THE CFO PLAYBOOK ON FORECASTING: HOW FINANCE LEADERS CAN DEVELOP A CLEARER VIEW OF THE FUTURE

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CFO
An argyle. Company

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SPEAKERS

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1. What are the top challenges finance teams currently experience with preparing and maintaining accurate forecasts?

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- Defining the term "forecast."
  - Some consider it to be a budget (control-focused),
  - others consider it to be a plan (that is, they intend to make it happen), and
  - even fewer consider it to be a forecast (that is, they expect it to happen, given known internal and external variables and assumptions).
- Accumulation, cleansing, and the analysis of data

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A lack of a documented forecast policy

- Defining what is an acceptable level of variance in the forecast
- Defining outcomes such as:
  - Can the forecast be probabilistic or does it have to be a point?
  - What assumptions and forecast methods should be used?
  - What is the time horizon?

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- Aligning on clear purpose for the forecast
- Number of forecast items, and associated level of detail
- Setting targets for accuracy

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2. What are the clearest warning signs that a finance team needs to change its forecasting processes?

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- Continuing to trend outside of your tolerance levels
- Taking too long to complete – too many cycles
- Excessive use of top-side adjustments

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- When it no longer lets management see around the corner – too many surprises
- When management and/or investors and stakeholders
  - do not believe the forecast – loss of credibility – and
  - are not getting the information they need to make good decisions,
  - typically in response to a forecast deviance greater than set parameters, especially on the downside, such as a missed earnings target

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3. What are the latest developments in forecasting that CFOs should know about? How do these developments support a company's efforts to improve the efficiency of its forecasting processes and the accuracy of its forecasts?

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- The use of artificial intelligence to augment the human element in forecasting
- The application of external measures to more accurately forecast future outcomes

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- Predictive analytics
- Robotic process automation
- Forecasting centers of excellence (CoEs)

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4. What role(s) should a CFO take on, and what internal areas of a company should a CFO work with, as a company changes its forecasting processes?

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- Champion the importance of effective forecasting.
- Demonstrate cross-functional collaboration.
- Help educate the organization on financial literacy.

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- A CFO should take on the role of a change leader.
- Leverage external resources; internal resources need to stay focused on delivering results to the rest of the company.

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5. How can finance leaders better align their companies' approaches to forecasting with their companies' approaches to budgeting and planning?

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- A plan or budget
  - sets annual targets throughout the business and seeks performance commitments from specific areas of a company, such as business units, cost centers, or functions, and
  - typically can be done annually or on a rolling basis and updated quarterly.
- A forecast
  - provides a realistic outlook based on changes in both the internal and external environment;
  - allows management to make timely decisions to change directions, tweak the strategy, or employ other measures to meet targets; and
  - should leverage the information with the budget or plan to help predict future outcomes.

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- Align forecasts and budgets or plans to a common set of underlying assumptions.
- Use driver-based forecasts linked to operational or strategic targets.
- Seed values from one model to the other.
  - Leverage the budget to seed or prepopulate the initial forecast.
  - Use the later forecast as the baseline for the next budget.

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6. How does an organization's ability to make strategic decisions reflect a finance team's ability to forecast? How can CFOs employ forecasts to help guide their companies' strategic decisions?

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- Know what is important and forecast what matters.
- Use driver-based forecasting models to tie forecast strategic goals and the target measures derived from them.
- Set the horizon far enough out into the future to help see upcoming changes.
- Anticipate what's coming and incorporate significant changes into strategies and tactics.

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- A forecast can be adjusted to consider new information on assumptions, targets, and internal and external business changes.
- By using forecasts as a dynamic tool in the planning process,
  - as the environment and company initiatives change, the targets can change, and
  - companies can link the operating environment to strategy, improving overall performance.

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7. What mistakes do companies most often make, and how can they prevent these mistakes, as they evaluate and seek ways to improve their forecasting processes?

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- Failing to link the strategic plan, operating plan, and financial plan
- Using gut feelings to produce results as opposed to data and analytics
- Relying too heavily on historical results
- Not regularly updating the forecast

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- Trying to forecast too many things
- Aiming for too much detail or precision
- Including too many participants in building the forecast
- Using the same forecasting method for all forecasts or in all environments
- Limiting the sources of information used

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8. What are the most important points attendees ought to remember from our discussion?

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- Determining the right things, and at what level, to forecast.
- Make sure you have a sound forecasting method and sound forecasting inputs.
- Continue to update the forecasting process and tools as needs change.

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- Create a forecast policy that defines
  - what you want to achieve,
  - what defines "success" (such as hitting within 5% above or below the forecast three months out),
  - key assumptions that will be used, and
  - external data that impacts the forecast.
- Integrate the strategic plan, operating plan, and financial plan – then update the forecast regularly.
- If changing your forecast, budgeting, or planning processes, set up a project management office and leverage external resources to drive results.

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QUESTIONS AND ANSWERS

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