

FINANCE FORUM
2009

Best Practices in Rolling Forecasts

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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 three **success factors** for a rolling forecast



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„Expect the Unexpected.“

David Axson



Do we use the right tools for the new reality?

- Detailed annual budget
- Quarterly forecast
- Budget vs Actuals
- 5 year strategy
- Manual processes



What is a forecast?

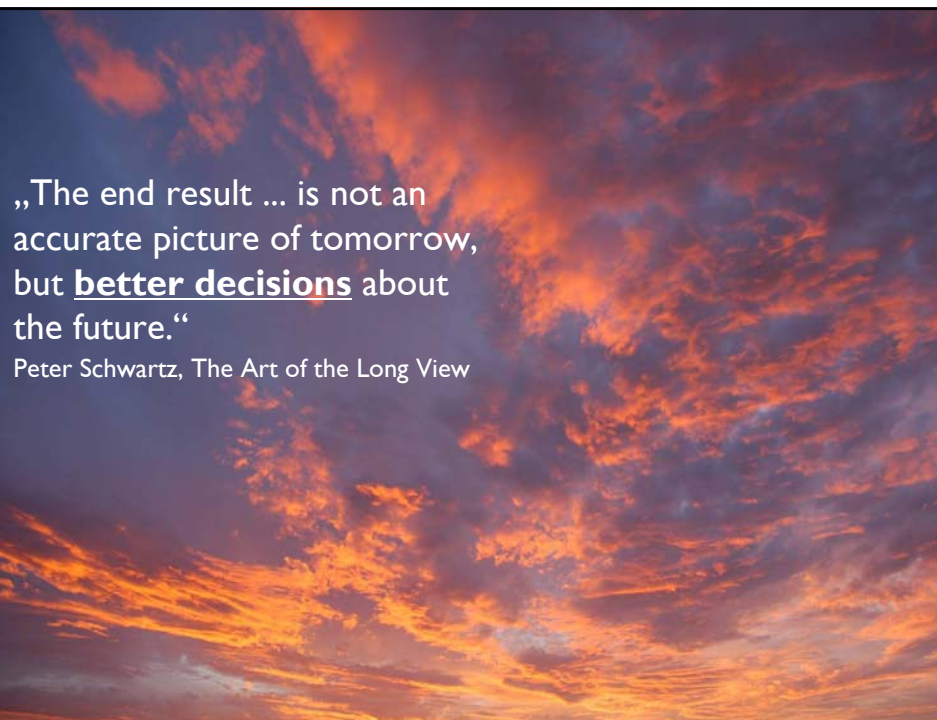
Forward Looking



Fact-based

Flexible

Focused on Risks & Opportunities



Good forecasting practices create value

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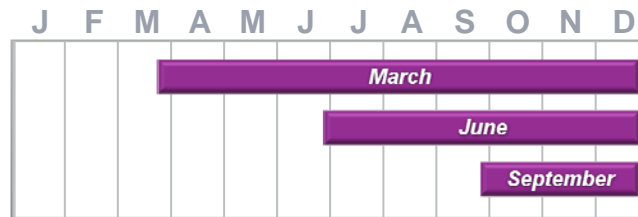
The traditional template....

	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	Forecast				
Revenue	143.00	150.00	176.00	165.00	200.00	180.00	181.00	190.00	200.00	200.00	210.00	250.00	2256.60	-65.00	-7%	256.00	13%
COGS	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	-857.05	-44%	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	771.65	-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%	34.33%	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%
Sonnet	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	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.22	0.22	0.22	0.22	0.22	2.43	1.35	58%	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	1.80	0.00	0%	-0.10	-5%	
Sent	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%
Misc 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	-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	-2.88	-178%	6.38	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	20.60	-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	0.05	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%

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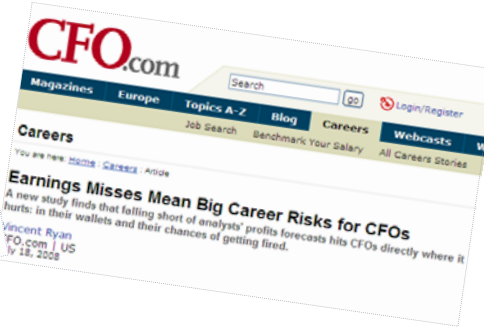
The traditional approach...



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



It shows...



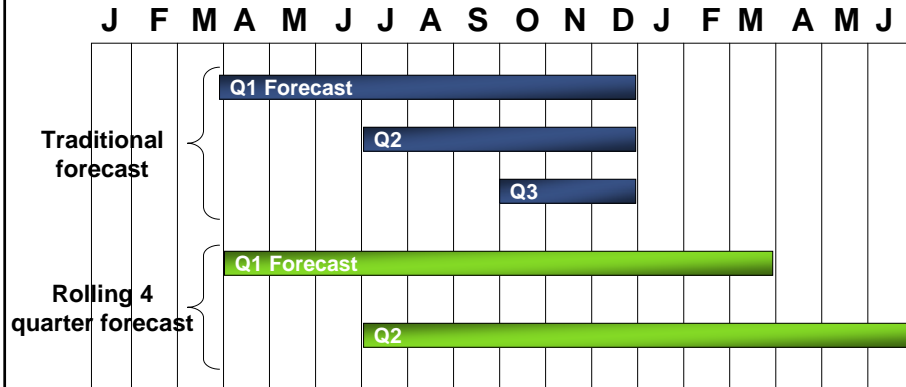
Dell shares suffer a blow after missed forecast
Analysts watch discount maneuver closely
 BLOOMBERG NEWS
 Wednesday, May 10, 2006
 ROUND ROCK, Texas
 Dell Inc. shares fell 4.7 percent yesterday after it said that first-quarter profit missed its forecast as revenue growth slowed to the lowest level in four years.
 Shares of Dell dropped \$1.23 to close at \$25.20, the biggest decline in three months, at 4 p.m. in Nasdaq Stock Market composite trading.



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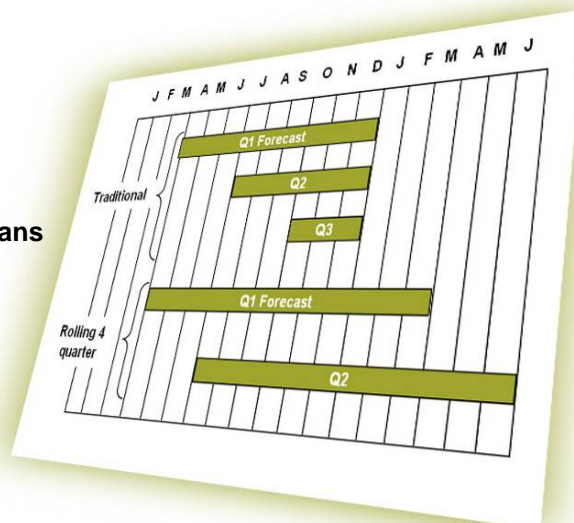
Rolling Forecasts.
An *effective* approach.

What is a Rolling forecast

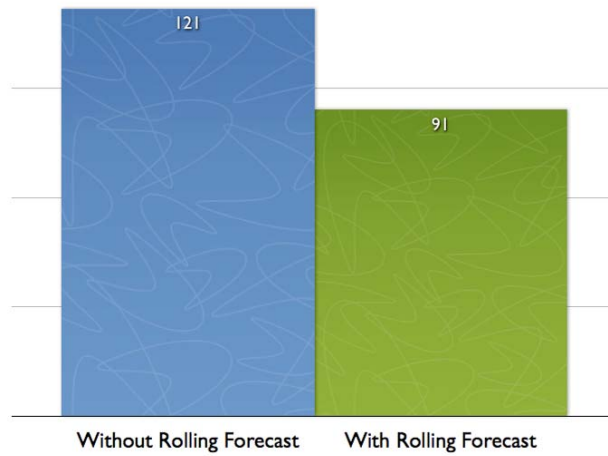


Why are rolling forecasts attractive?

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



Rolling Forecasts speed up the budgeting process

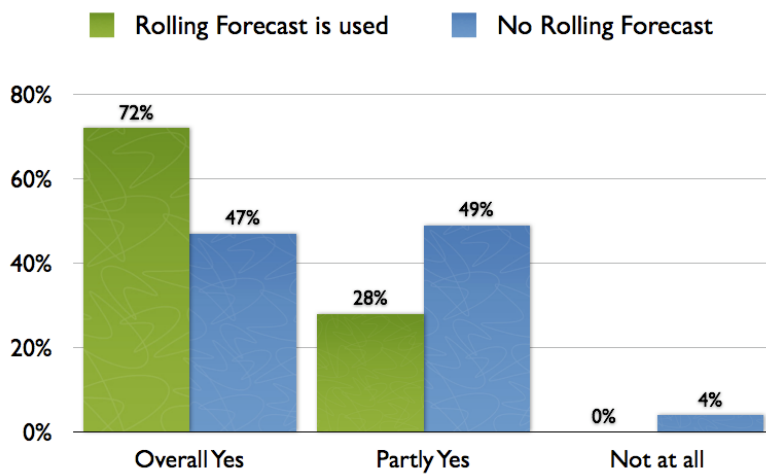


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Source: The Hackett Group, 2008

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Not only time is saved. Satisfaction increases.

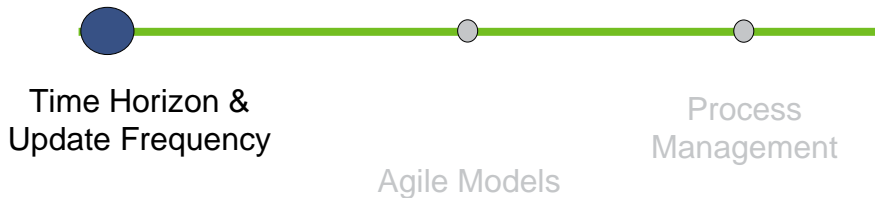
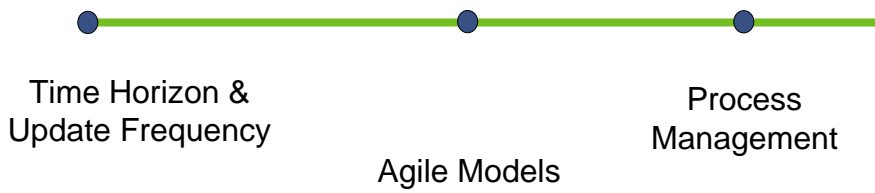
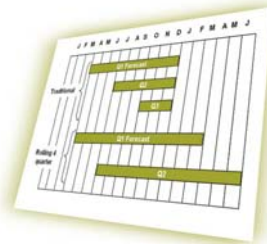


Information Management

Source: The Hackett Group, 2008

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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

Industry

- Consumer electronics
- Retailing
- Investment banking

Long cycles

- 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

Process
Management

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 %
	Actuals	Actuals	Actuals	Actuals	Actuals	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast					
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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	62.00	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%	36.33%	36.23%	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	1.59	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	0.15	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%
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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%
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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	3.64	0.02	1%	0.64	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%
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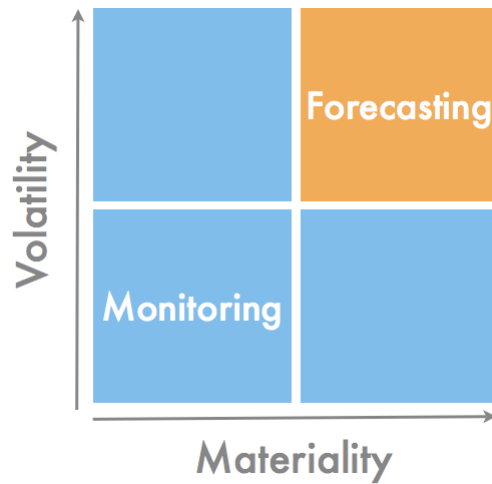
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„Simplicity is the ultimate sophistication.“
Leonardo da Vinci



Less is more! Simplify your models



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

Process
Management

Process management is critical

We need to make a critical decision quickly!

Wow...there are a lot of moving parts!



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\ May Forecast / \ June Forecast / \ July Forecast /

New version

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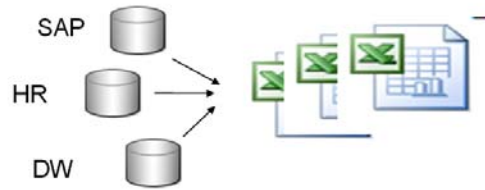
File Explorer path: \\0805p3\share\CorpFP&A\Rich Corp FPA\CAPEX\Status of Funds\FY05\Capital Plans\05-03 capital plan 2005-07 - June Capex Mtg_April.xls

0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0

Update Models



New version

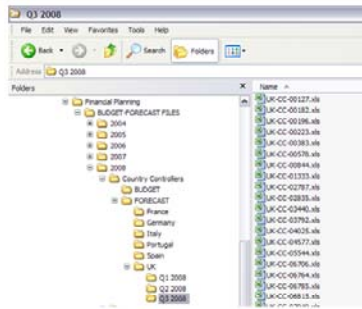


Update Models



New version

Load Actuals



Update Models

Distribute Models

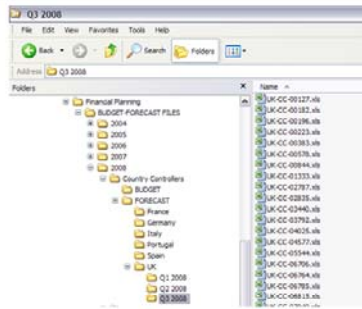


New version

Load Actuals

Information Management

Cognos software



Update Models

Distribute Models



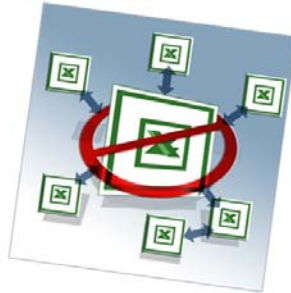
New version

Load Actuals

Collect Data

Information Management

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Update Models

Distribute Models

Aggregate data



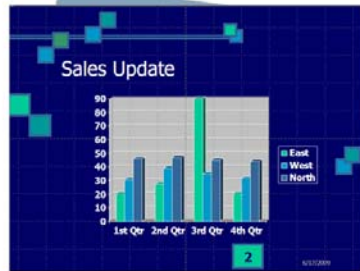
New version

Load Actuals

Collect Data

Information Management

Cognos software



Update Models

Distribute Models

Aggregate data



New version

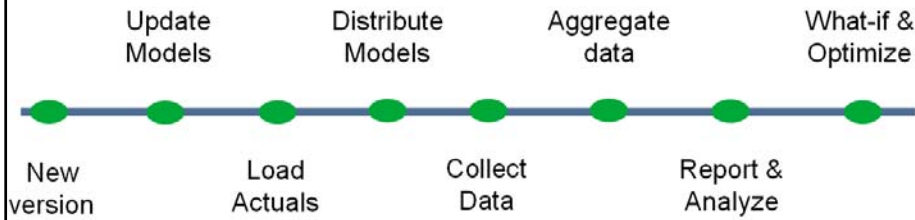
Load Actuals

Collect Data

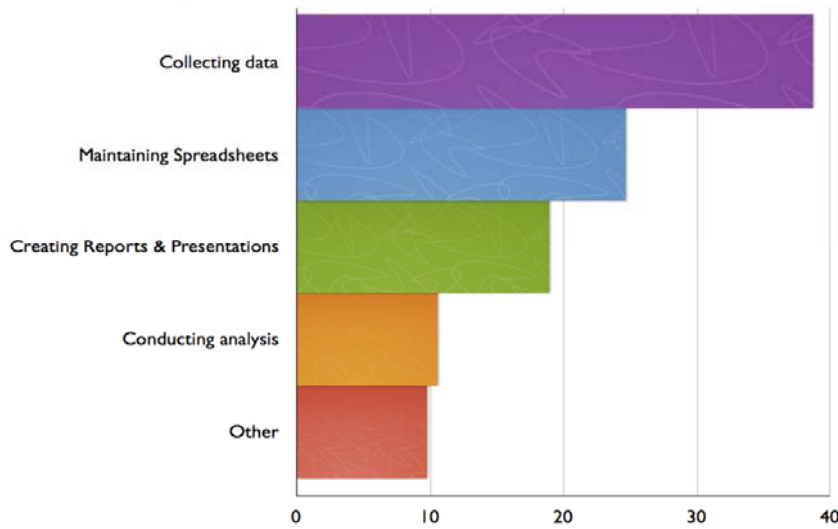
Report & Analyze

Information Management

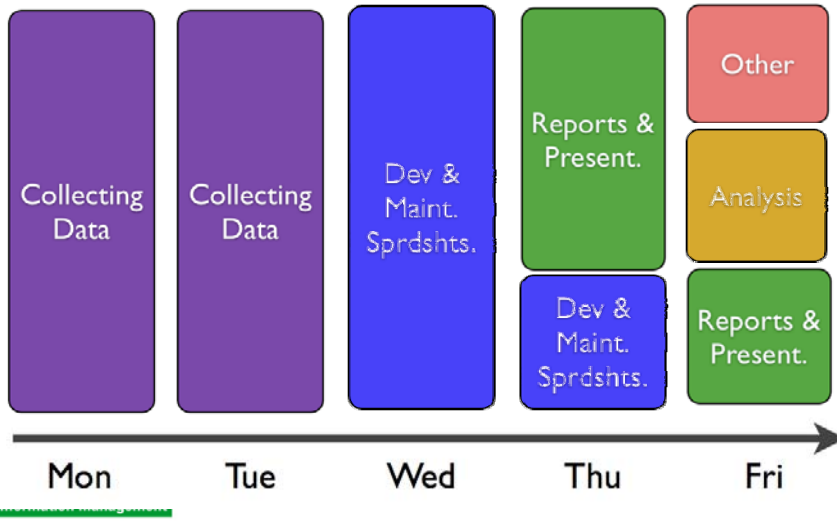
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How do we spend our time?



Same data – different perspective

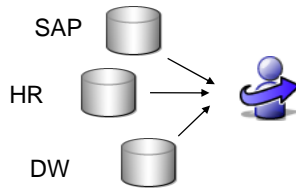


Is there a **better** way?



More time on Monday & Tuesday

Collecting Data



Automated Interfaces

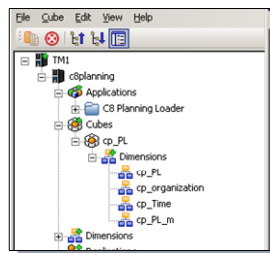


Workflow & High Participation

Wednesday and Thursday can look better as well

Reports & Present.

Dev & Maint. Sprdshts.



Centralized model maintenance



Automated reporting

IBM COGNOS 8 v4

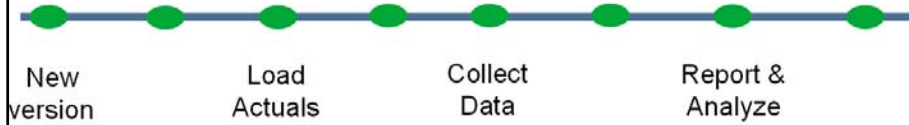


Update Models

Distribute Models

Aggregate data

What-if & Optimize



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Management Meetings

Decision Making!

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Critical elements of the process

- Aim for repeatability
- Measure the quality
- Set strict goals



And measure & monitor your process

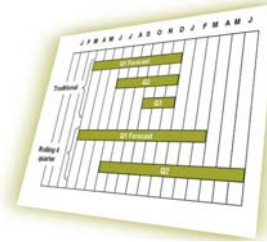


Forecast Accuracy

Cycle Time

Confidence Levels

Summary: Some elements of a successful forecast



Time Horizon &
Update Frequency

Agile Models

Process
Management

Information Management

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Demand Forecasting | Public Folders | My Folders

Forecasting Tools | Back to the default entry

Demand Forecasting
Forecast Accuracy Report
Upside-Downside Risks Report
Demand Analysis

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	84.0	84.0	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	98.8	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%

Rolling Forecasts – a silver bullet?

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

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- Join the Cognos Innovation Center

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Twitter: [@ibmcognosicemea](https://twitter.com/ibmcognosicemea)

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PracticeStrategy Man
Practice**Welcome to the Innovation Center for Performance Management**

The IBM Cognos Innovation Center for Performance Management is a forum and resource center for IBM customers and industry peers. It brings together technology professionals and industry



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

Deeper Insight Unlocks New Value

MEASURING AND MONITORING

PLANNING

REPORTING AND ANALYTICS

Sales	Marketing	Customer Service	Finance	Product Development	Operations	Human Resources	IT/ Systems
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PRODUCT ACTIONS:
 Eliminate Unprofitable Products & Non-value Added Activities

CUSTOMER ACTIONS:
 Protect Profitable Customers & Manage the Unprofitable Ones

SUPPLIER ACTIONS:
 Leverage Your Best Suppliers and Manage Supply Risk

FINANCE ACTIONS:
 Simplify and eliminate redundancy; drive dynamic, sustainable FPM practices

Intelligent