Anticipate and shape business outcomes

Mastering forecasting Practice and principles



Anticipate and shape business outcomes

Steve Morlidge

- Unilever 1978 2006 roles include:
 - Controller Unilever Foods UK-\$1 billion turnover
 - 2002 2006 Leader Dynamic Performance Management Change Project-part of Unilever's Finance Academy
- Outside Unilever
 - Chairman of BBRT 2001 2006
 - BBRT Associate 2007
 - 2006 Founder & Director Satori Partners Ltd
 - 2005 PhD. Hull University–Management Cybernetics
 - 2007 Visiting Fellow-Cranfield University
 - 2009 Nov. Publish book "Future Ready: How to Master Business Forecasting"
 - 2010 Editorial Board of Foresight Magazine







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Why forecast?



Should we have a barbecue?



Lagging indicator





Forecast



Leading indicator



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"It's awful. Why did no one see it coming?"



Queen Elizabeth II London School of Economics Bonfire Night 2008

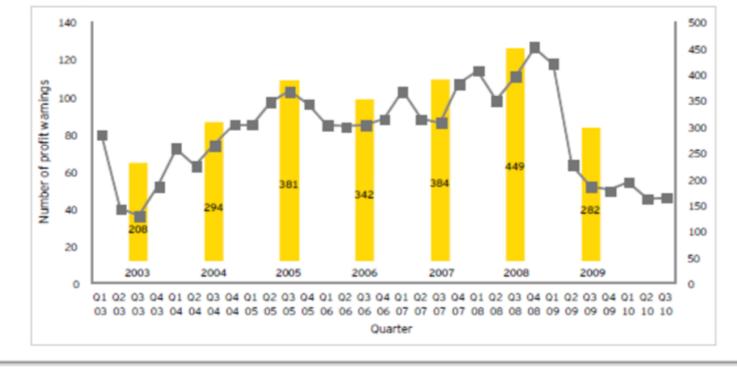


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UK profit warnings

Number of profit warnings issued by UK quoted companies, Q1 2003 - Q3 2010



Average market cap

FTSE 100	£10.0B
All quoted (1400)	£1.2B

Impact of warning: 10% to 20%

IBM

Source: Ernst & Young 2010

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What are CFOs worried about?



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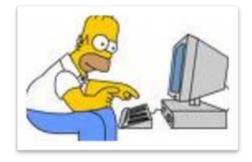




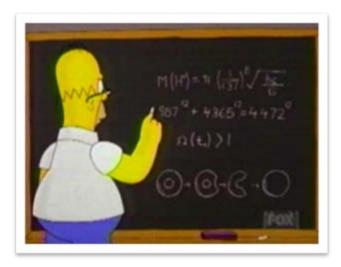
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Another misconception:

"It's just common sense."



"It's highly specialized."

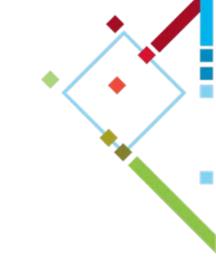




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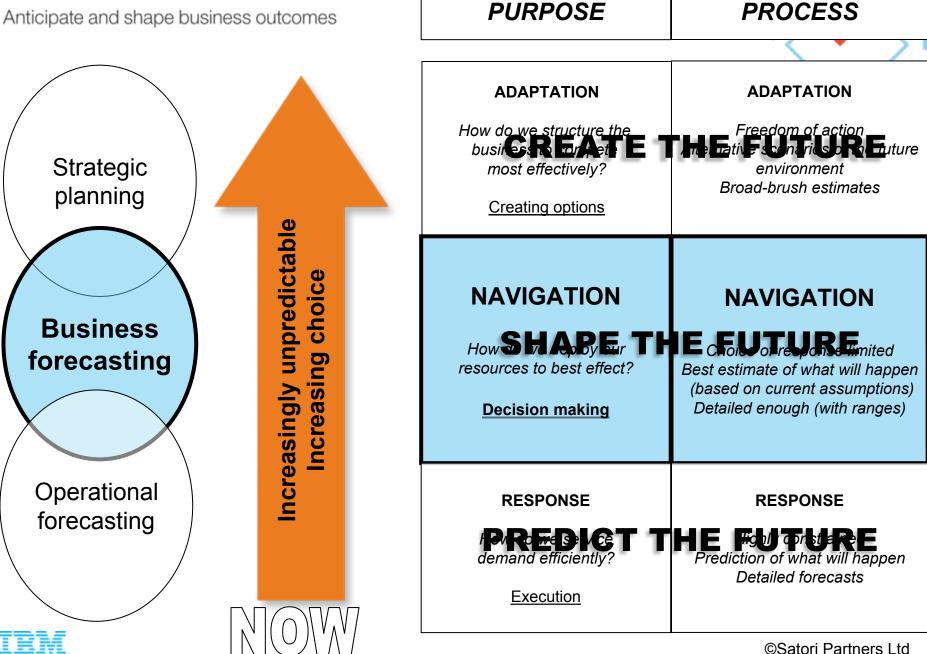
Mastering forecasting

- 1. Mastering purpose
- 2. Mastering time
- 3. Mastering models
- 4. Mastering measurement
- 5. Mastering risk
- 6. Mastering process





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Forecasting is about decision making, because...

QUARTER

TARGET

...you first need to work out where you are heading (FORECAST)....

And then what you have to do differently to get back on track. (TARGET)

While it is necessary to have a plan ...

QUARTER

... the world often turns out different to the way you expected so ...

FORECAST



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Key concepts:

A **target** is what we would *like* to happen, which we achieve by producing. A **forecast** is what we think **will** happen based on: A set of **plans**: what we **intend** to do,

which we change to achieve our target.

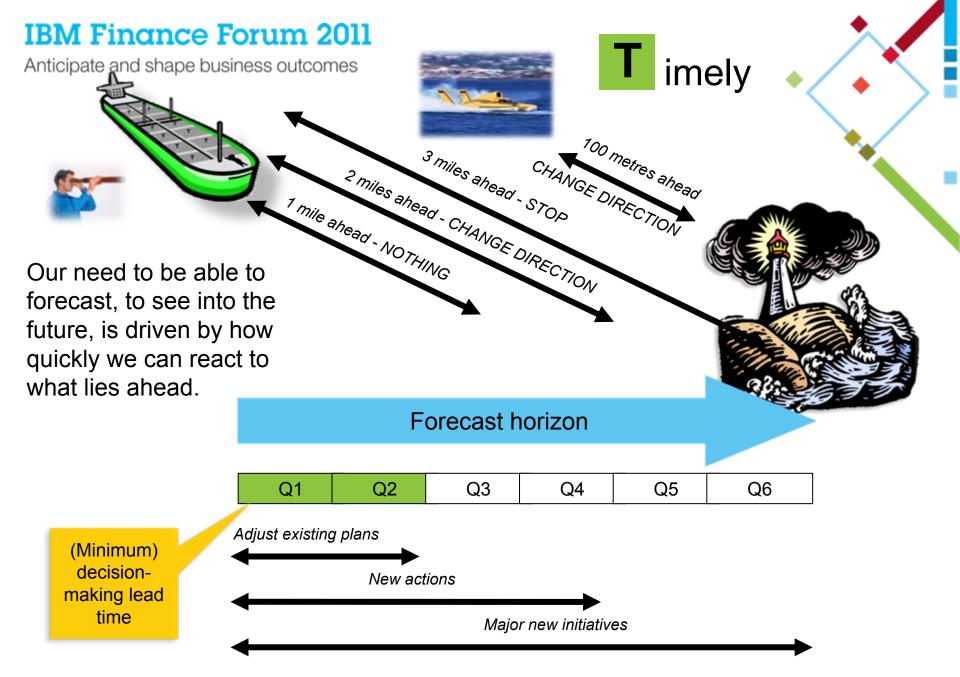
Specification for a forecast:

- **T** = timely
- **A** = actionable
- **R** = reliable
- **A** = aligned
- **C** = cost-effective









IBM

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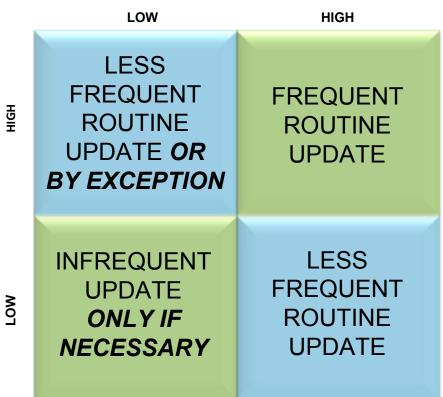
CRITICALITY

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The frequency at which we forecast is driven by the rate of change in key variables.

VARIABILITY





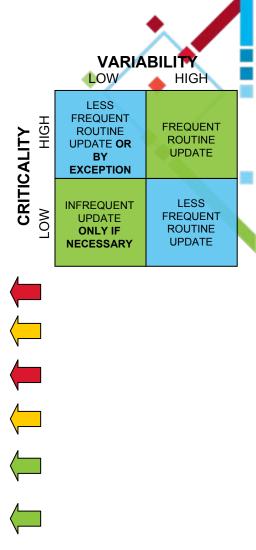


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T imely

The frequency at which we forecast is driven by the rate of change in key variables.

	Economic relevance	Variability	Speed of response	Update frequency	Forecast horizon
Revenues	High	High	High	Daily	Quarter
Labor costs	High	Low	Medium	Twice monthly	Six months
Fuel costs	High	High	Medium	Weekly	Quarter
Maintenance spending	Medium	Medium	Medium	Twice monthly	Six months
Advertising spending	Medium	Medium	High	Monthly	Six months
Aircraft ownership costs	Medium	Low	Low	Quarterly	Year
Airport rates and charges	Medium	Medium	Low	Weekly	Six months
Other operating	Medium	Medium	Medium	Twice monthly	Quarter



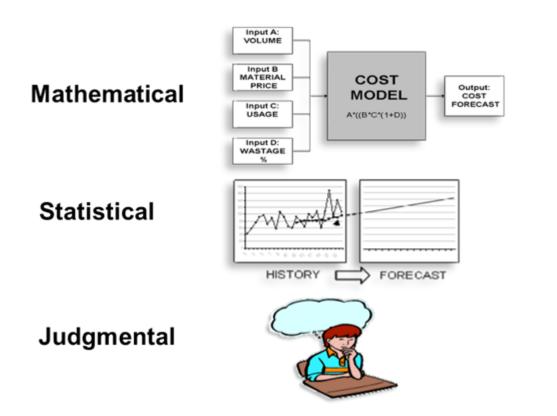


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Every forecast is based on a model, and different approaches have different strengths and weaknesses.

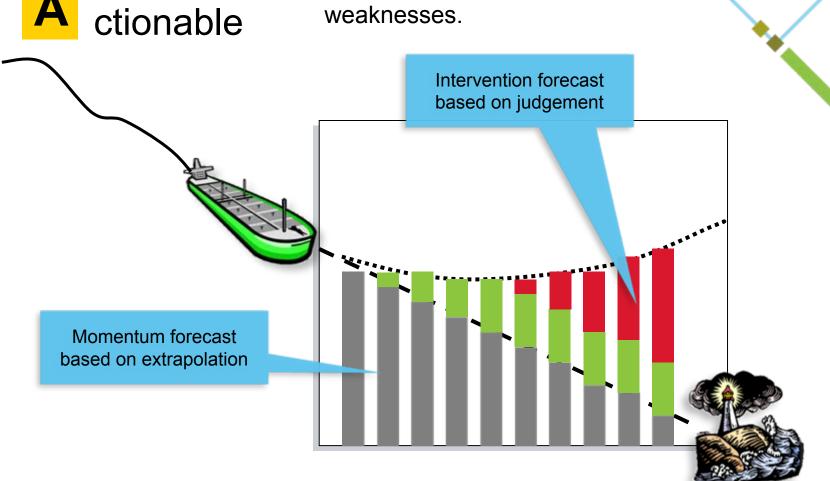
Three types of model





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Every forecast is based on a model, and different approaches have different strengths and weaknesses.

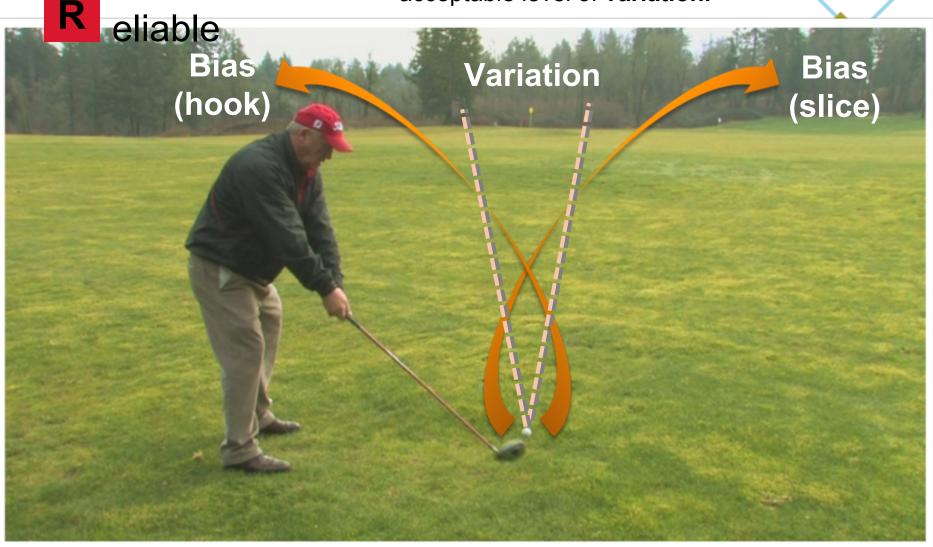




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Forecasts are reliable if they are unbiased and have an acceptable level of variation.







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Average net error

(bias)

Average gross error

(variation)

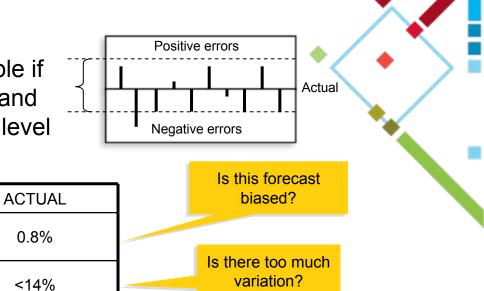


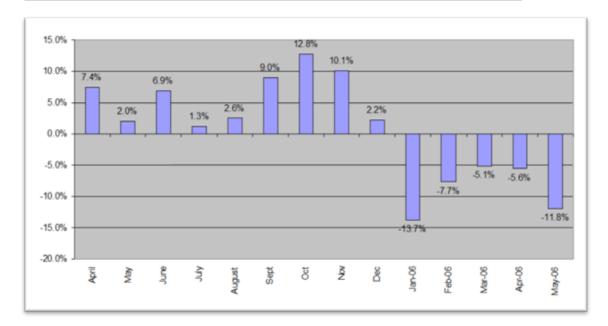
Forecasts are reliable if they are unbiased and have an acceptable level of variation.

TARGET

<1%

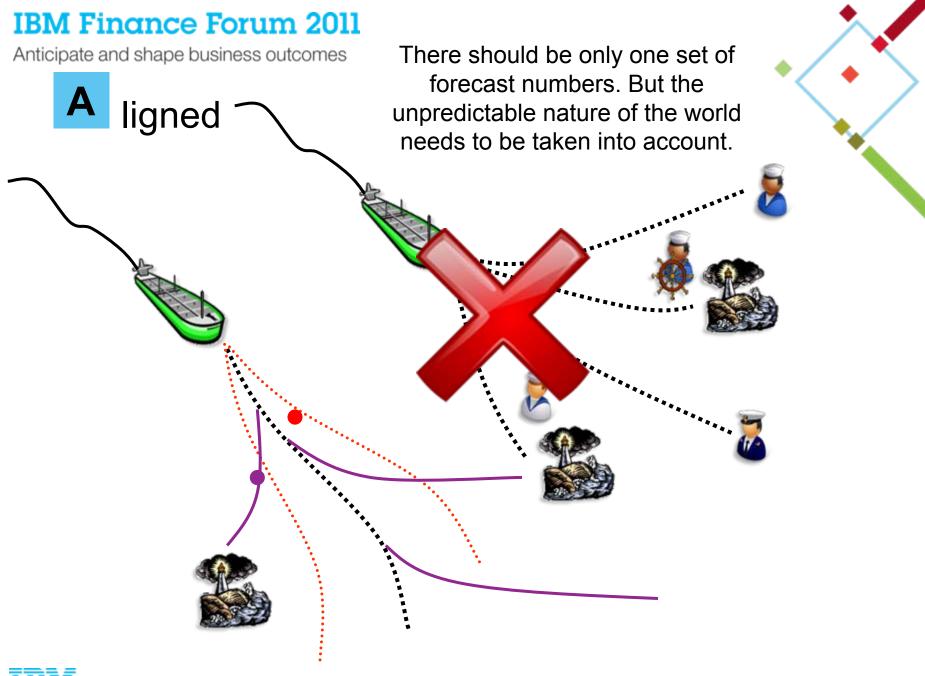
+/- 5%









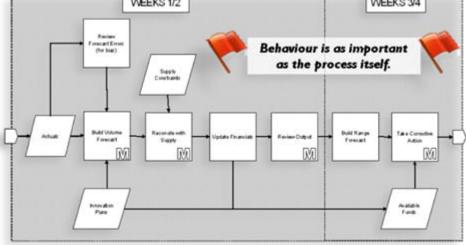


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ost-effective

An effective forecast process is also an efficient forecast process.





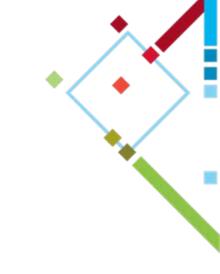
- 1. Do things in the right order, at the right speed.
- 2. Do it often, and in the same way.
- 3. Observe the results, separating bias (hook or slice) from variation.
- 4. Make adjustments, improve the process.



Anticipate and shape business outcomes

What is next?

- First steps
 - Engage all levels
 - Measure forecast quality
- Next steps
 - Design your new forecast process
 - Implement, automate, integrate
 - Educate
 - Measure
 - Learn and improve





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