

## THE FORECASTING REVOLUTION

Intelligent Forecasts are the Most Important Decision-Making Tool in the Business Manager's Arsenal

### Introduction

#### FORECASTS ARE EVERYTHING

Business plans are painstakingly built over the course of three to six months. CFOs pore over historical data and meet with division heads, corporate executives and the Board to document the goals, aspirations and challenges of the company. But once the first month goes by and the initial set of results come in, that plan is out of date and forecasting takes over.

In an ideal world, business planners compare actuals to plan, course correct and reforecast on a monthly basis so that they can assess if their course corrections are delivering desired results. At its best, forecasting is an iterative process that helps business planners keep a tight watch on the health of the company. In today's uncertain economic and political environment, the forecast is everything.

#### FORECASTING THEN & NOW

CFOs often say their job is to predict the future, which is true enough. In many ways the exercise is a best guess of what the future will bring based on past results, management insight and economic trends.

Traditionally, forecasts were built in spreadsheets (it's estimated that some 80% of companies still forecast that way). This approach has inherent challenges, beginning with the near impossibility of representing the complexity of an organization in a spreadsheet. Business planners resort to building multiple sheets and tying them together with macros and formulas that often break.

But manual labor aside, this approach limits the strategic value of a forecast. The manual nature of entering and manipulating data in a spreadsheet means the forecast is essentially a static snapshot in time. Keeping up with the pace of business alludes even the most proficient power users.

A forecast that isn't real time, relies solely on top-line data, and provides no insights into why results occurred as they did, is of limited value to business planners who need to make strategic decisions about course corrections.

Fortunately, technology is resolving these challenges. Due to important technology advances we've seen a revolution in forecasting. Today's intelligent forecasting platforms collect data from all points within the organization providing business planners with real-time forecasts at will.

## THE TECHNOLOGY REVOLUTION

Technology developments over the past two decades have revolutionized forecasting. Those developments include:

- ▶ **Software-as-a-Service Model (SaaS).** Although SaaS was designed to streamline software delivery, the model has had a profound impact on every aspect of the corporation. SaaS allows every authorized user to interact with the same data, effectively providing corporations with a shared version of truth, updated in real time. In terms of forecasting, SaaS-based platforms can update the forecast the moment a new customer deal is signed, a key account leaves for the competition, a lease is renewed, or the price of oil changes.
- ▶ **Multidimensional OLAP.** Multidimensional OLAP allows organizations to aggregate data from multiple point systems, such as GL, CRM, ERP and marketing automation platforms, directly into the intelligent forecast. The result is a new level of integrated forecasting, which joins the financial planning components to other business domains in order to feed the forecast with robust data. The result: forecasts that are built using data that is accurate, nuanced and real time.
- ▶ **Automated What-If Scenario Planning and Stress Testing.** Intelligent forecasts automatically process all inputs according to the organization's unique business structure, as well as updates all outputs, such as the P&L, Balance Sheet or Cash Flow Statement. It is activity based, and flows inputs through the financials based upon the logic and rules appropriate to the organization, without any need to reprogram the model. As a result, business planners can easily test multiple what-if scenarios, assumptions and perform stress tests in order to assess the impact of a wide variety of factors on their financial statements.

## WHY INTELLIGENT FORECASTING IS REVOLUTIONARY

Intelligent forecasting offers far more than a snapshot of the business. It combines past and present financial information with assumptions about impending economic conditions to predict the future health of the business, and to provide the leadership team with precise, data driven insights to guide their decision making.

Intelligent forecasting platforms act as a central repository of data, allowing business managers to drill down into that data in order to understand the forces that drive financial health and implement quick course corrections. For instance, let's assume that overall sales are lower than projected, and the CFO needs to explain why that is the case to the CEO. The CFO can drill down into the sales data, pinpoint the region or sales office that is falling short, and then look deeper as to the potential causes. It may be that a region has experienced attrition of key sales personnel, and that the replacements are still ramping up. This level of insight is available 24/7, and allows business planners to assess if issues will be resolved in due course, or specific actions or corrections are necessary to get things back on track. Moreover, intelligent forecasting allows planners to be more assertive about their recommendations and assumptions because they are backed by data.

Intelligent forecasting also allows business planners to forecast what was seemingly impossible to do previously, such as forecasting the Balance Sheet, Cash Flow and Income Statements on a regular basis.

## FORECASTING AND THE EVOLVING ROLE OF THE FINANCE TEAM

The term 'Office of Finance' tends to conjure up an image of back office bean counters reluctant to embrace new technology. The reality is that many CFOs, controllers and other financial personnel understand the transformative power of technology, and its ability to glean critical insights out of the data. With tools such as intelligent forecasting they can make measurable contributions to the success of the business – delivering practical, usable recommendations that are backed up by data and insights. In short, they are a leader, a collaborator, a communicator – working closely with operational stakeholders up and down the chain.

## INHERENT OPPORTUNITIES OF INTELLIGENT FORECASTS

Intelligent forecasts are the single best tool for monitoring the health of a company and to make strategic decisions as to how to proceed forward. With real-time data stemming from all parts of the organization feeding the forecast, along with automated workflows for what-if scenario planning and stress testing, forecasts allow business planners to:

- ▶ Identify trends to exploit, such as an area of the business or product suite that is performing better than anticipated. With this insight in-hand business planners can update the demand plan, redirect marketing and sales resources and so on in order to take advantage of the better performance.
- ▶ Spot and mitigate issues that are a drag on profitability or efficiency, such as too much deferred revenue or disappointing sales. The sooner these issues are identified, the better able business planners are to get ahead of the problem. With forecasts that are both streamlined and fed with real-time data, planners have 52 opportunities each year to look for signs of trouble.
- ▶ Understand the “why” behind the numbers. It’s one thing to document results, it’s another to understand the trends, conditions and factors that led to them. Knowledge is power, and intelligent forecasts empower business planners to control their destiny. With data-driven insights fueling their decisions, planners have more confidence in their recommendations and decisions.
- ▶ Identify Plan Bs and measure their success rate. With intelligent forecasting, forecasts are highly iterative. Planners can compare actuals to plan, make adjustments and reforecast. In the following month the planner can compare actuals to the previous forecast and assess if steps taken delivered the anticipated outcome. Forecasts are tools of precision, enabling planners to measure the impact of steps taken.

## IMPACT OF INTELLIGENT PLANNING ON ONGOING FORECASTING

Every business planner acknowledges the importance of ongoing forecasting in keeping business performance on track, but many tell us they cannot do so as often or as quickly as they would like. Coordinating data to analyze, report and predict performance simply requires too much time and effort, but that’s changing for three reasons:

1. Intelligent planning platforms streamline the process, applying intelligence to ensure inputs are applied accurately and automatically.
2. Critical business systems, such as CRM and HR platforms, generate robust data that can be entered into the budget modeling software, enabling CFOs to create highly detailed forecasts.
3. Automated workflows streamline what-if scenario planning and stress tests, applying all inputs in accordance to how the business is organized. Forecasts become forward-looking versions of the GL, enabling planners to see the impact of decisions and actions on the financial statements.

When combined, these features streamline the process of forecasting. For instance, many planners say they don’t forecast their Balance Sheets because it is simply too difficult a task. But an intelligent forecasting platform allows planners to forecast their entire chart of accounts and gain insight into much more useful data than just the revenue and expense forecast. Moreover, inherent automation means it is easier to reforecast frequently.

## FORECASTING WITH INTELLIGENT PLANNING SOFTWARE

CFOs and their finance team members are busy people, tasked with gathering, analyzing, interpreting and reporting on critical financial data – which can change daily. If they are using spreadsheets, this means consolidating data from multiple sources, cutting and pasting between files and sheets, creating formulas and checking for errors. All of this leaves little or no time to create meaningful forecasts and scenario analysis to help guide strategic decisions.

Centage’s Maestro Suite automates and streamlines routine tasks, significantly reducing the time needed for ‘busy work’ and freeing up the team to focus on providing timely forecasts, insights and analysis for strategic decision support. Because the Maestro Suite integrates and normalizes data from multiple sources, accuracy is ensured, and mistakes are eliminated. A single source of truth makes it easier to know – with confidence – what to do first and why.

The Maestro Suite removes planning waste and roadblocks and delivers a direct line-of-sight into the organization’s current and future financial health. Integrated cash flow, balance sheet, and P&L forecasting – connected to meaningful data contained in ERP and back office systems – provides an ‘always on’ single source of truth that supports agile decision making.

Intuitive scenario planning enables testing of multiple options, so companies focus on the right priorities, capitalize on new opportunities and accelerate delivery of business value.

With the Maestro Suite, forecasting finally becomes what it was always meant to be: the single best decision-making tool, offering companies a new level of agility and competitive edge when it comes to quickly responding to changing business needs and market dynamics.