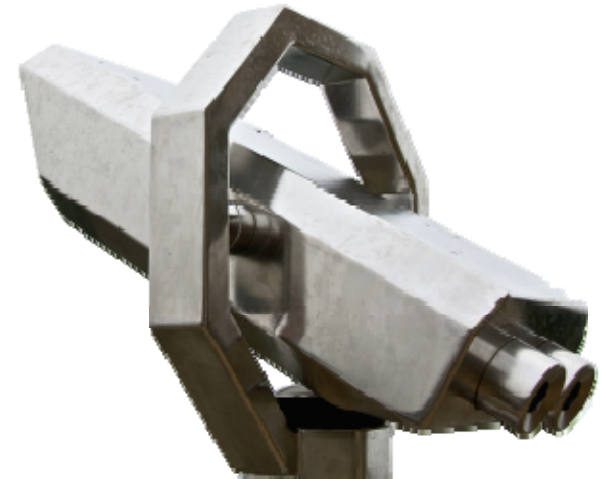

Rolling Forecasts in Turbulent Times

Christoph Papenfuss
IBM Cognos Innovation Center



Agenda

- Discuss the **relevance** of forecasting
- Review **best practices** for implementing a rolling forecast
- Identify how you can **improve** a forecasting process using IBM



„I think the world is flat.“
Thomas Friedmann





First green 'straddling' bus in China

By Zheng Jinran (chinadaily.com.cn)
Updated: 2010-08-25 16:40



Comments (8) Print Mail Large Medium Small



The straddling bus is 6 meters wide, 10 meters long per car and 4 to 4.5 meters tall, with two levels: passengers on the upper deck, while vehicles under 2 meters can go through under it. [Photo/Beijing Times]

The first green "straddling" bus in China started its design and production process on Aug 24 and is expected to be put into operation by the end of 2011, Beijing Times reported on Aug 25.

China South Locomotive & Rolling Stock Corp Ltd (CSR) is responsible for the straddling bus program. It is to be put into pilot use in Beijing's Mentougou district.

The straddling bus is 6 meters wide, 10 meters long per car and 4 to 4.5 meters tall, with two levels: passengers on the upper deck, while vehicles under 2 meters can go through under it. It will have a speed of up to 60 km/h. It is expected to reduce traffic jams by 20-30 percent.

Song Youzhou, chairman of Shenzhen Hashi Future Parking Equipment Co Ltd, said that this bus is cheaper and greener than a standard bus. It costs 50 million yuan (\$7.4 million) to build one kilometer path for the bus, which is only 10 percent of the cost of building one kilometer subway track, and is powered by electricity and solar energy.

The straddling bus is designed independently by Chinese engineers.

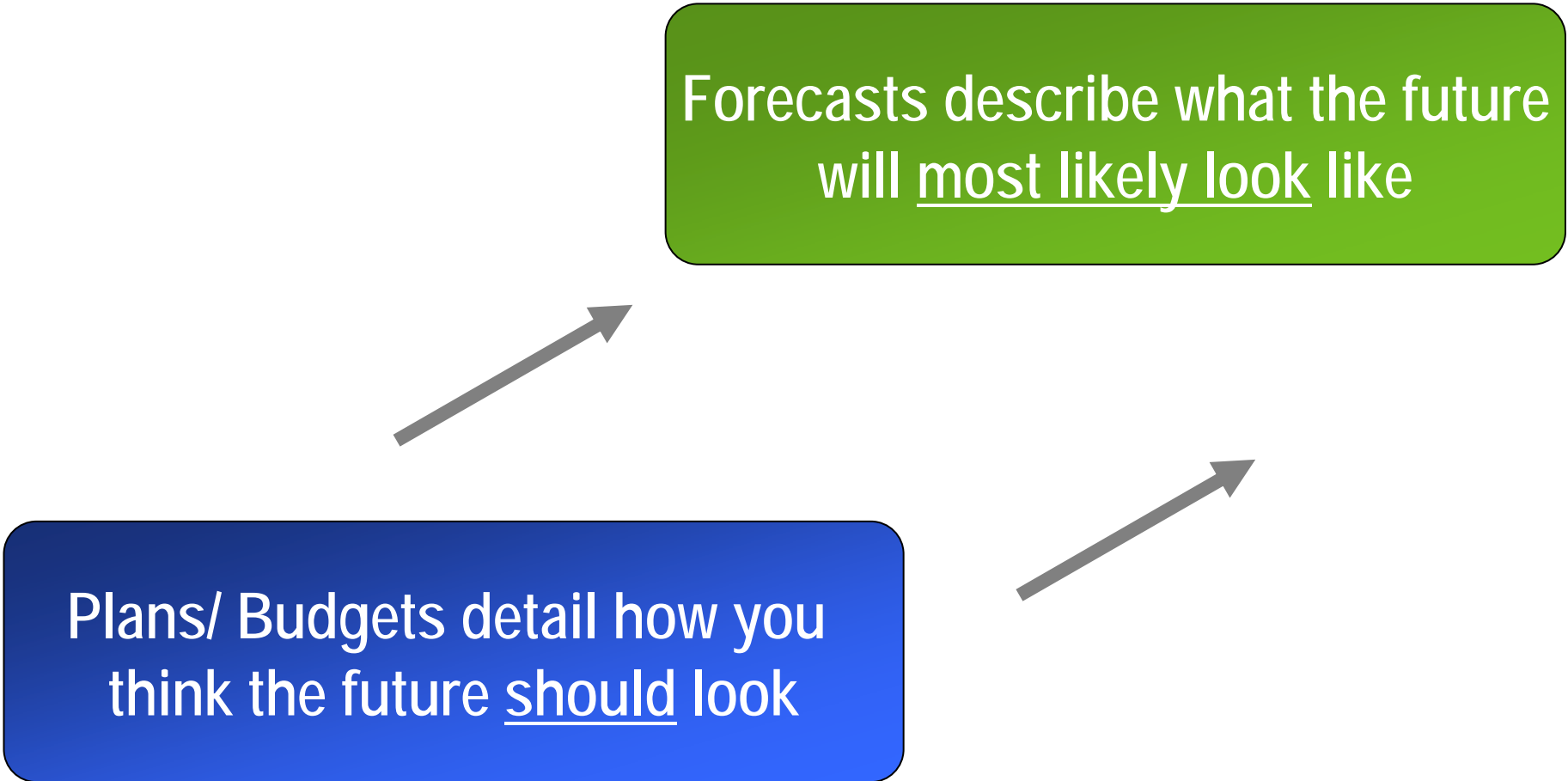
„By 1925 virtually all **management accounting** practices used today had been developed.“

Kaplan & Johnson, Relevance Lost



Forecasting ist a **critical process** in turbulent times.





Forecasts describe what the future will most likely look like

Plans/ Budgets detail how you think the future should look

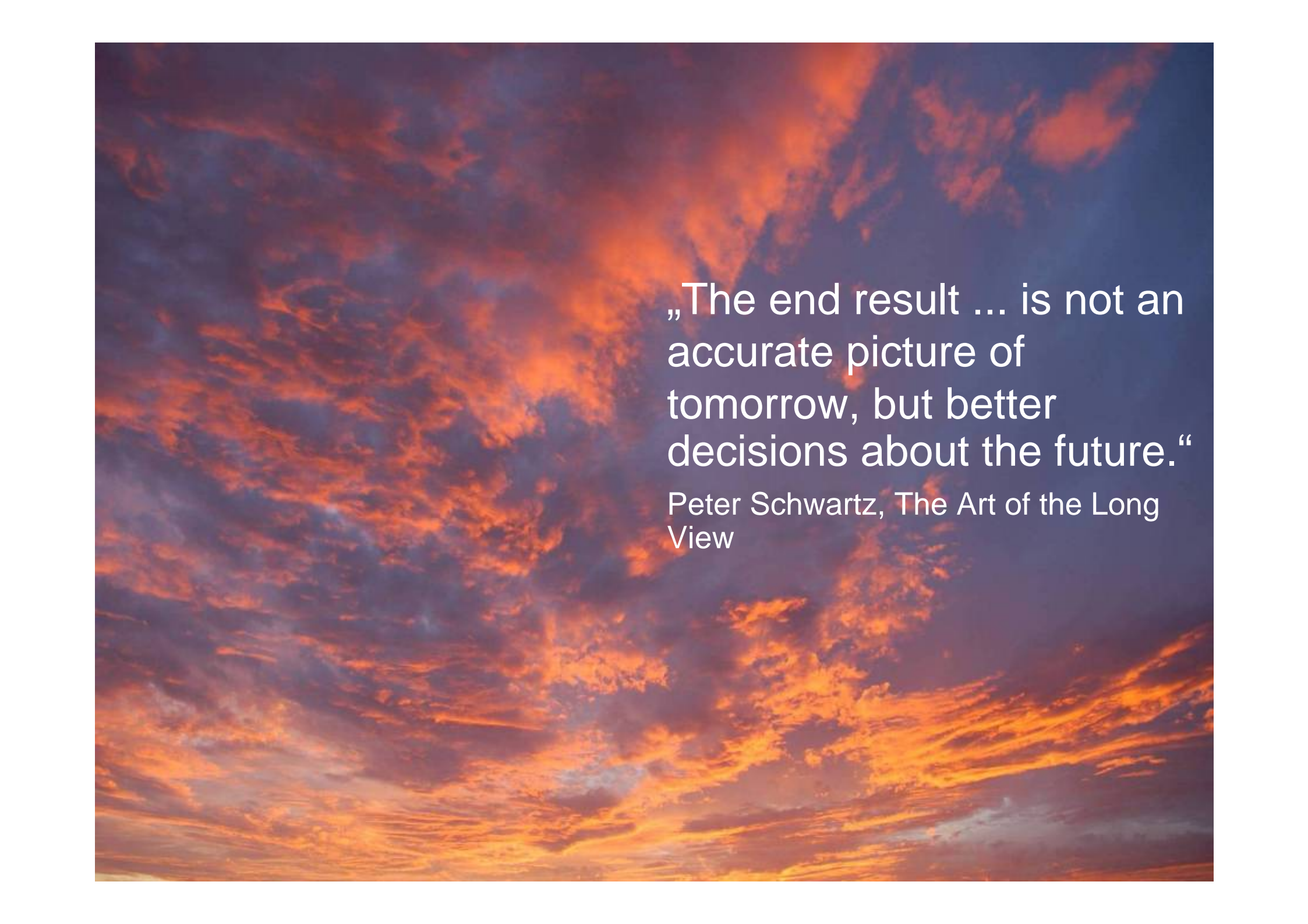
Forward Looking



Fact-based

Flexible

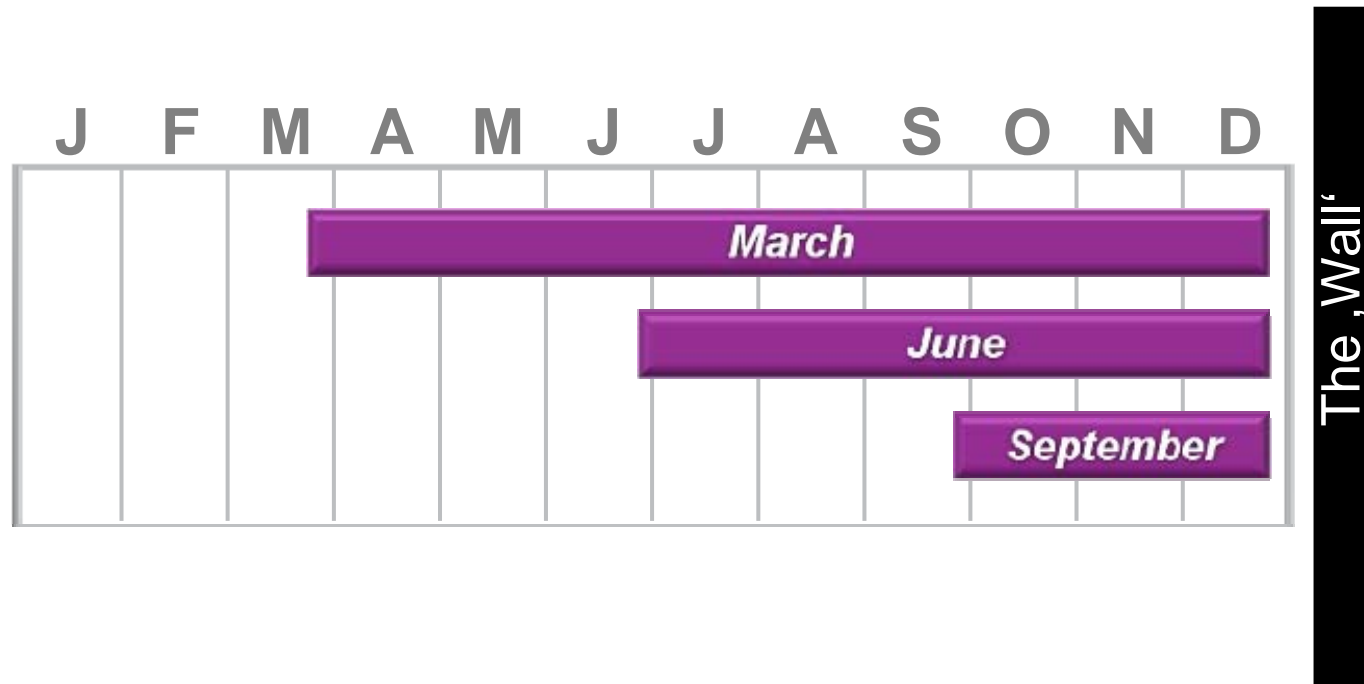
Focused on Risks & Opportunities



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

Peter Schwartz, The Art of the Long View

The traditional approach...



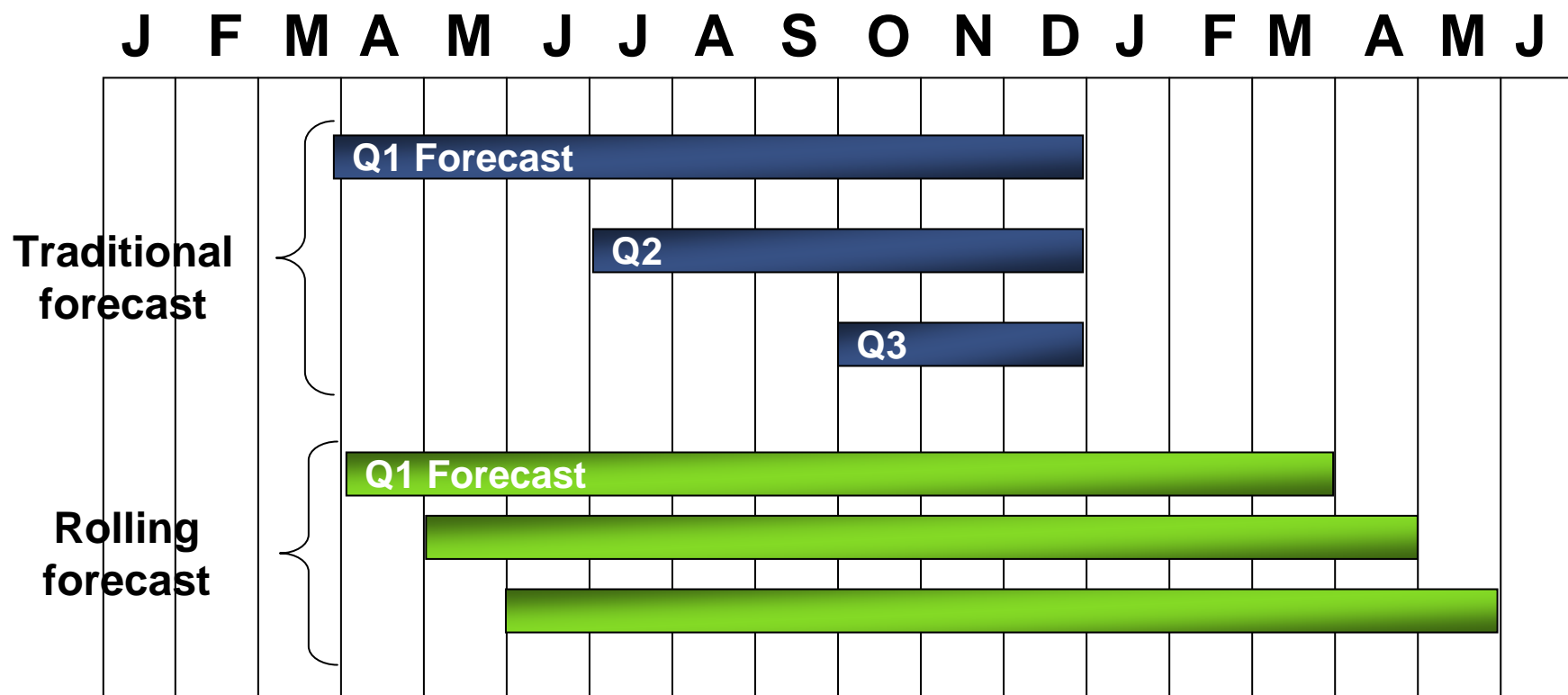
The traditional template?

	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	260.00	2256.00	-65.00	-7%	256.00	13%
COS	92.95	97.00	114.00	108.00	131.00	117.00	117.00	125.00	131.00	132.00	140.00	180.00	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%	34.35%	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	-39%	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	59%	-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	1.58	1.00	1.00	1.20	1.40	1.59	2.00	2.50	3.00	22.77	0.92	8%	-1.23	-5%
Office Supplies	0.11	0.20	0.16	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	-58%	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	-67%	-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	0.09	0.13	3.04	0.02	1%	0.04	1%
Marketing	2.00	0.00	8.00	9.00	4.00	7.00	8.00	4.00	5.00	2.00	9.00	1.00	59.00	-3.00	-15%	5.00	9%
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%

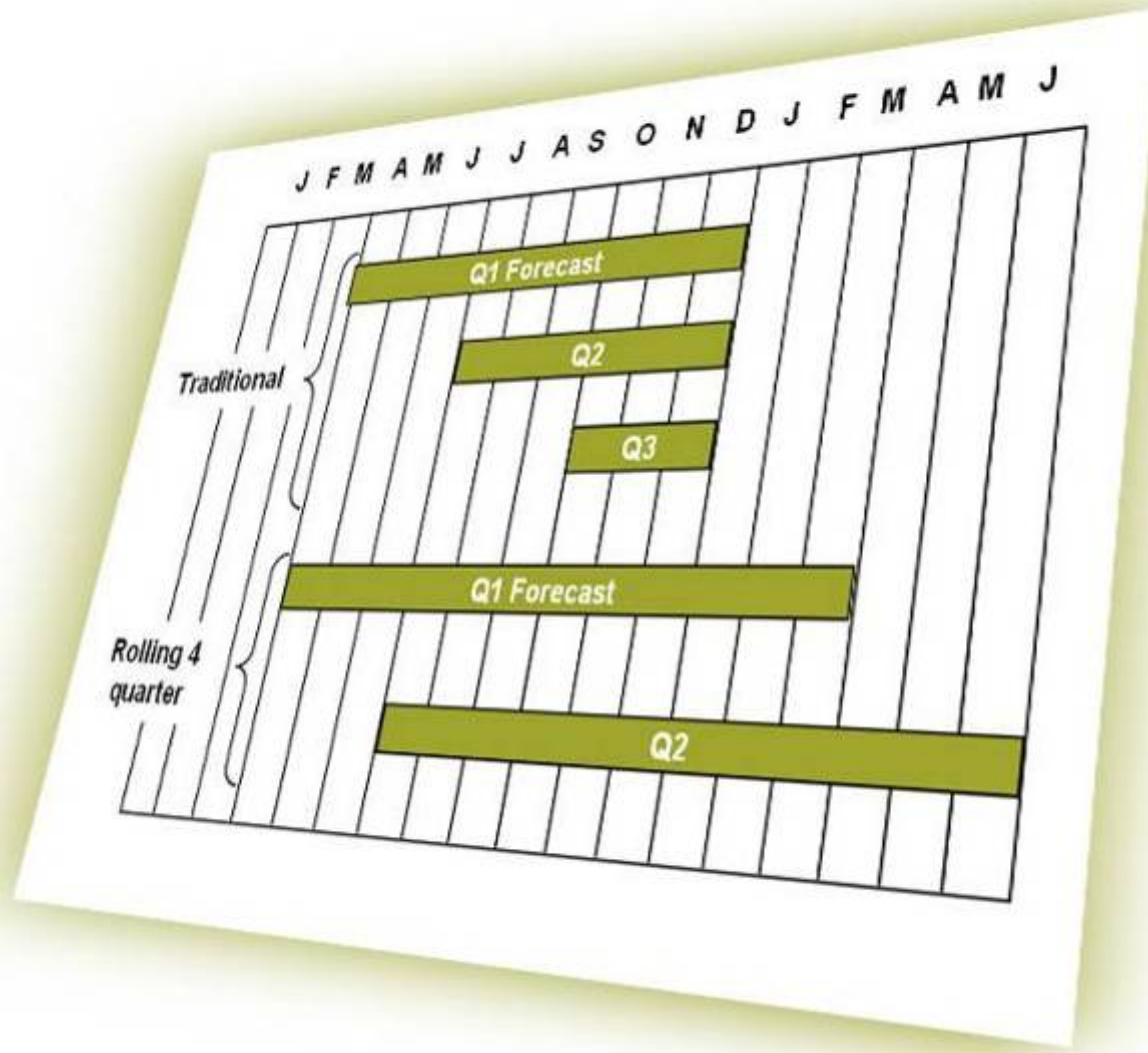
Rolling Forecasts. A **modern** approach.



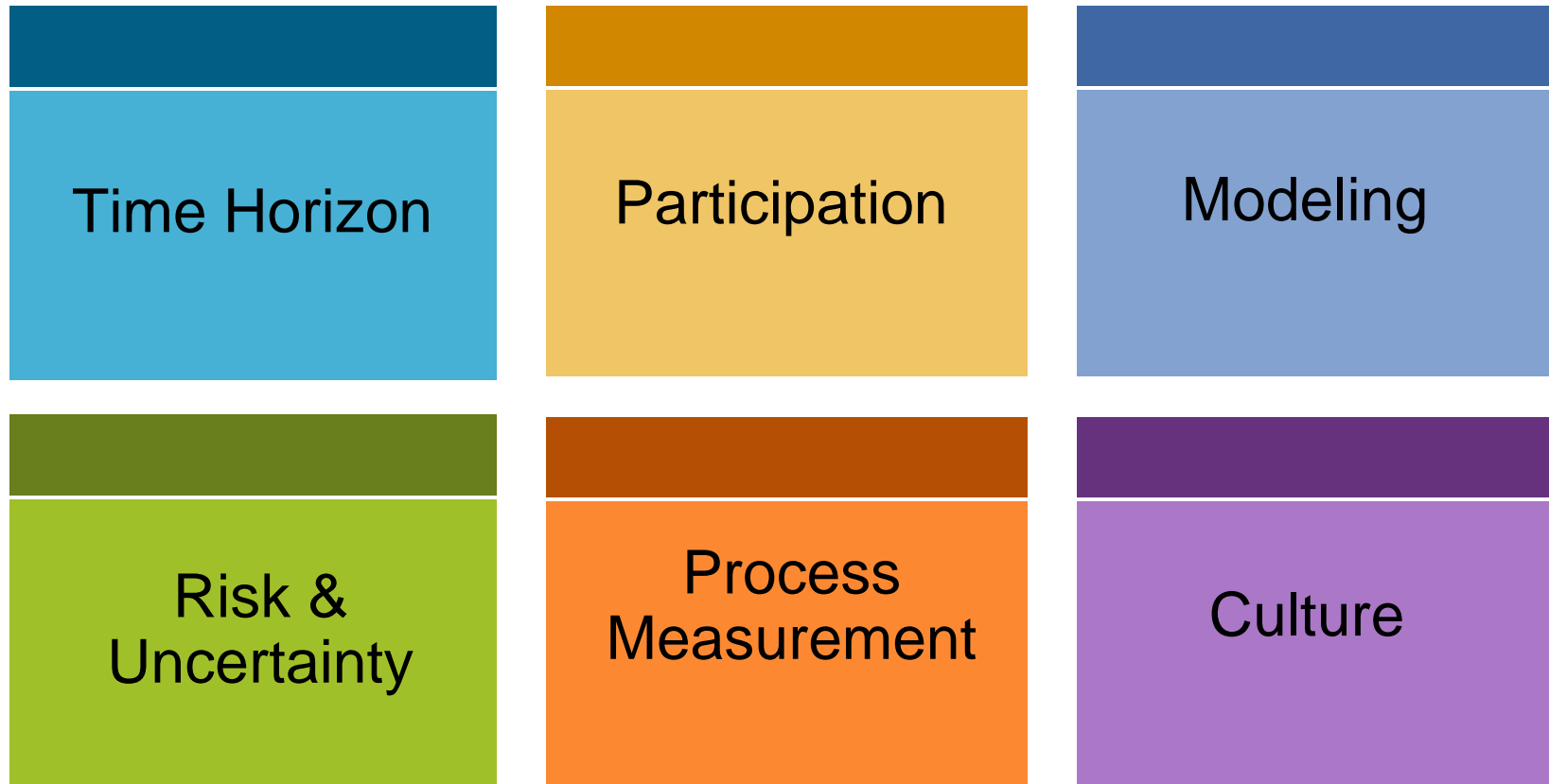
What is a Rolling forecast



Why are rolling forecasts attractive?



There are several success factors



Rolling Forecast = 12 month quarterly?

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

Match the time horizon to the rhythm of your business

Industry

Short cycles

- Consumer electronics
- Retailing
- Investment banking

Long cycles

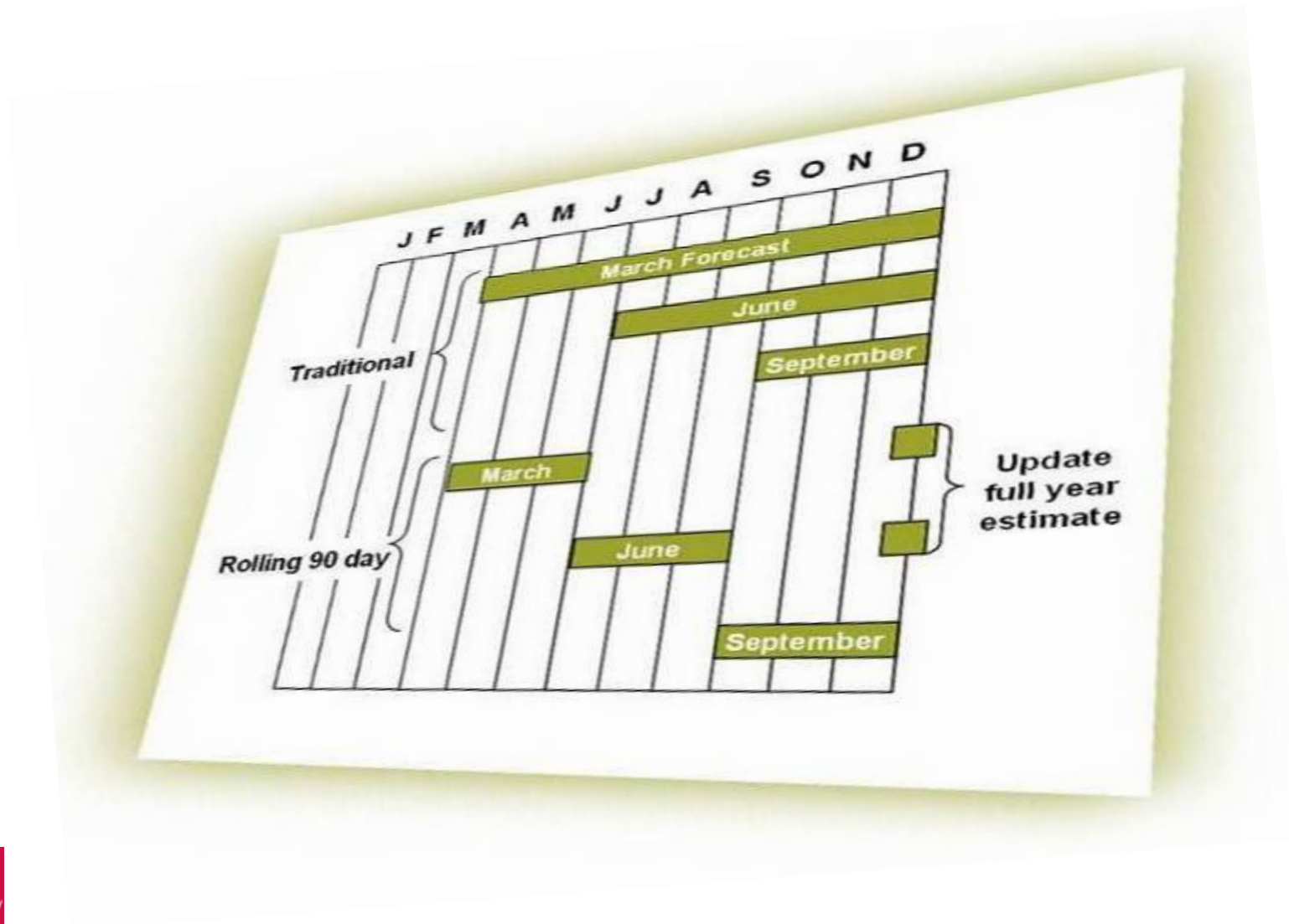
- Oil exploration
- Pharma development
- Infrastructure investment

Function

- Advertising
- Cash flow
- Overtime

- Plant construction
- Infrastructure investment
- Research & development

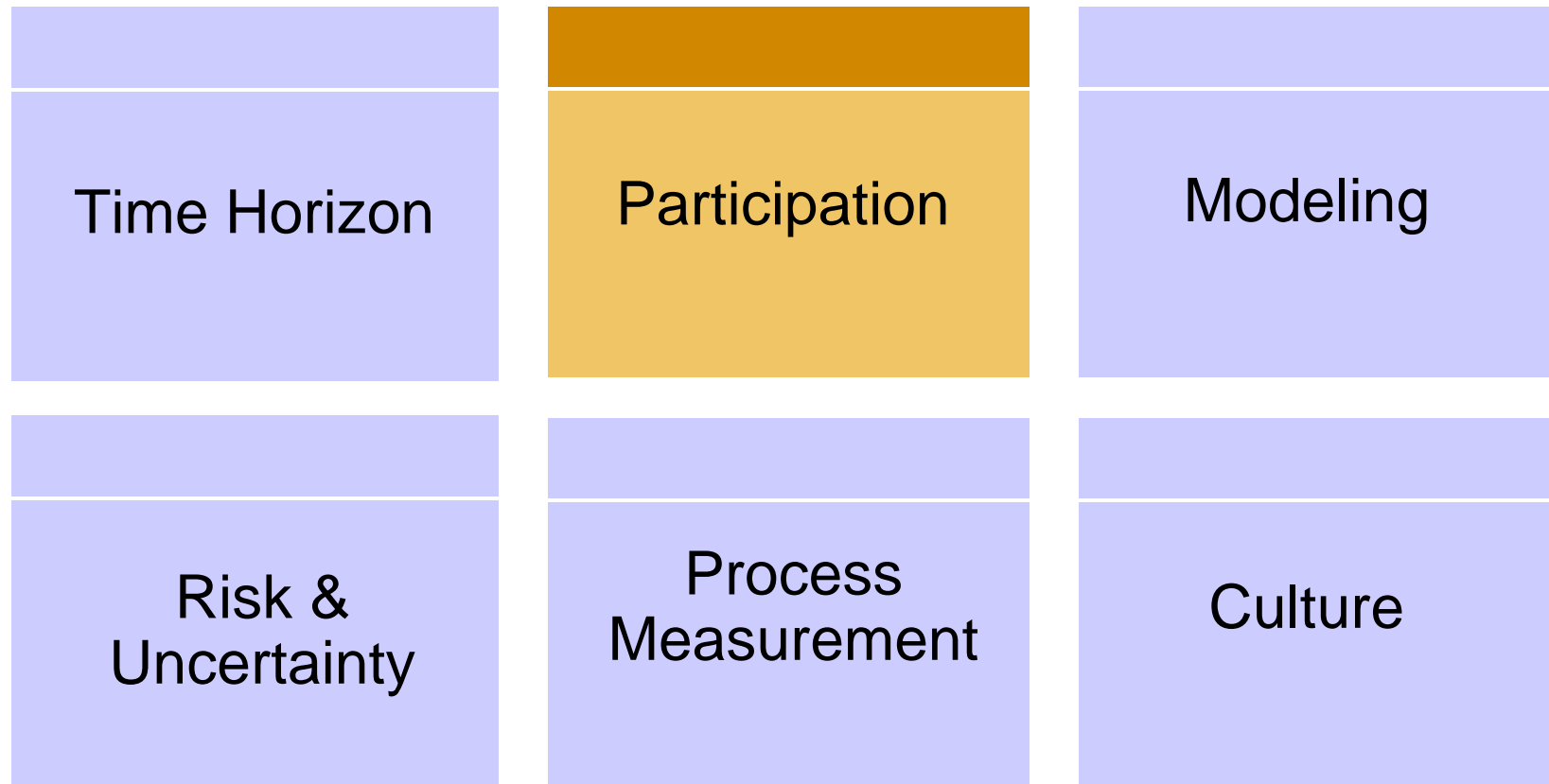
An example of the time horizon decision



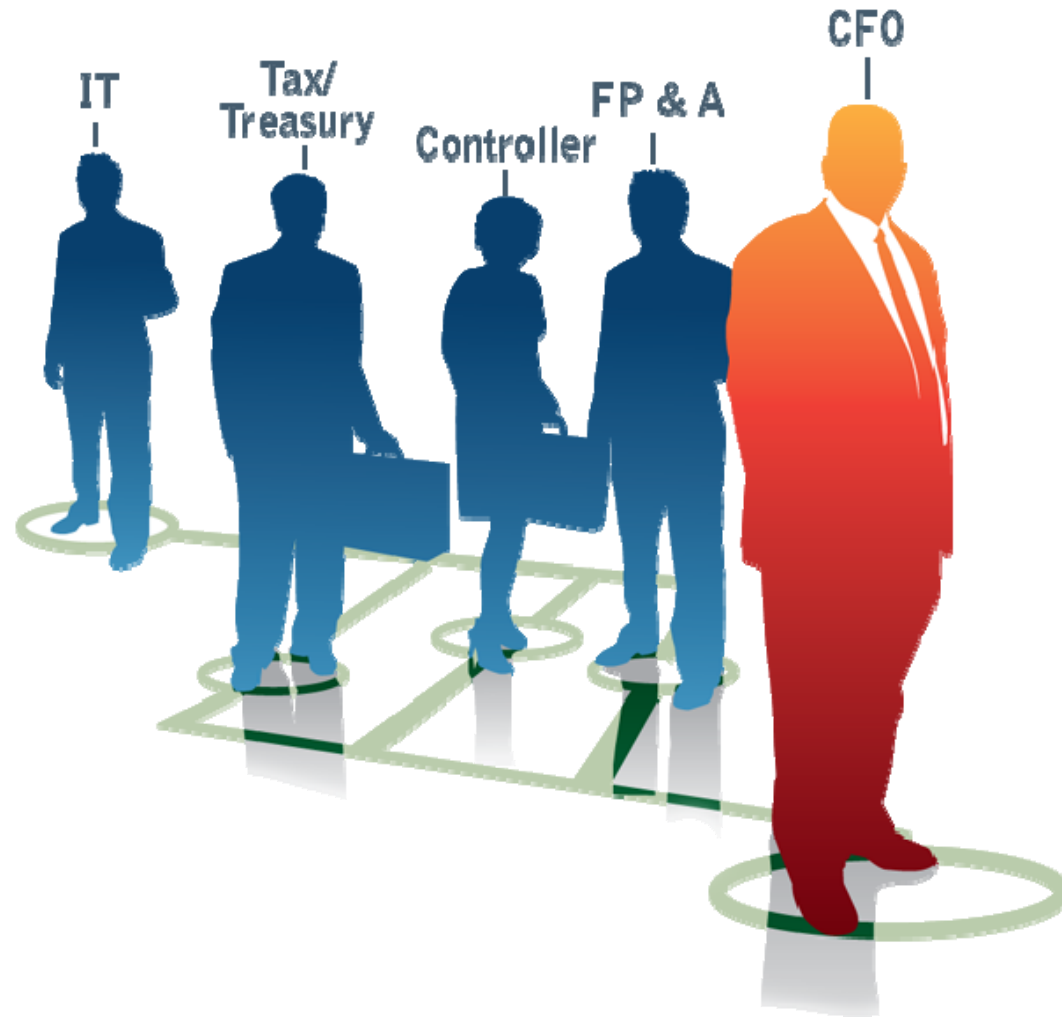
*„Best practice
companies move
towards more **frequent**
& **event-driven**
updates.“*



There are several success factors



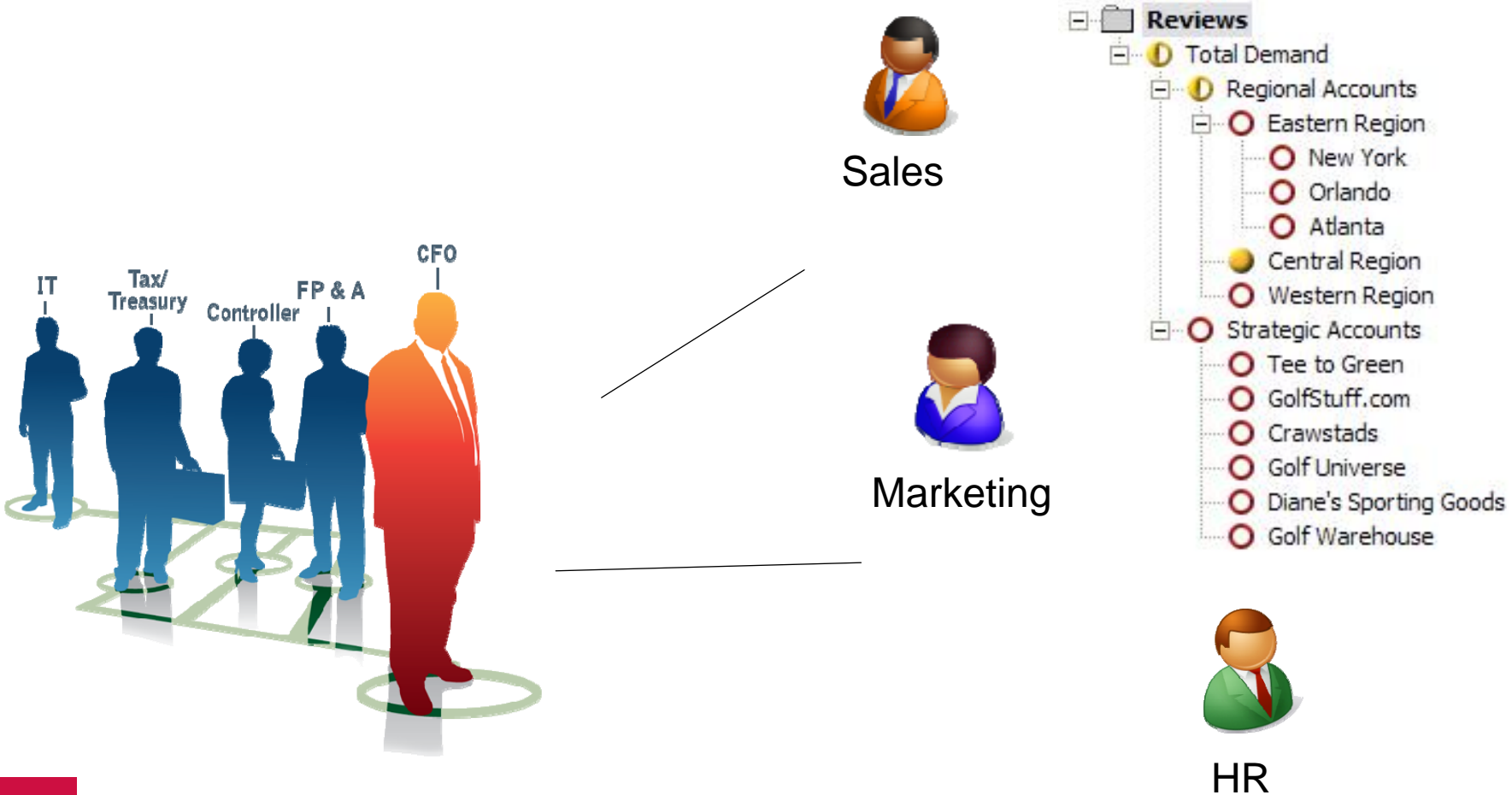
Who creates the forecast?



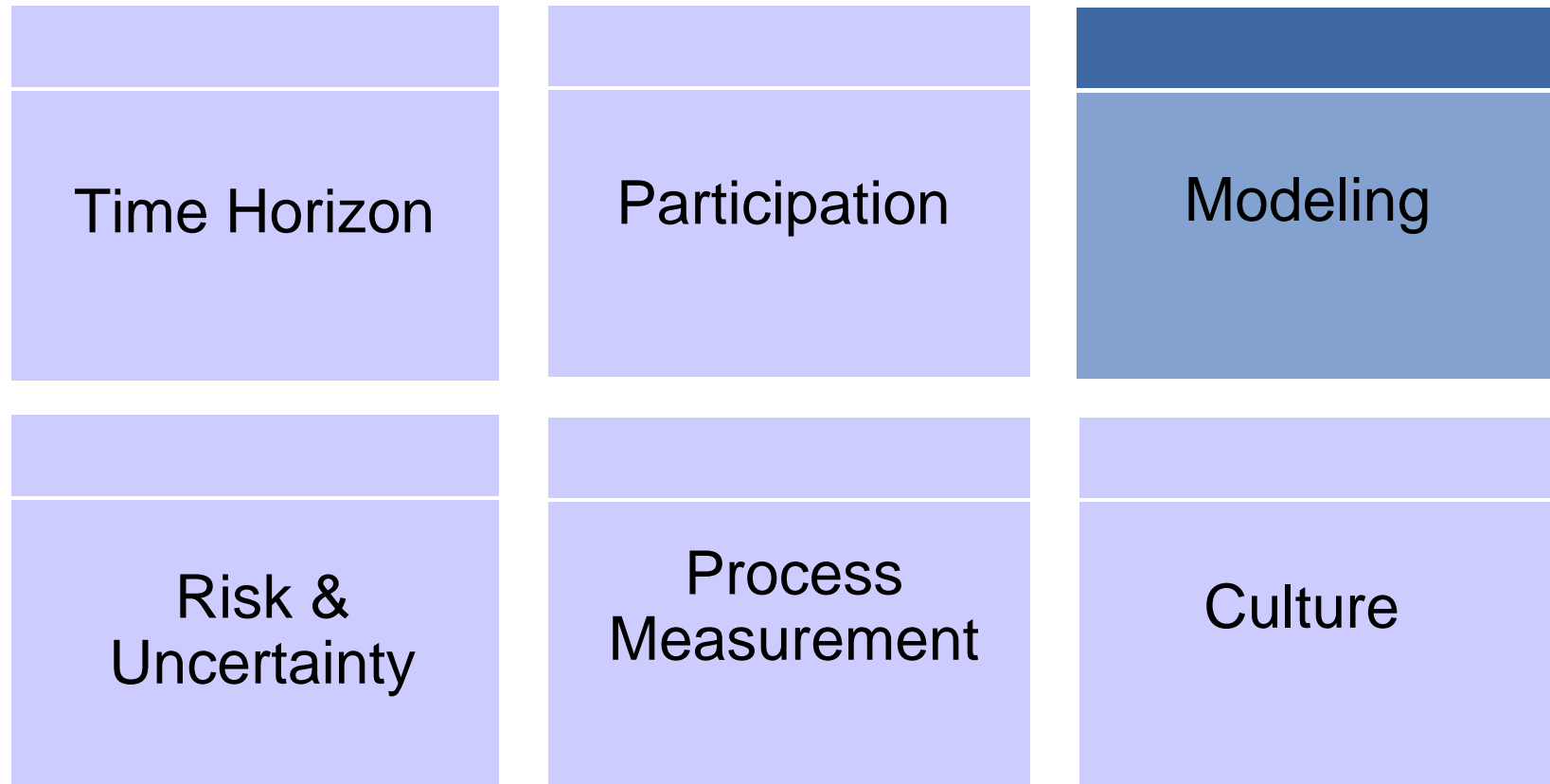
And what does the business say about that?



High participation creates value.



There are several success factors



Remember this model?

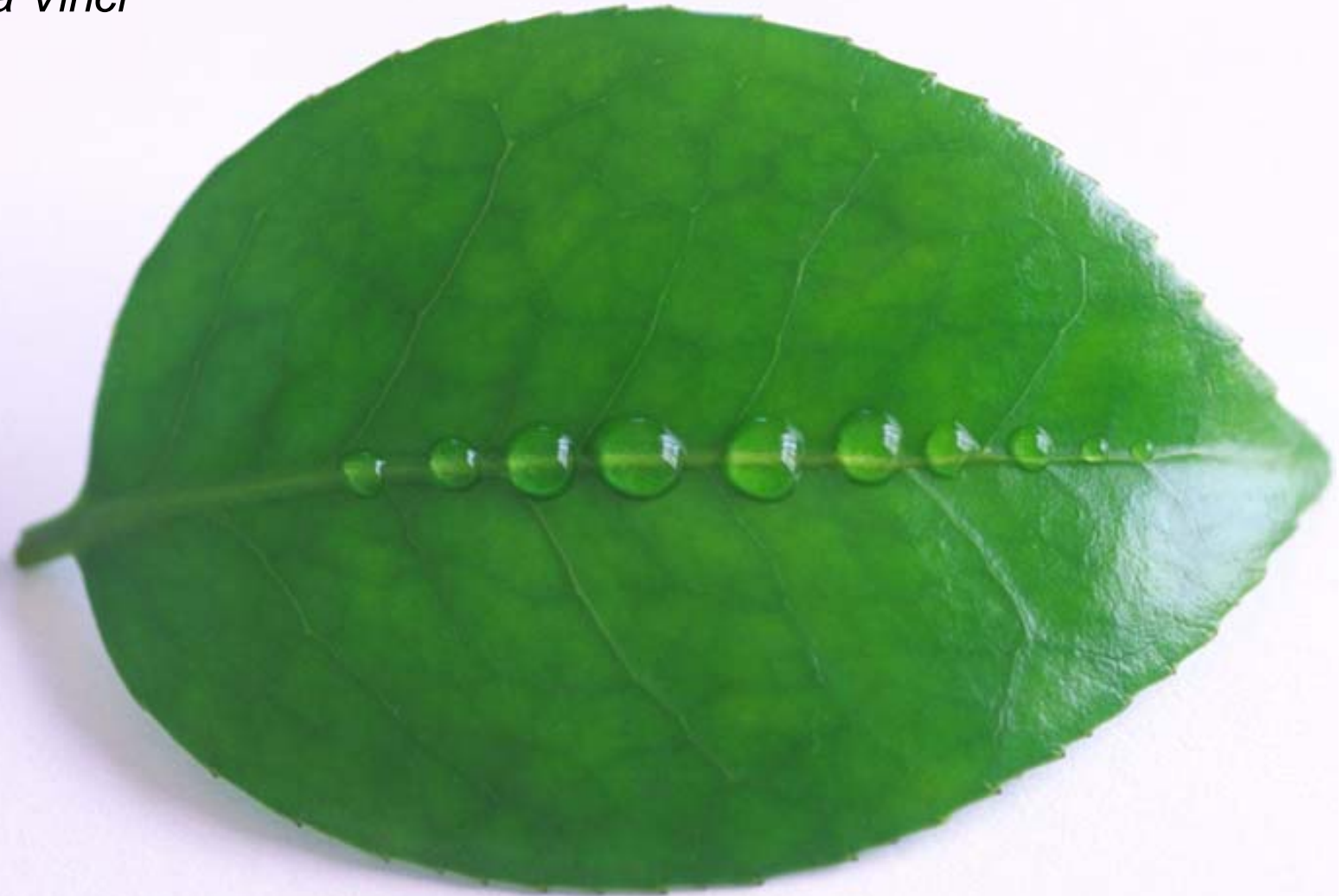
	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL	YTD Actuals Variance	YTD Act Var %	Total Variance	Total Var %
	Actuals	Actuals	Actuals	Actuals	Actuals	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast					
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COS	92.95	97.00	114.00	108.00	131.00	117.00	117.00	125.00	131.00	132.00	140.00	180.00	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%
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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%
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Utilities	3.00	2.00	2.50	1.58	1.00	1.00	1.20	1.40	1.59	2.00	2.50	3.00	22.77	0.92	8%	-1.23	-5%
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Maintenance & Repair	0.35	0.14	0.06	0.43	0.30	0.36	0.31	0.42	0.03	0.41	0.09	0.13	3.04	0.02	1%	0.04	1%
Marketing	2.00	0.00	8.00	9.00	4.00	7.00	8.00	4.00	5.00	2.00	9.00	1.00	59.00	-3.00	-15%	5.00	9%
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%

Can we answer critical questions with this information?

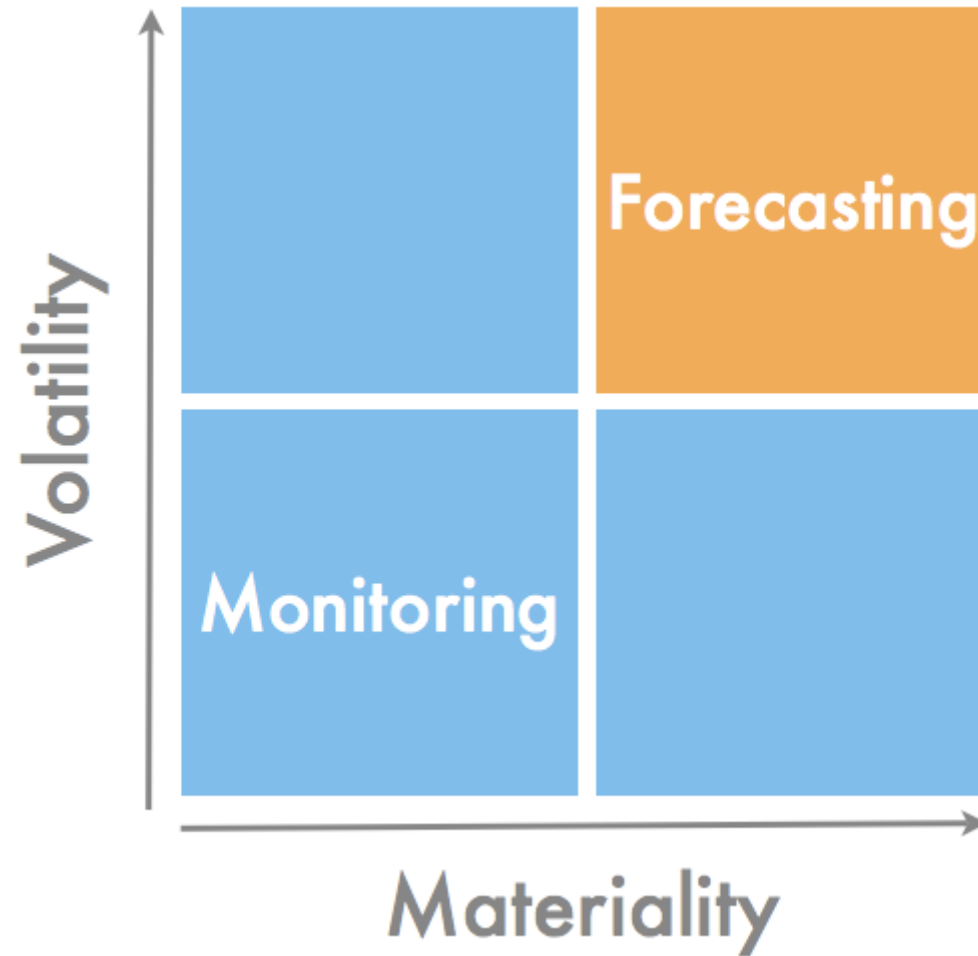
- 
- o **Risk?**
 - o **Opportunities?**
 - o **Customers?**

*„Simplicity is the ultimate
sophistication.“*

Leonardo da Vinci



A simple test for selecting the right items



	Jan	Feb	Mar	Apr	May	Jun	Q3	Q4	2010	Q1	Q2	Q3	Q4	2011
Revenue														
COGS														
Margin														
Salaries														
Travel Expense														
Rent														
Other Expenses														
Net Income														



	Jan	Feb	Mrz	Apr	Mai	Jun	Jul	Aug	Sep	Okt	Nov	Dez	2010	Jan	Feb	Mrz	Apr	Mai	Jun	Jul	Aug	Sep	Okt	Nov	Dez	2011
Revenue																										
COGS																										
Margin																										
Salaries																										
Travel Expense																										
Rent																										
Other Expenses																										
Net Income																										

The language of our forecasts need to change



Opportunities

Pipeline

Number of employees

Customer Satisfaction

VS.



634172 - Revenue (New Accts)

665891 - Office Supplies (Paper)

665892 - Office Supplies (Pens)

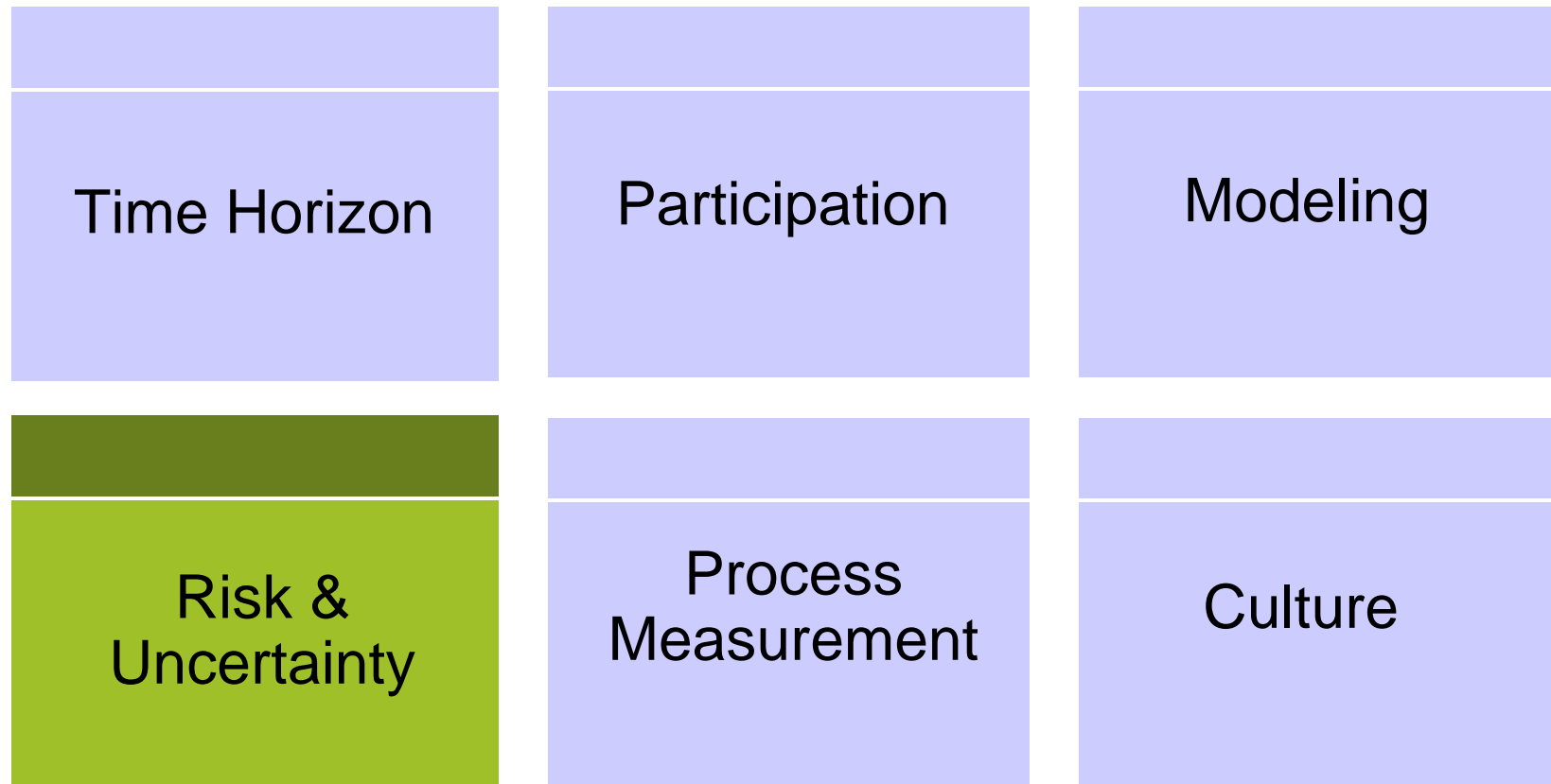
677199 - Gifts, Misc.



Revenue?



There are several success factors





The Forecast?

Considering Uncertainty

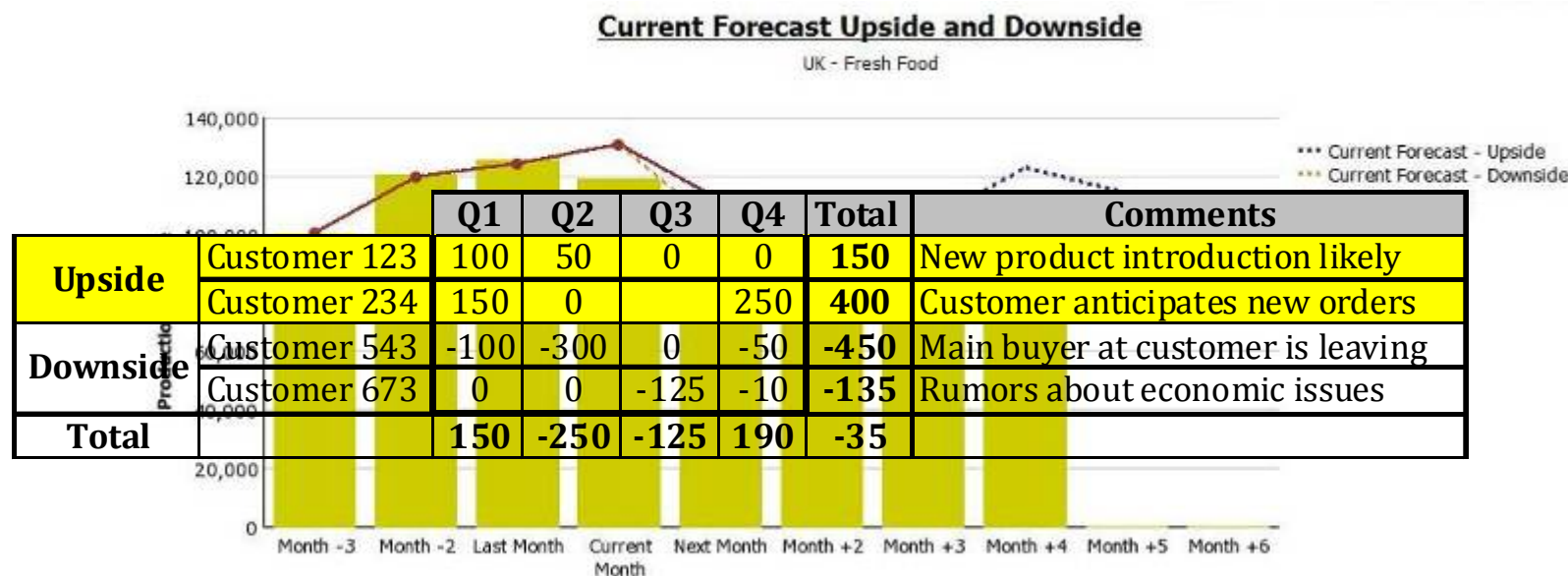


But developing scenarios can be very tedious



- Multiple scenarios
- Floating assumptions
- Data volumes

Consider a simpler approach



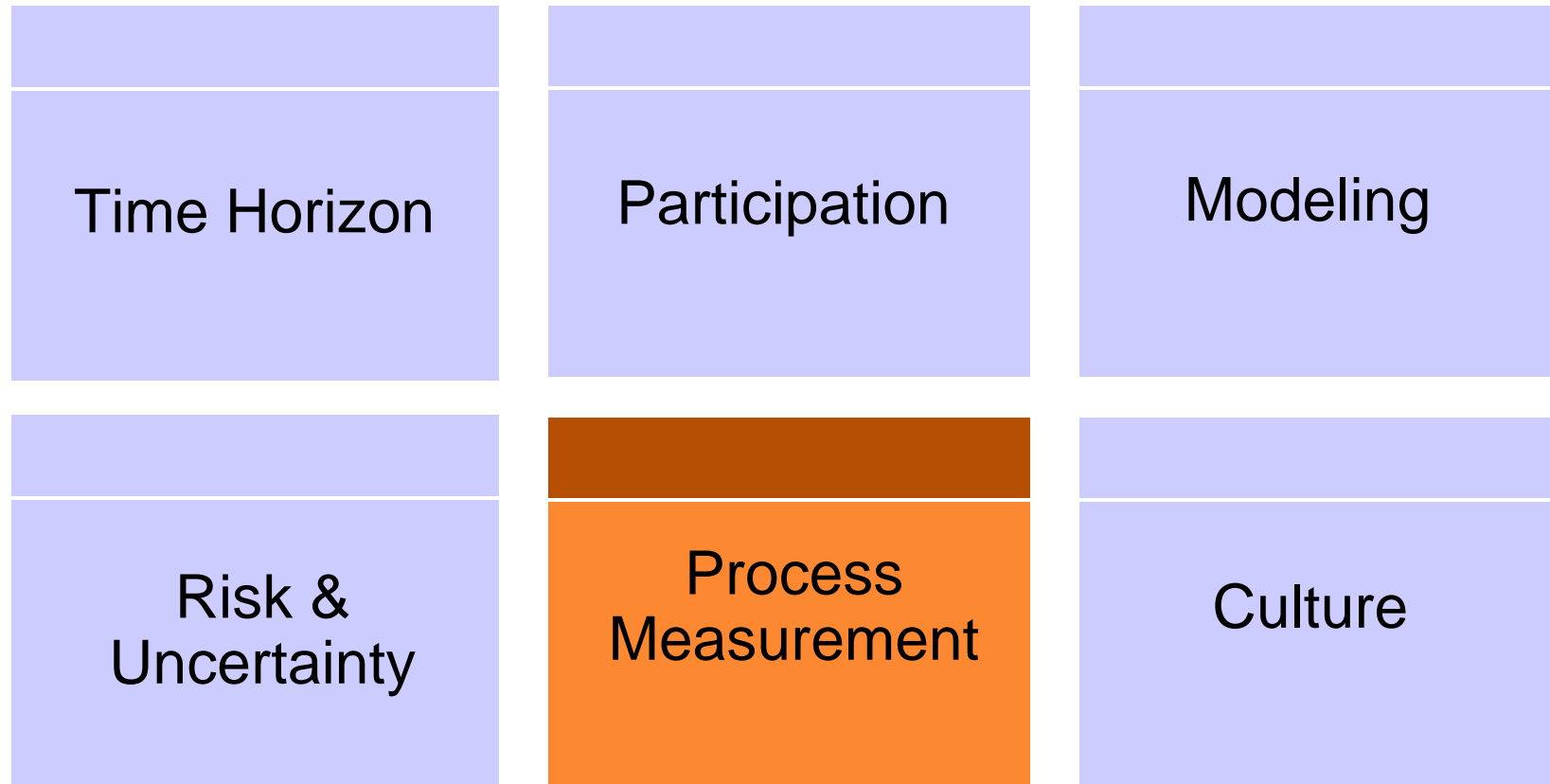
Upside Exceptions

Base Case (most likely)

Downside Exceptions



There are several success factors



„In a performance-oriented society,
what you measure affects what you
do.“

Joseph Stiglitz, September 25th, 2009

Some measures you should consider

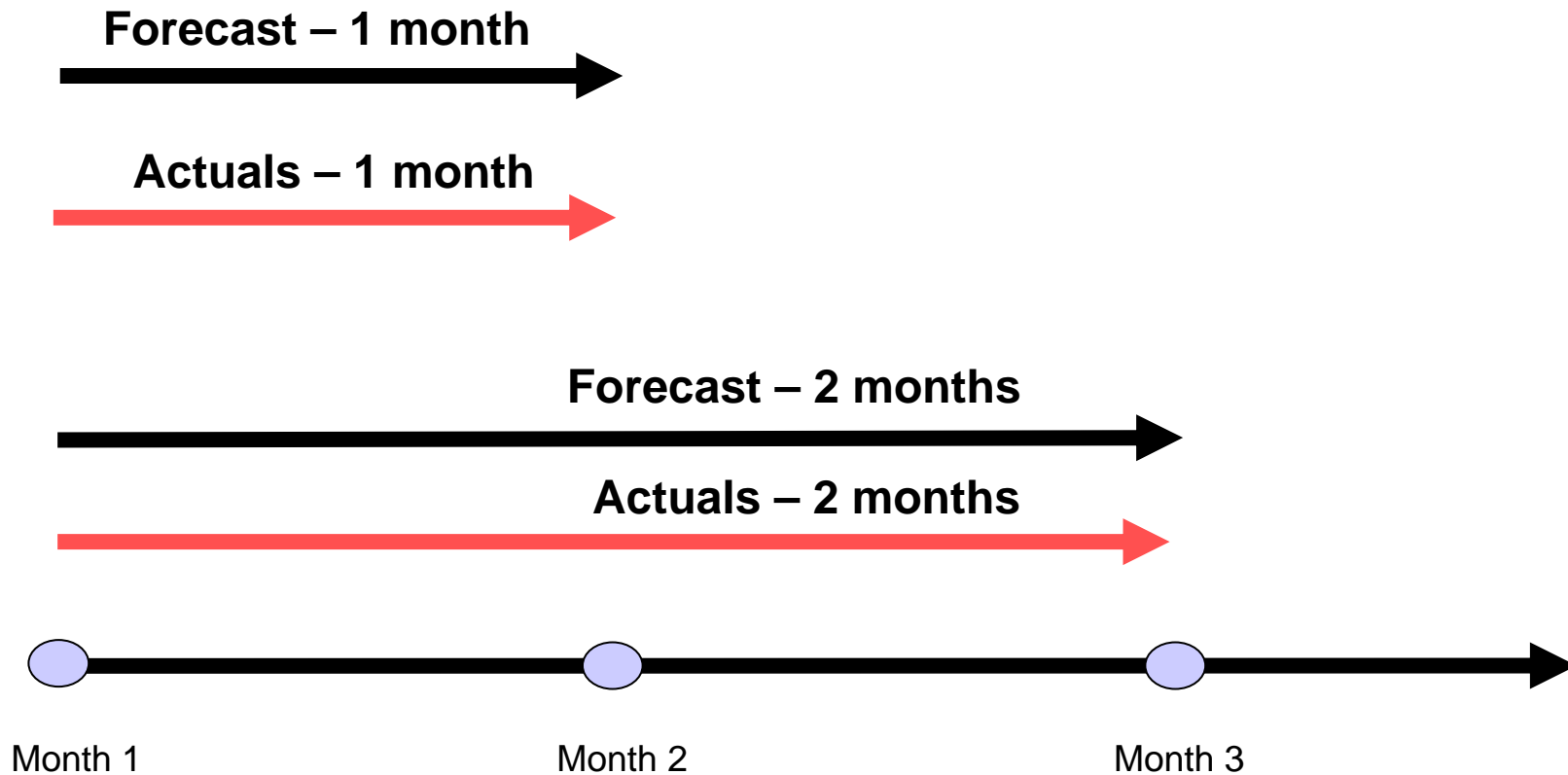
Forecast Accuracy



Cycle Time

Confidence Levels

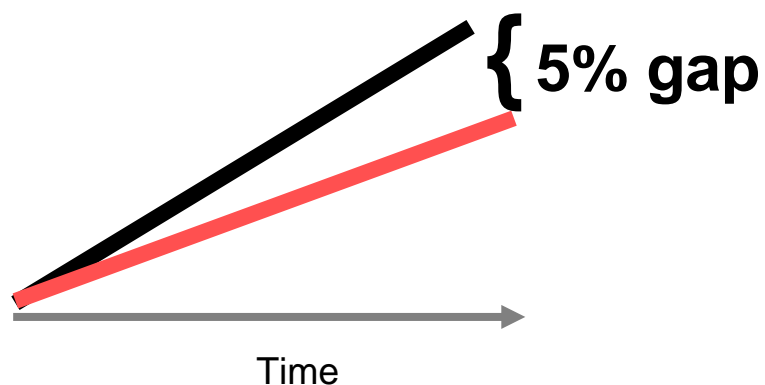
Forecast Accuracy – Select the appropriate term



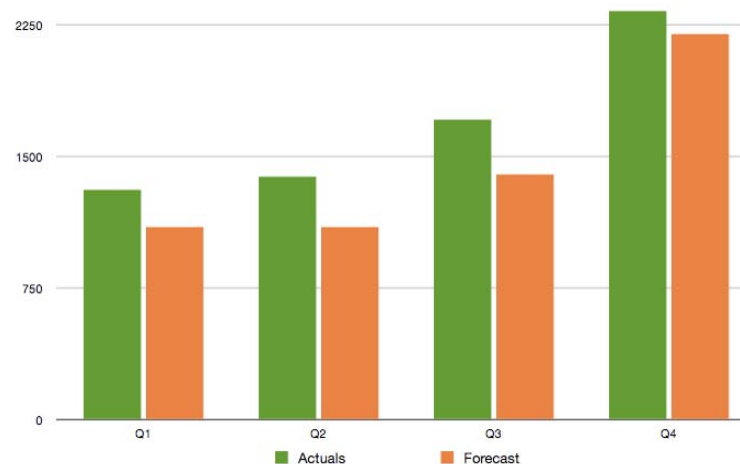
Forecast Accuracy - useful in different ways



Attention



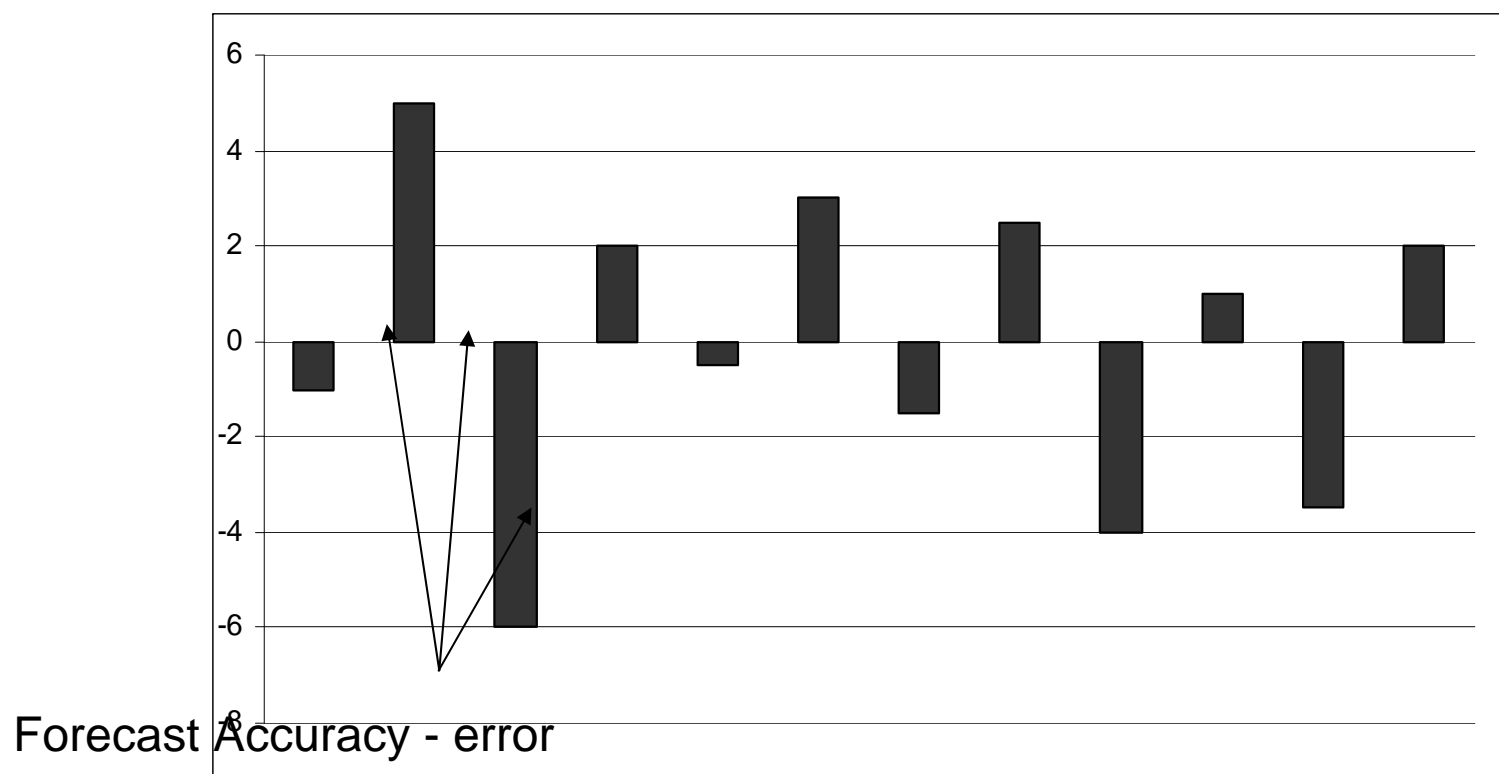
Model issues



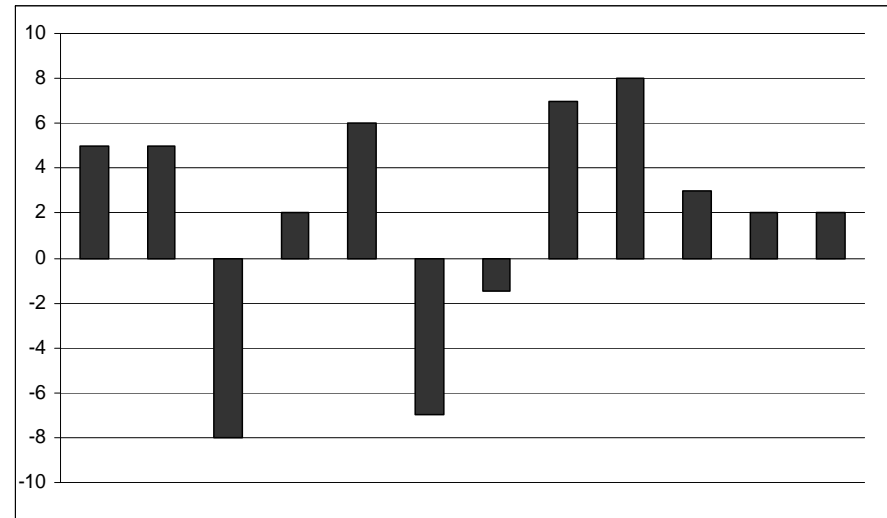
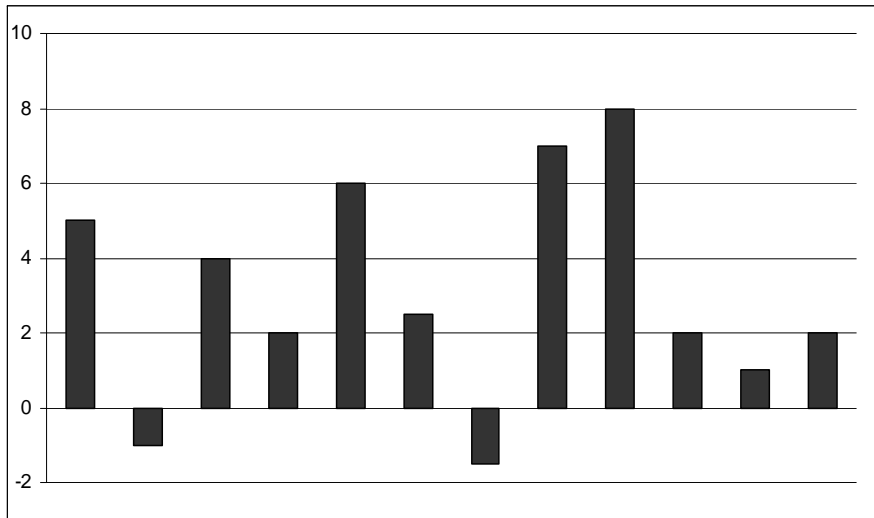
Discover potential bias



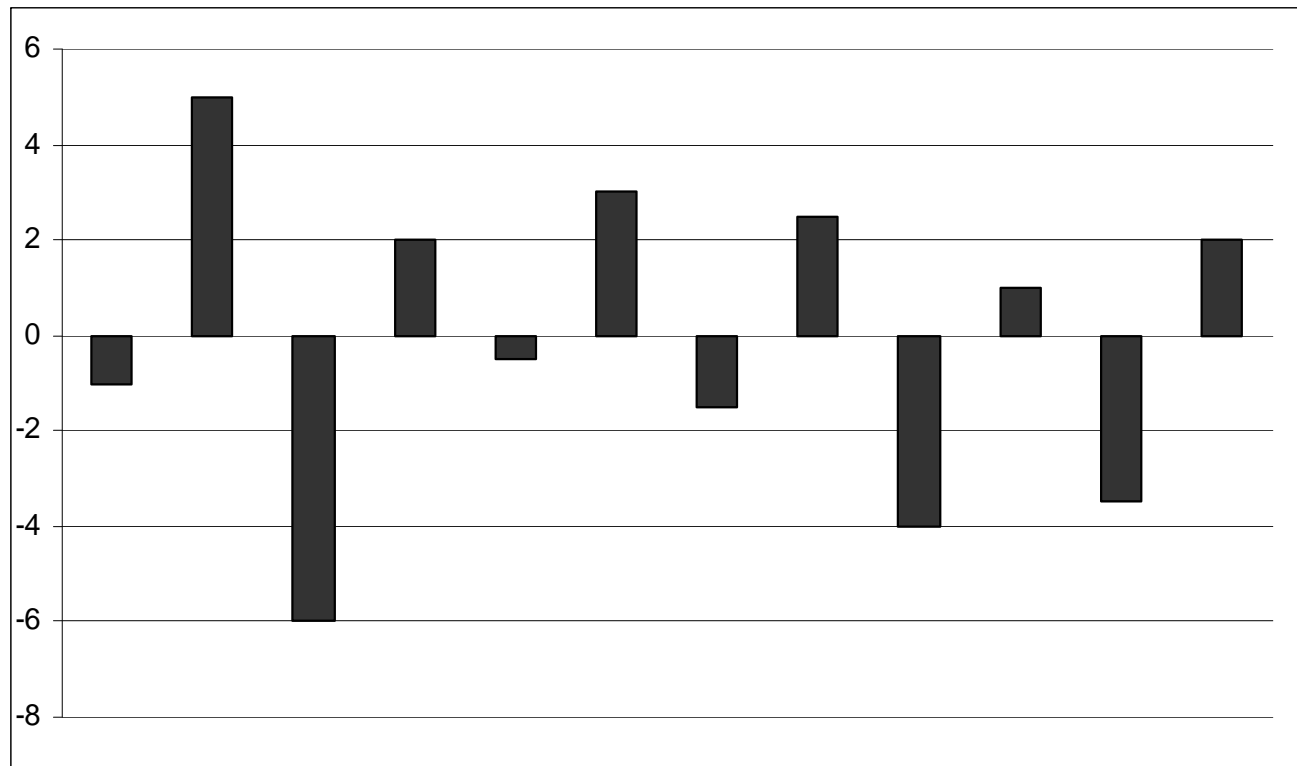
Consider using a Run Chart



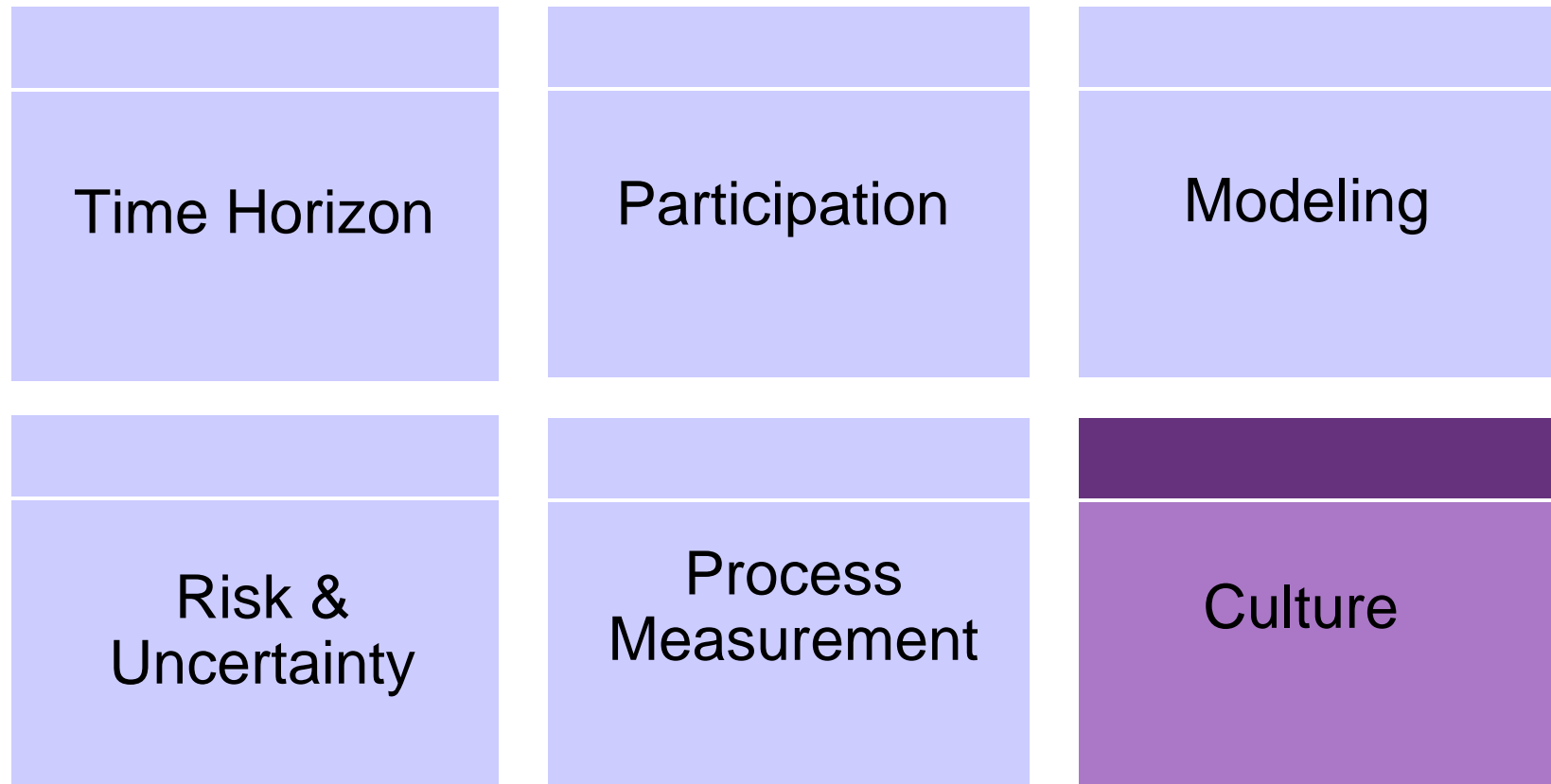
Monitor accuracy often – a case of bias?



Accuracy – no obvious bias



There are several success factors



Nice forecast. But I don't like the revenue numbers. They are **too low**.



Executive

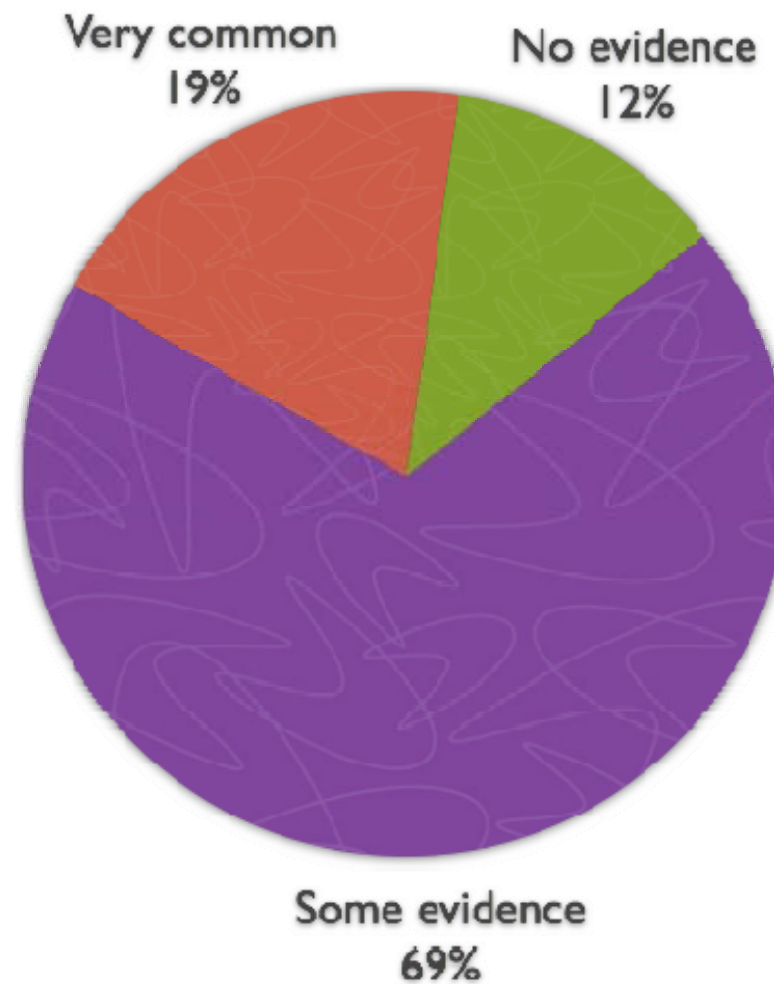
Please go back to your office and come back with **new numbers**.

But this is the most **realistic** estimate I can provide!



Business Manager

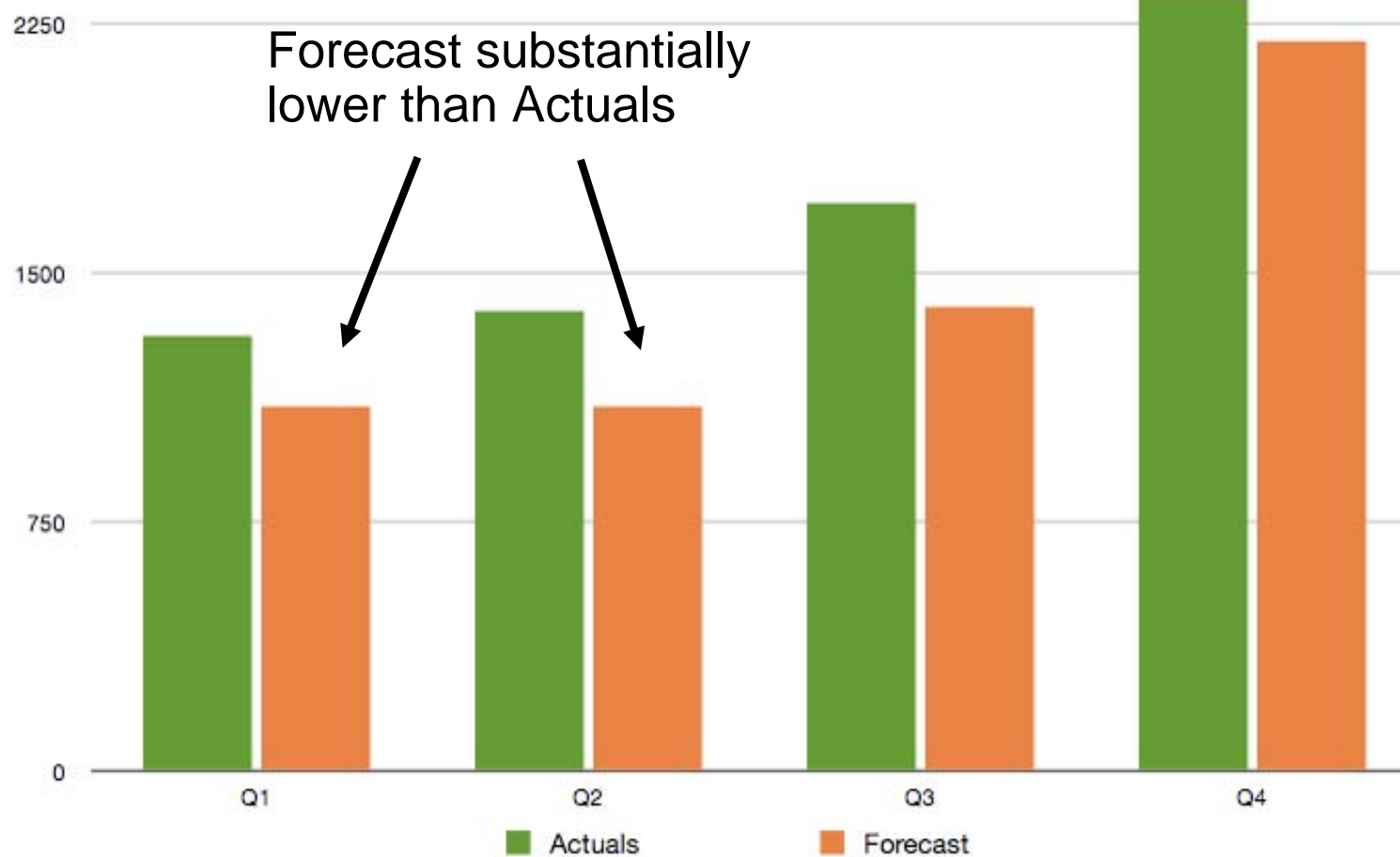
Is there evidence of sandbagging?



Source: Cognos Forecast Survey – September 2008



A typical case of sandbagging: Revenue forecast



Management sets the tone

“Why didn’t we anticipate that in the budget? Who **screwed up?**”

“Okay, clearly things have changed.

- What are the drivers of the change?
- What is the impact on our business?
- What actions should we be taking?”



A different approach is often required



Purpose of the Forecast

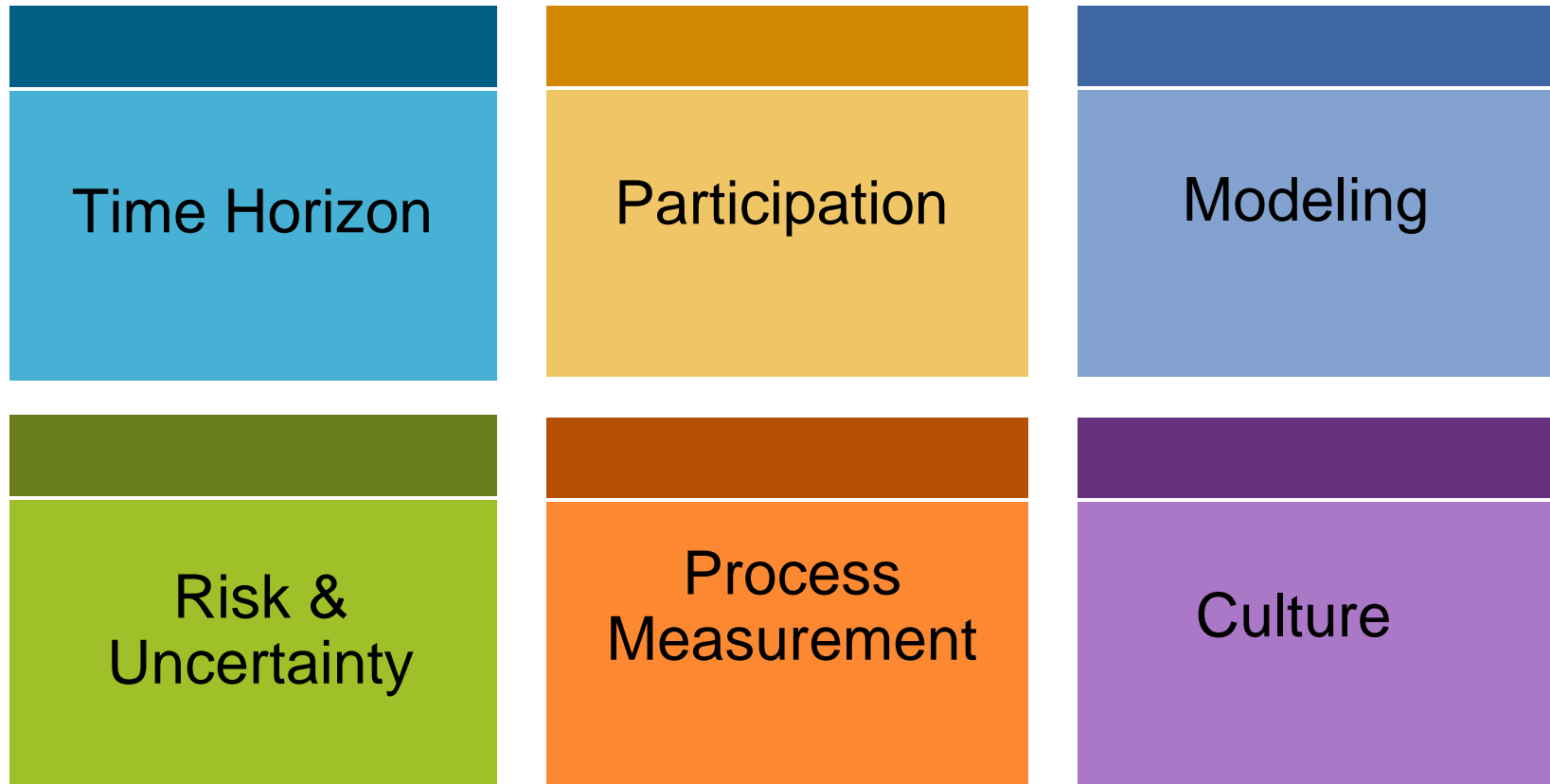


Assessment of your processes



New Compensation Approaches

There are several success factors



But Rolling Forecasts are not a silver bullet

- No one-size-fits-all approach
- Forecast culture required
- Changes to models required
- Technology upgrades



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Clinton: ‚Never waste a good crisis‘

Friday, 6 March 2009

SHARE | PRINT | EMAIL | TEXT SIZE


US Secretary of State Hillary Clinton today told an audience "never waste a good crisis", as she highlighted the opportunity of rebuilding economies in a greener, less energy intensive model.

Highlighting Europe's unease the day after Russia warned that gas exports to the EU via Ukraine might be halted, she also condemned the use of energy as a political lever.

Related articles

- [Revenge of the rainforest](#)
- [Search the news archive for more stories](#)

Clinton told young Europeans at the European Parliament global economic turmoil provided a fresh opening: "Never waste a good crisis ... Don't waste it when it can have a very positive impact on climate change and energy security."



GEGTTY

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