IBM Cognos Performance
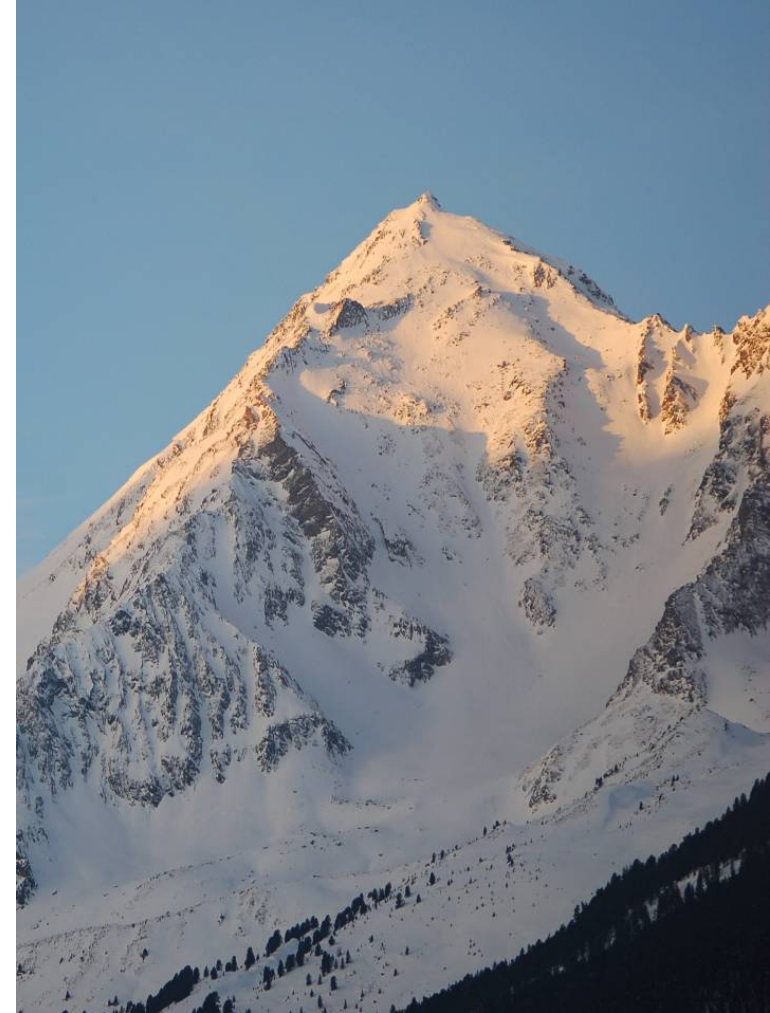Better Intelligence. Better Business.

Best Practices in implementing a Rolling Forecast

Session Objectives

In today's session we will:

- Review the need for solid forecasting practices

- Learn about the rolling forecast philosophy

- Discuss three best practices for implementing a rolling forecast

„Expect the Unexpected."
David Axson

Forecasting a critical business process in turbulent times.

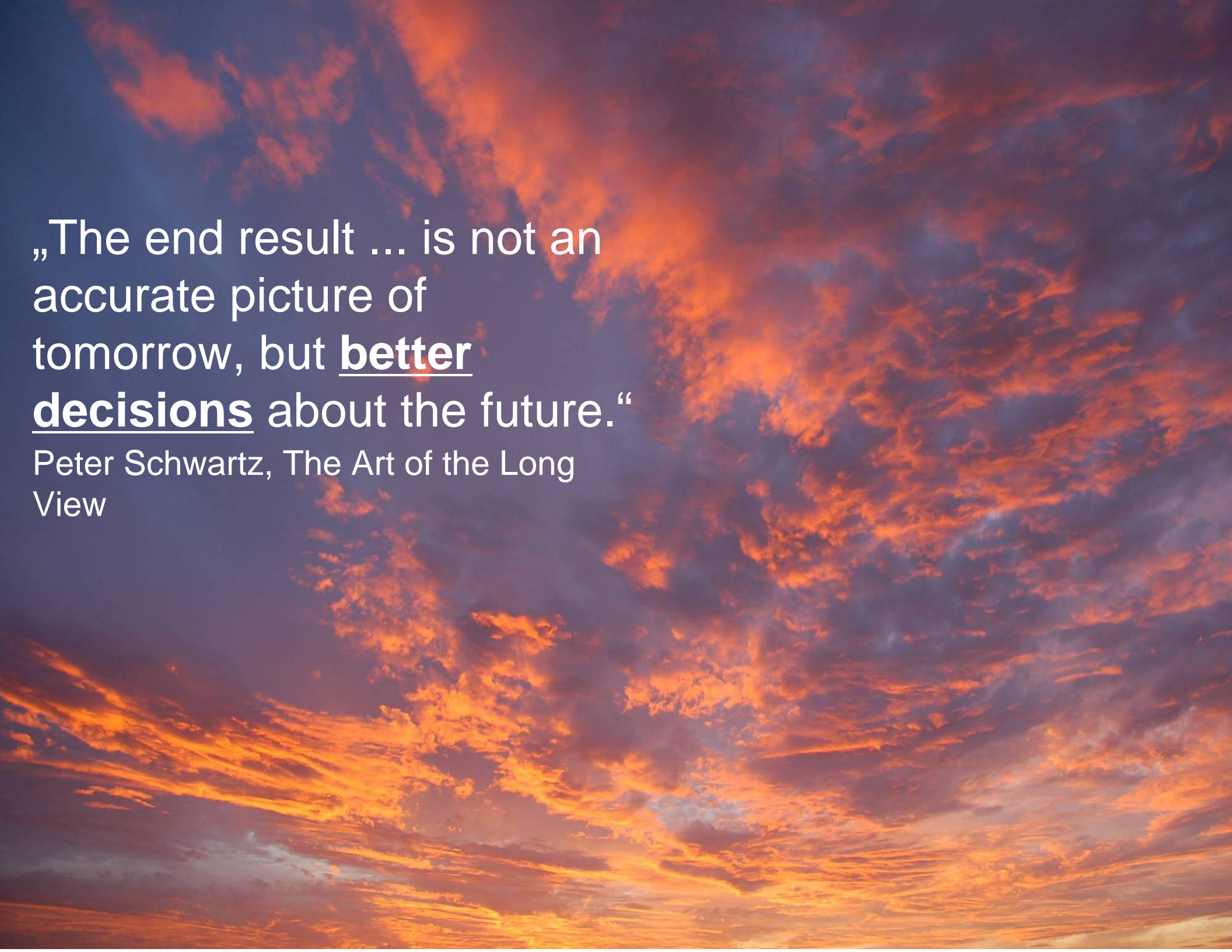# *What is a forecast?*

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
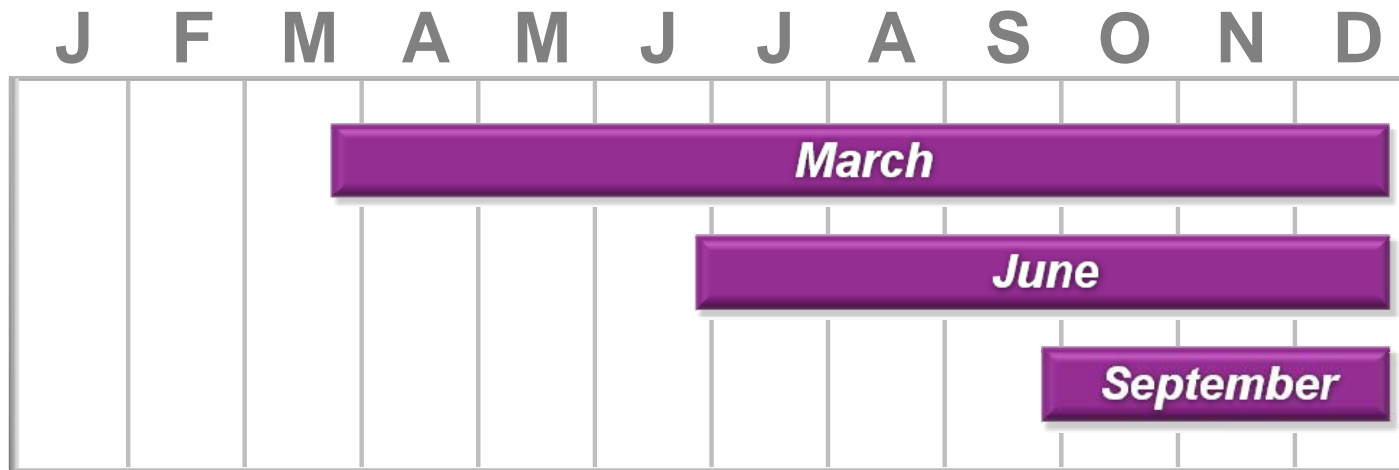
Good forecasting practices create value

Reputation

Career

Performance

IBM.

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%

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

It shows...

Apple shares drop after missed forecast

Wed Jan 23, 2008 12:33am GMT

[-] Text [+]

Email | Print | Share | Single Page | Recommend (0)

By Scott Hillis

SAN FRANCISCO (Reuters) - Apple Inc (AAPL.O: Quote, Profile, Research) on Tuesday forecast a quarterly profit below analysts' expectations and posted disappointing holiday-season iPod shipments, sending its shares down 11 percent in after hours trade on concern consumers were cutting spending.

CFO.com

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Earnings Misses Mean Big Career Risks for CFOs
A new study finds that falling short of analysts' profits forecasts hits CFOs directly where it hurts: in their wallets and their chances of getting fired.

Vincent Ryan
CFO.com | US
My 18, 2008

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.
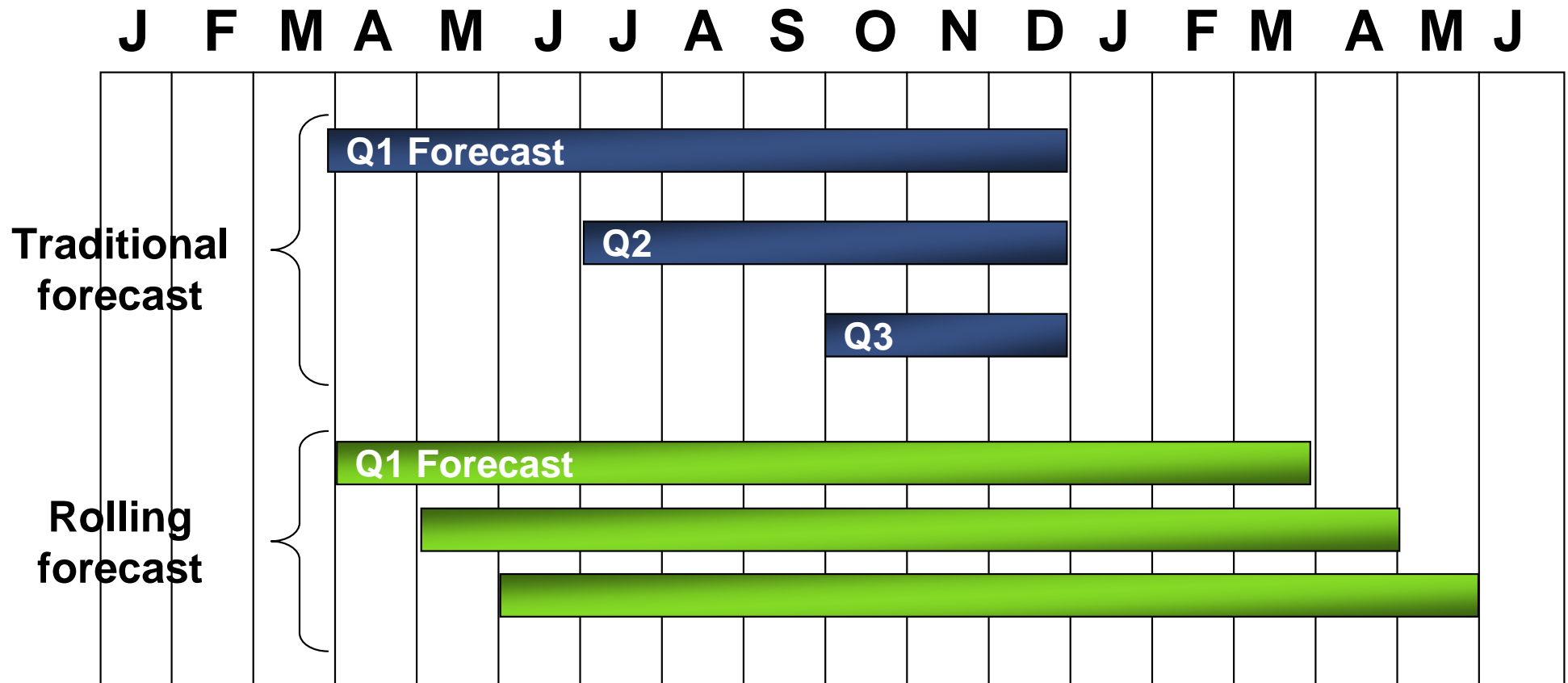
IBM

IBM Cognos Performance
Better Intelligence. Better Business.

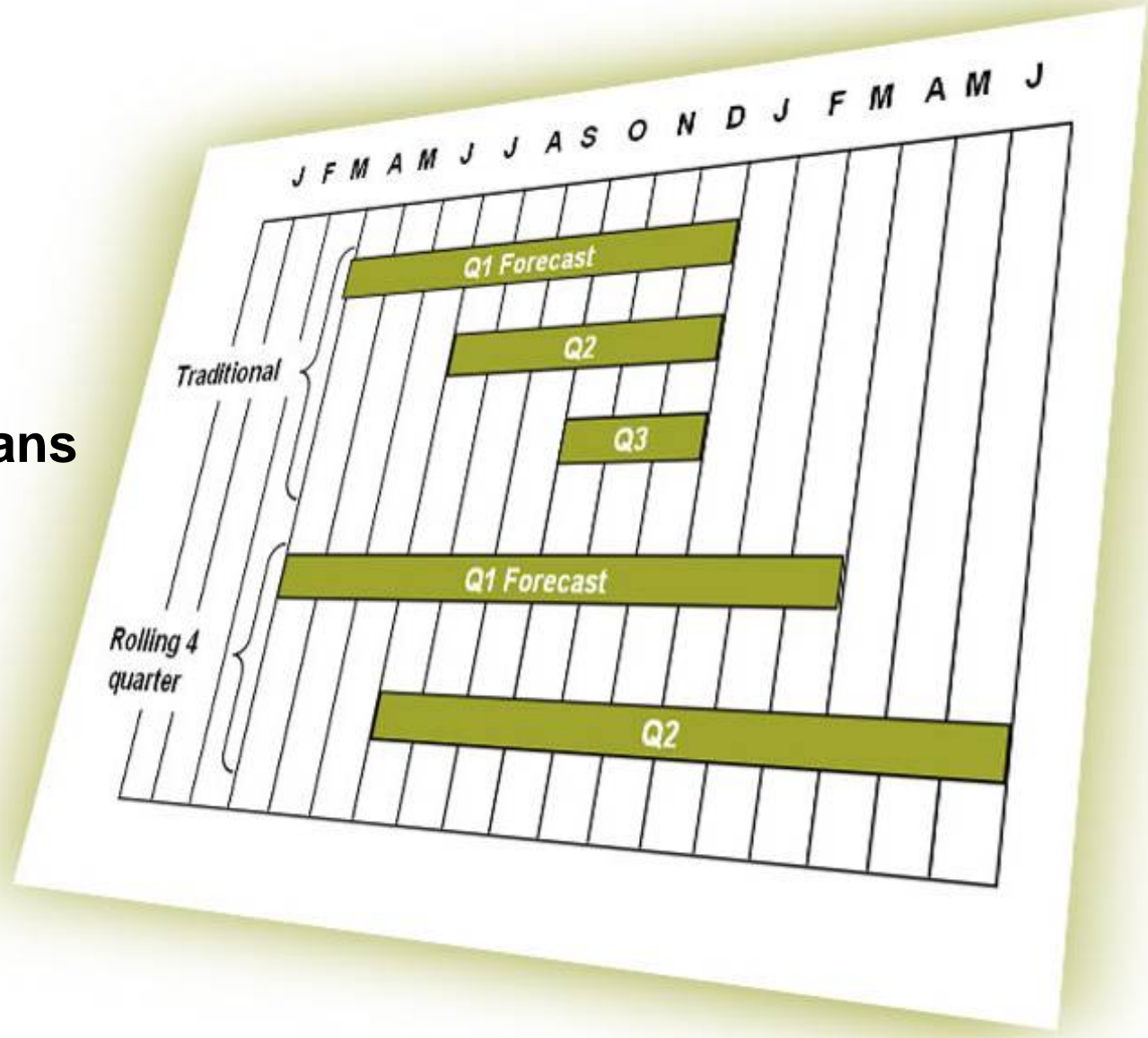# Rolling Forecasts.
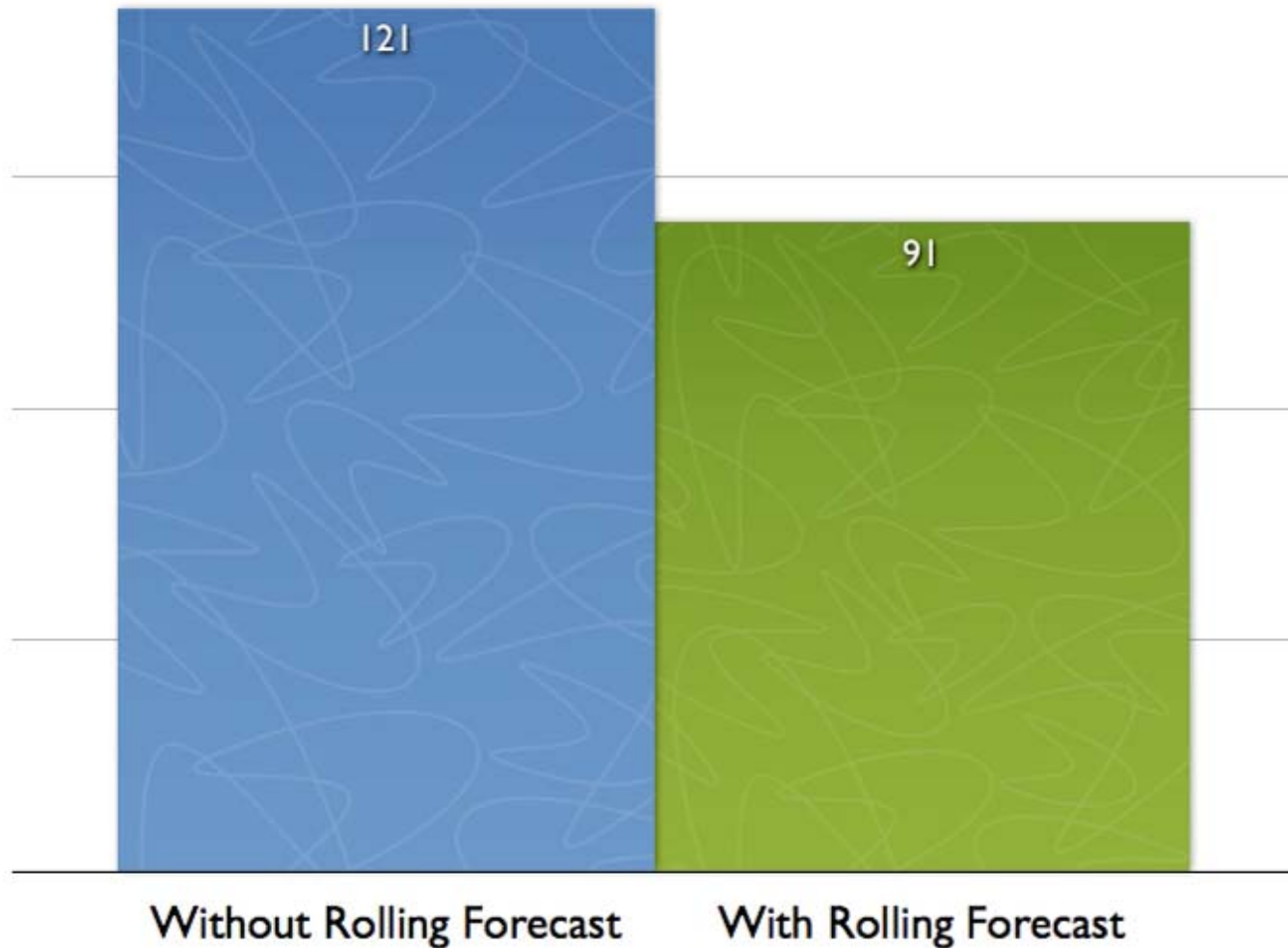# An effective approach.

What is a Rolling forecast

Why are rolling forecasts attractive?

- **Increased visibility**

- **Consistent time horizon**
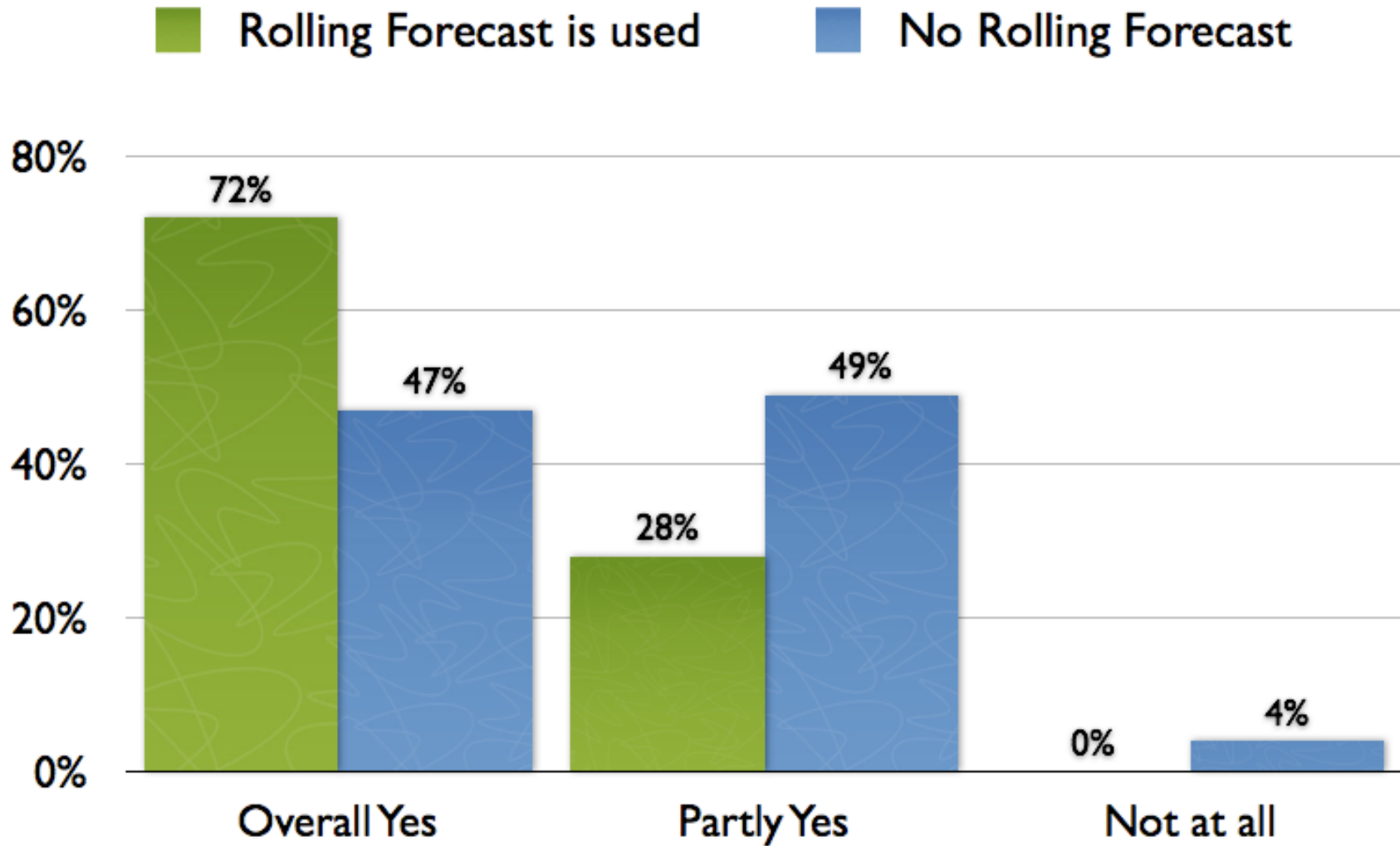
- **Less reliance on budget**

- **Solid baseline for new plans**

IBM

Rolling Forecasts speed up the budgeting process
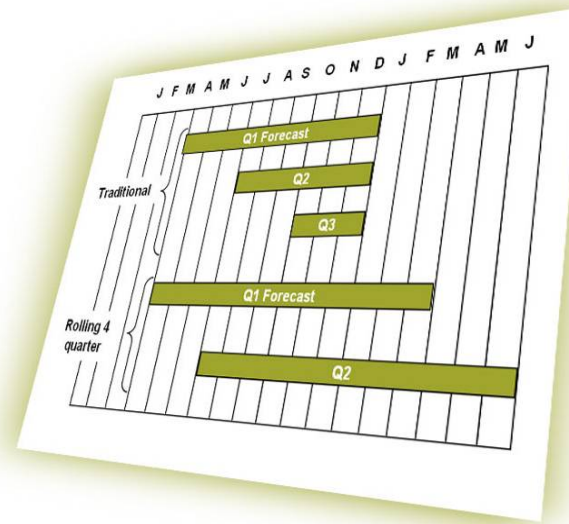

Source: The Hackett Group, 2008
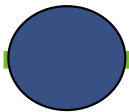
Some elements of a successful forecast

Time Horizon & Update Frequency

Agile Models

Process Management

Time Horizon &
Update Frequency

Agile Models

Process
Management

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.*"

IBM Cognos Performance

Time Horizon & Update Frequency

Agile Models

Process Management

Remember this template?

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	Actuals	Actuals	Actuals	Actuals	Actuals	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast					
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„Simplicity is the ultimate sophistication."
Leonardo da Vinci
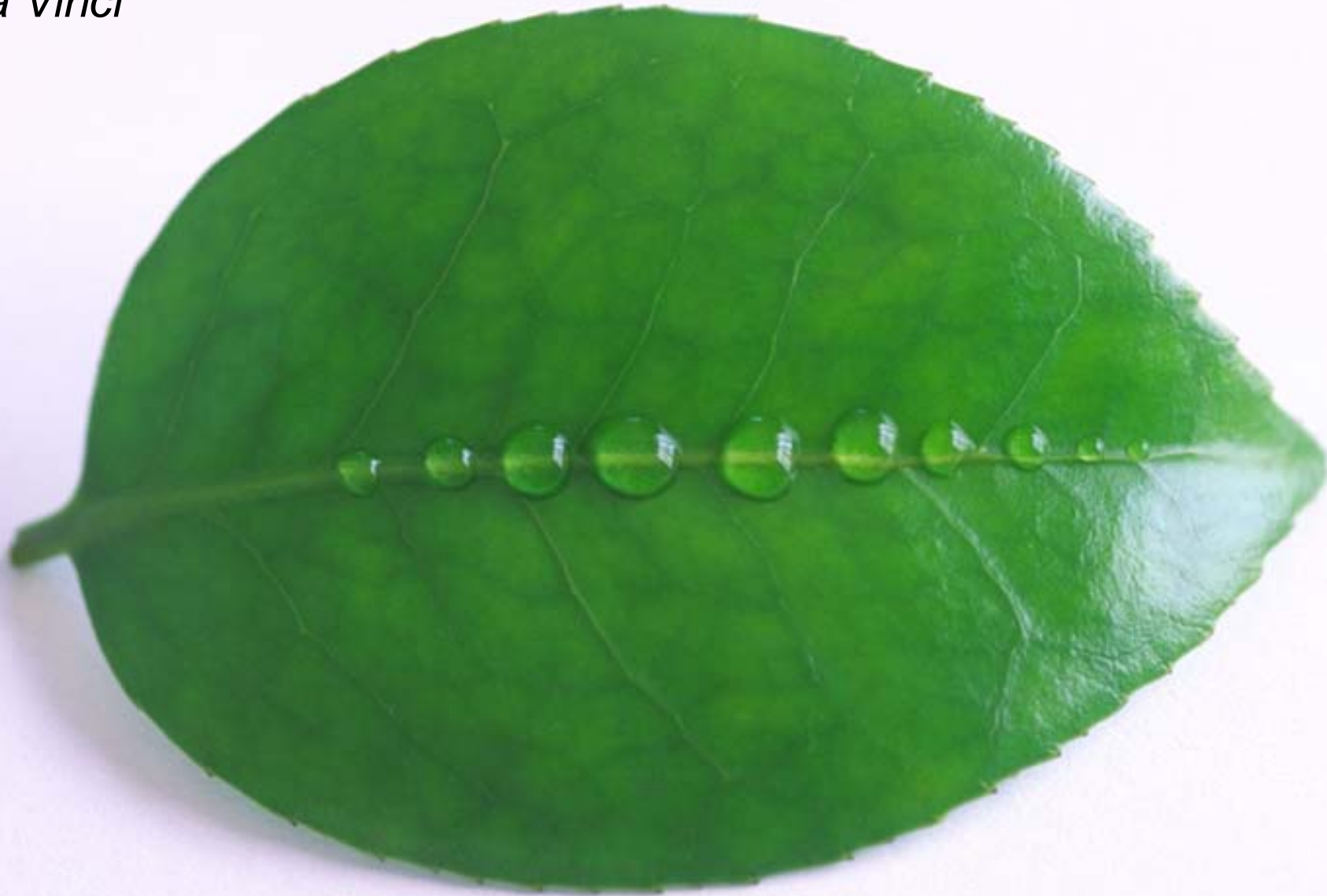
Less is more! Simplify your models
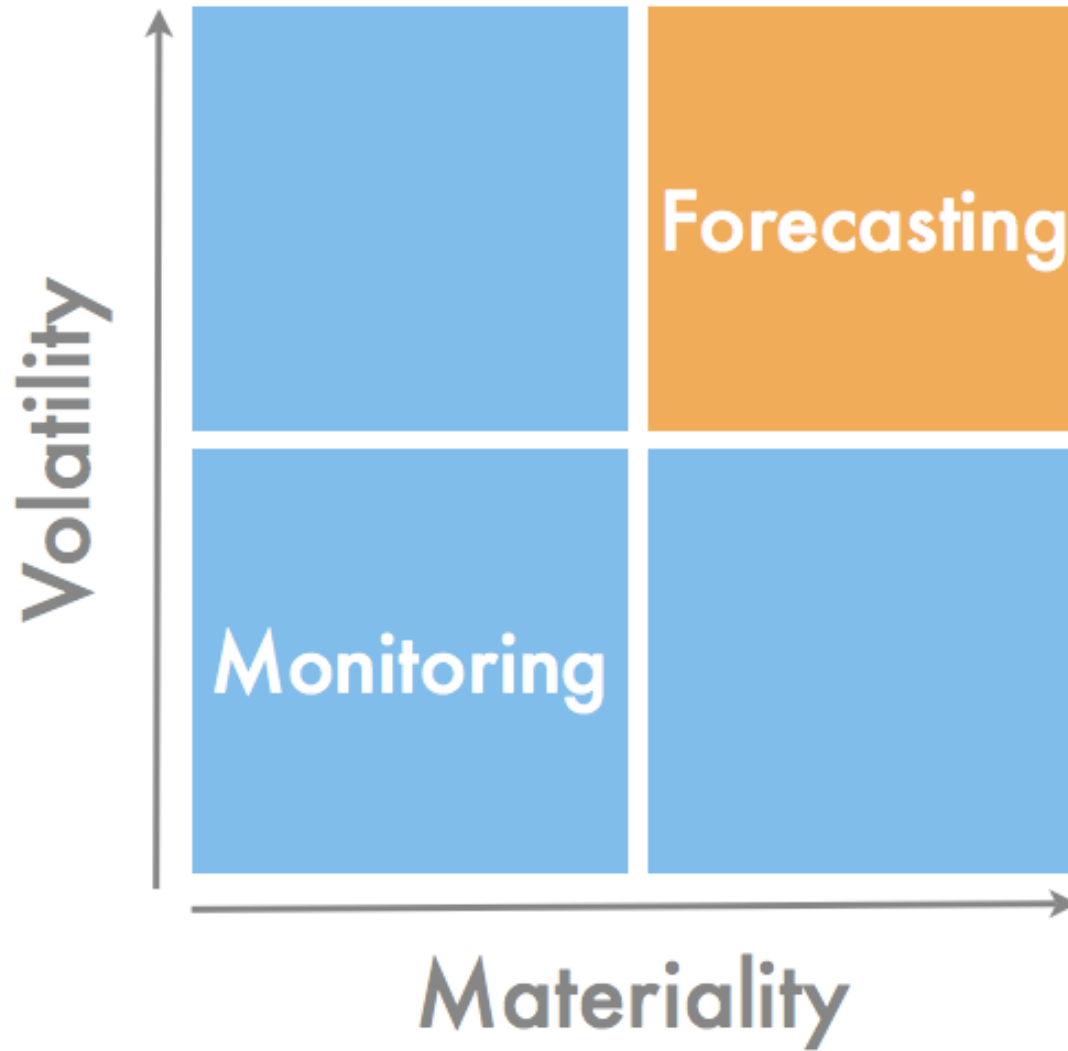
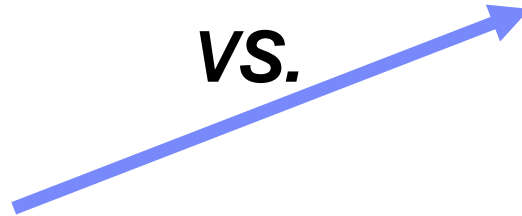# *Utilize drivers – the language of business*

Opportunities

Pipeline

Number of employees

Customer Satisfaction

VS.

```
634172 – Revenue (New Accts)

665891 – Office Supplies (Paper)

665892 – Office Supplies (Pens)

677199 – Gifts, Misc.
```

Time Horizon &
Update Frequency

Agile Models

Process
Management

Process management is critical

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

We need to make a critical decision quickly!

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IBM Cognos Performance

Update
Models

Distribute
Models

Aggregate
data

What-if &
Optimize

New
version

Load
Actuals

Collect
Data

Report &
Analyze

IBM

Management
Meetings

Decision
Making!

Critical elements of the process

- Aim for repeatability

- Measure the quality

- Set strict goals

IBM.

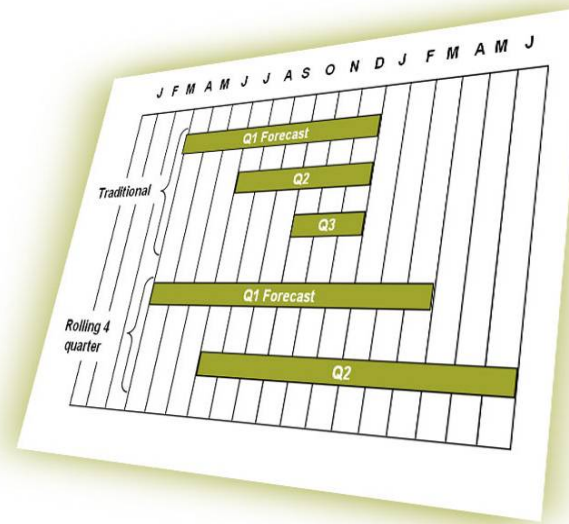# *And measure & monitor your process*

Forecast Accuracy

Cycle Time

Confidence Levels

Summary: Some elements of a successful forecast

Time Horizon &
Update Frequency

Agile Models

Process
Management

Demo goes here

Rolling Forecasts – a silver bullet?

- No one-size-fits-all approach

- Agile models & process required

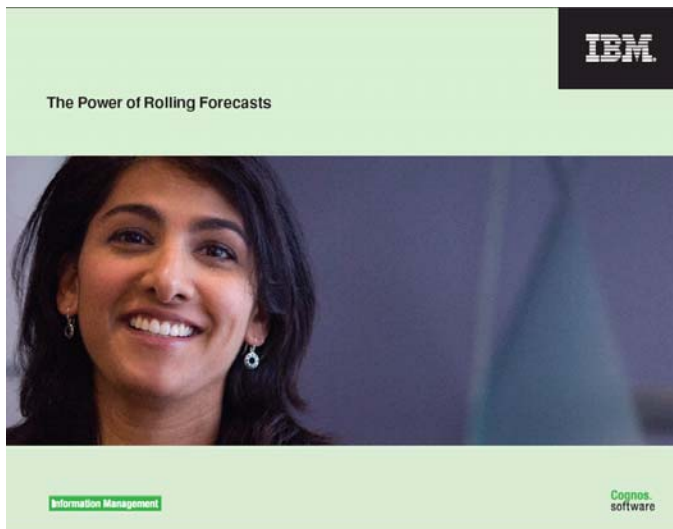- Technology as enabler

- Forecast culture required

Next Steps

- Analyze your processes

- Download our white papers & blueprints

- Join the Cognos Innovation Center

Web: www.ibm.com/cognos/innovation-center

Twitter: @ibmcognosicemea

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 provides best practices and solutions for implementing a better forecasting approach