry [Keep this version](#) [Add this report](#) [Watch new versions](#) [Add comments](#)

Demand Forecasting
Forecast Accuracy Report
Upside-Downside Risks Report

Forecast Accuracy

Prepared Whole Meals
Sales Quantity

Forecast Accuracy - 1 Month in Advance

	Month - 11	Month - 10	Month - 9	Month - 8	Month - 7	Month - 6	Month - 5	Month - 4	Month - 3	Month - 2	Last Month
FreshFoodCo - SALES AID MARKETING	76.2	76.2	83.6	83.6	89.5	94.1	94.1	94.0	97.0	97.8	97.8
US - Sales and Marketing	74.9	74.9	82.4	82.4	87.7	92.7	92.5	92.6	96.3	96.7	97.1
US Major Accounts	70.3	70.3	78.4	78.4	78.6	84.5	83.8	84.2	91.4	90.5	90.6
US Cities	76.0	76.0	83.4	83.4	89.9	94.6	94.6	94.6	97.5	98.2	98.6
UK - Sales and Marketing	76.6	76.6	84.0	84.0	90.6	95.1	95.1	95.2	98.2	98.9	98.4
UK - Major Accounts	70.3	70.3	78.4	78.4	85.6	89.5	89.7	90.6	95.5	95.2	97.2
UK - Regions	77.7	77.7	84.9	84.9	91.4	96.0	96.0	96.0	98.7	99.5	98.6
FR - Sales and Marketing	81.2	81.2	88.0	88.0	92.2	95.4	95.1	95.1	89.7	95.6	96.8
FR - Major Accounts	81.2	81.2	88.0	88.0	92.2	95.4	95.1	95.1	89.7	95.6	96.8
DE - Sales and Marketing	76.7	76.7	83.5	84.1	90.6	95.3	95.3	93.6	98.6	98.9	98.6
DE - Major Accounts	76.7	76.7	83.5	84.1	90.6	95.3	95.3	93.6	98.8	98.9	98.6
DE - Distributor	77.7	77.7	84.9	84.9	91.4	96.0	96.0	96.0	98.7	99.5	98.6
DE - Aldi	79.2	79.2	86.3	86.3	92.6	97.1	97.1	89.9	97.7	98.5	98.6
DE - Lidl	75.3	75.3	82.9	82.9	89.5	94.3	94.3	94.3	99.8	99.0	98.6
DE - Metro	74.5	74.5	79.7	82.1	88.9	93.8	93.8	93.8	99.3	98.4	98.6

Above target (>90%)
Acceptable (between 80% and 90%)
Unacceptable (<80%)

Feb 9, 2009 1 5:59:08 PM

Local Intranet 100%

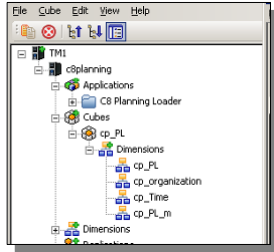
Information Management IBM

- Budget
- Budget
- Scenario 1
- Scenario 2
- Scenario 3
- Oct-08 Forecast
- Nov-08 Forecast

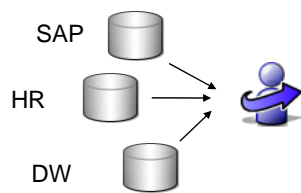
New version

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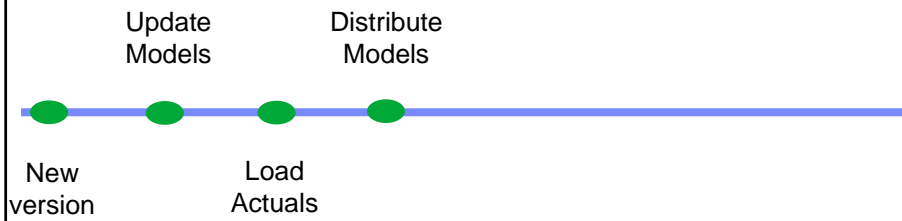
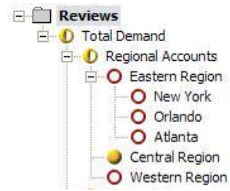


Update Models

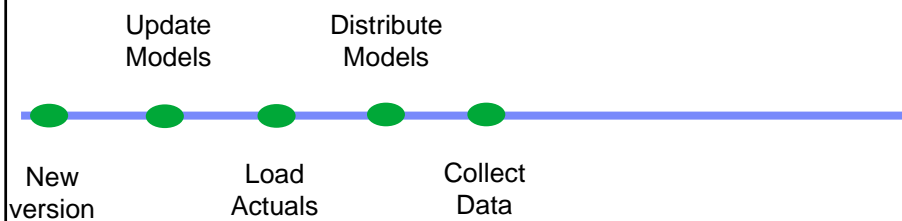


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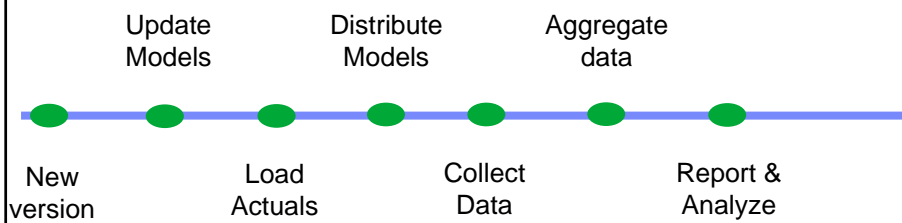
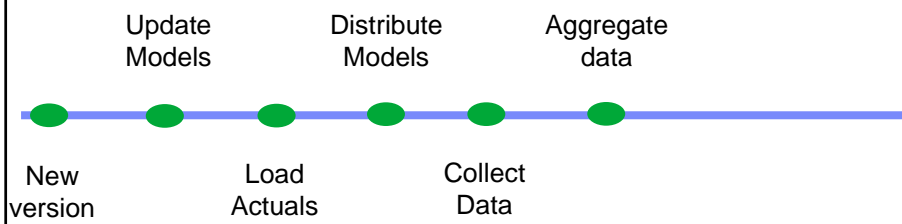


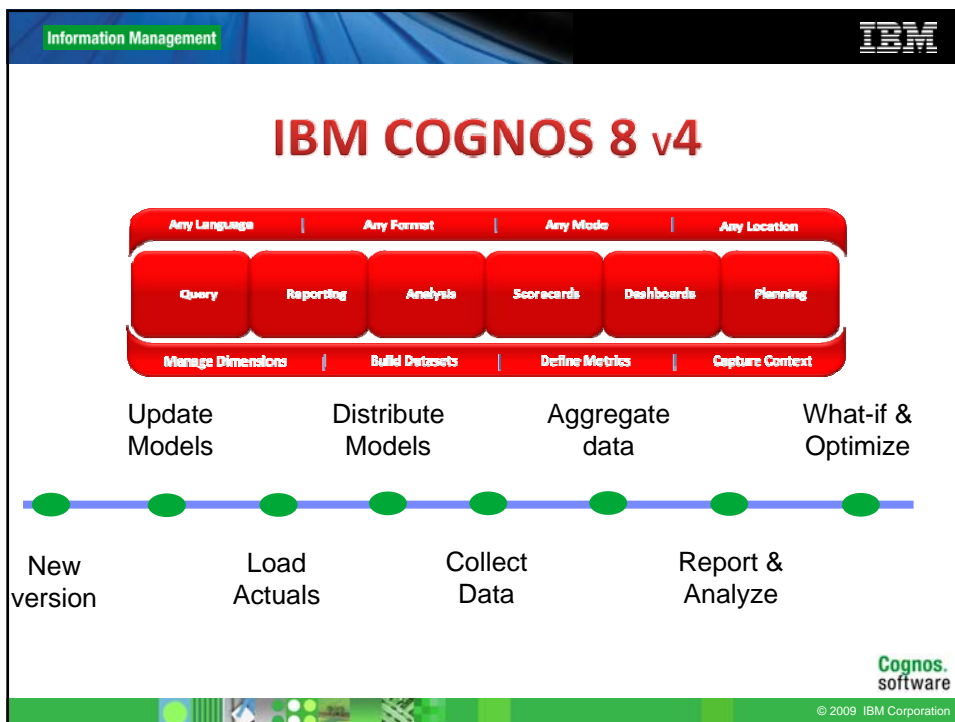
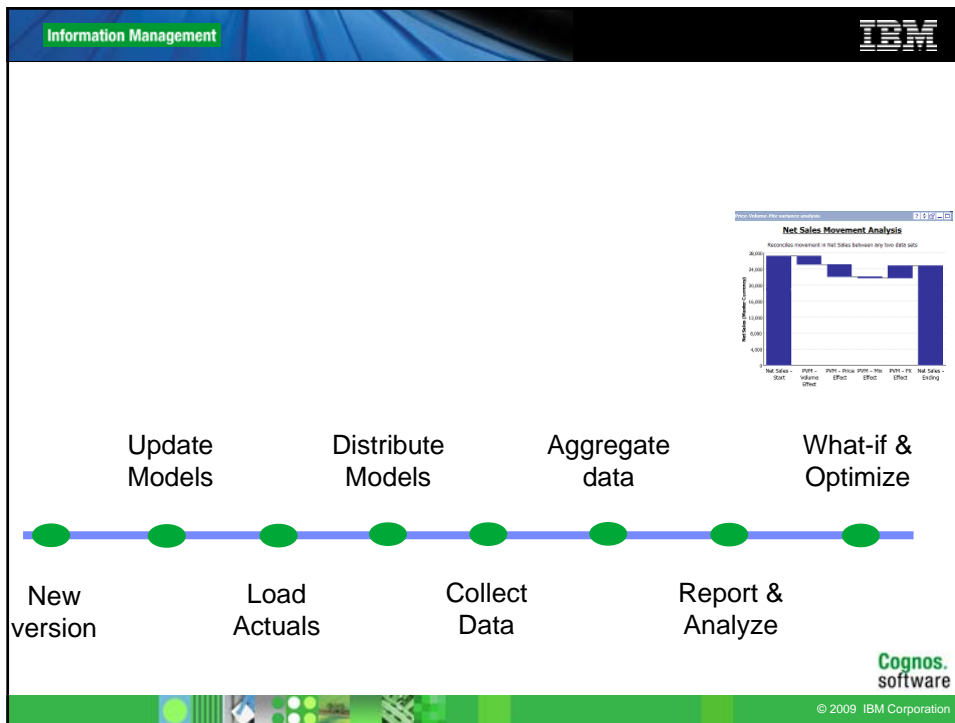


Workflow State	Count	%
Submitted	1	4%
Work in Progress	2	8%
Incomplete	4	17%
Not Started	17	71%



Net Sales	Month -3	Month -2	Last Month
	Oct-08	Nov-08	Dec-08
Current Forecast - Upside	4,620	4,630	4,498
Current Forecast	4,620	4,630	4,498
Current Forecast - Downside	4,620	4,630	4,498







Management
Meetings

Decision
Making!

Session Summary

- **The current business environment requires solid forecasting practices that the traditional approaches do not provide**
- **Rolling forecasts provide a proven approach for gaining better business insight in today's volatile business climate**
- **IBM Cognos provides best practices and solutions for implementing a better forecasting approach**

Upcoming Forecasting workshops – Current Schedule

- July 1st, Frankfurt, Germany
- July 2nd, Zurich, Switzerland
- July 8th, Edinburgh, UK
- August 5th, London, UK
- August 19th, Manchester, UK
- September 8th, Hamburg, Germany
- September 24th, Copenhagen, Denmark
- November 17th, Brussels, Belgium



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