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

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?

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?

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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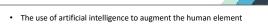


 When it no longer lets management see around the corner – too many surprises

- When management and/or investors and stakeholders
 - > do not believe the forecast loss of credibility and
 - $\, igspace \,$ 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

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 application of external measures to more accurately forecast future outcomes



Robotic process automation

Forecasting centers of excellence (CoEs)

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?

Champion the importance of effective forecasting.

- · Demonstrate cross-functional collaboration.
- · Help educate the organization on financial literacy.

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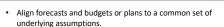
- A CFO should take on the role of a change leader.
- Leverage external resources; internal resources need to stay focused on delivering results to the rest of the company.



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- 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.



- 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.

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?

- 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,
 - $\, \blacktriangleright \,$ as the environment and company initiatives change, the targets can change, and
 - companies can link the operating environment to strategy, improving overall performance.

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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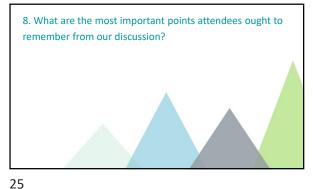


- Failing to link the strategic plan, operating plan, and financial plan
- Using gut feelings to produce results as opposed to data and analytics
- Relying too heavily on historical results
- Not regularly updating the forecast



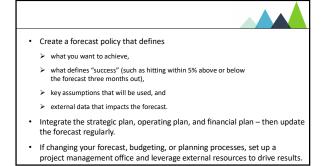
- $\bullet \quad \text{Trying to forecast too many things} \\$
- · Aiming for too much detail or precision
- Including too many participants in building the forecast
- Using the same forecasting method for all forecasts or in all environments
- Limiting the sources of information used

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· 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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QUESTIONS AND ANSWERS Kenneth Fick Senior Manager MorganFranklin Consulting Director, Finance Transformation The Hackett Group Moderator: Joe Fleischer Editorial Director, Finance Channel Argyle Executive Forum

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