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The executive's guide to business visibility:

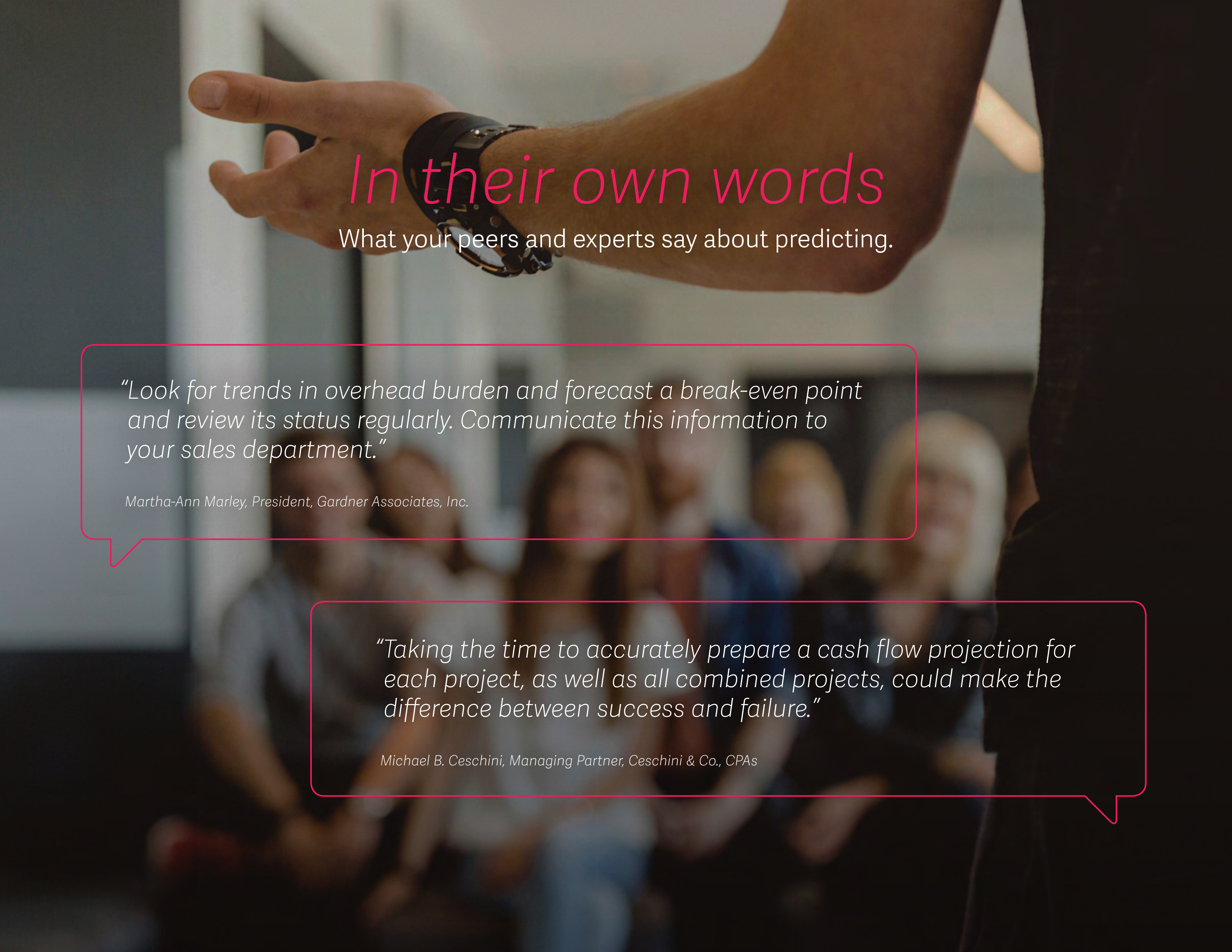
Predicting

The predicting predicament

"*It's hard to make predictions*," Yogi Berra once said, "*especially about the future*." Wit and humor aside, a lot of management teams would agree with the former Yankee catcher/philosopher. At times, predicting business performance or project profitability can be a challenging endeavor. It's little surprise that the overriding tendency among business leaders is to rely almost exclusively on past and present indicators.

The traditional approaches to business visibility (reporting, monitoring, and analyzing) are important and can help you gain insight into what already happened and what is happening now.

But considering the fierce competition and razor-thin margins you face, that style of rear-view management simply isn't good enough. To succeed in today's climate, it's important to understand what might happen in the future—so you can prepare for it, control it, and take action today to attain tomorrow's goals. What follows are some tips, best practices, and basic steps you can take to develop more informed forecasts and what-if scenarios.



In their own words

What your peers and experts say about predicting.

"Look for trends in overhead burden and forecast a break-even point and review its status regularly. Communicate this information to your sales department."

Martha-Ann Marley, President, Gardner Associates, Inc.

"Taking the time to accurately prepare a cash flow projection for each project, as well as all combined projects, could make the difference between success and failure."

Michael B. Ceschini, Managing Partner, Ceschini & Co., CPAs

See tomorrow today

It's helpful to think of forecasting in the context of strategic planning since the two are so closely intertwined. Strategic planning requires you to envision an ideal outcome for your business and then work backward—focusing on the actions you need to take in order to achieve your vision. However, before you can lay out that vision, it's critical to first forecast what might happen in key areas of the business (such as expenses, new contracts, and interest rates).

Five reasons to improve your forecasts:

So you can establish the best roadmap for your business

By performing what-if scenarios, you can better visualize answers to questions such as:

- What is the revenue impact if we focus on one type of work?
- Are we better off buying or renting equipment?
- If we win 20% less work, how can we offset the loss?

So you can protect and improve your credit

Banks want to see if you will be able to pay your debts on time. Many require sound cash forecasts to confirm your performance will meet the minimum criteria.

So you can manage more confidently

Periodic forecasting will enable you to know when to be more aggressive and when to tighten

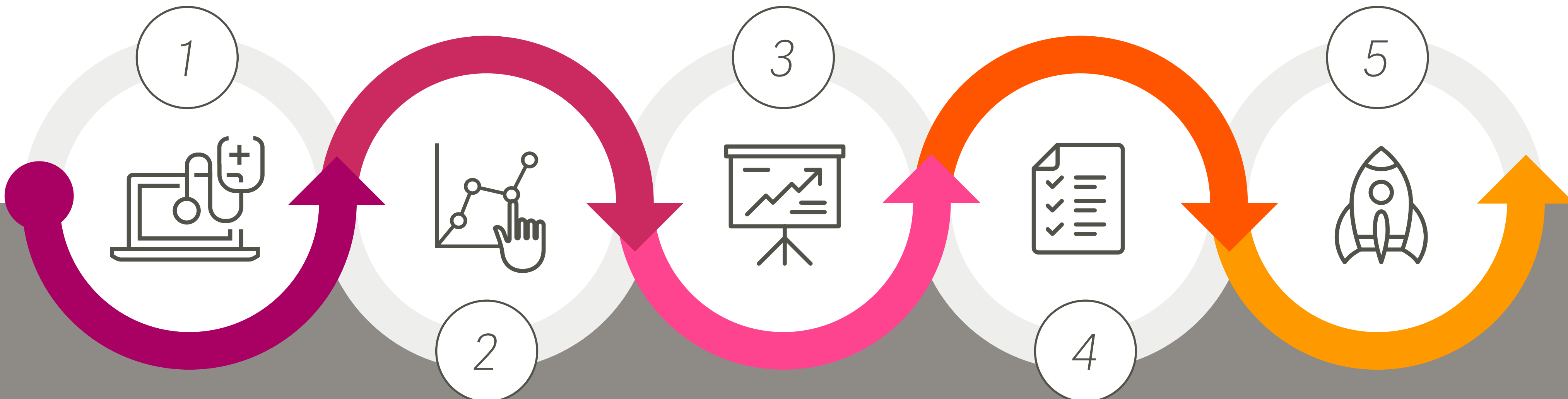
So you can course correct

Well-devised forecasts give you time to make changes if you're in trouble. For example, if you projected an 11% year-over-year increase in annual sales but in your first quarter you only saw a 2% increase, you may need to make changes in sales and marketing or cut your projections.

So you can better understand what you can control and what you can't

When you forecast, it becomes clear that much of what happens in your business is beyond your control (costs increase, the market cools). But there are many aspects you can influence. For example, if you can devise strategies to get paid days earlier, it can give you the freedom to borrow less.

The business planning cycle



Analyze data

Consider information about company performance, your sales, the economy, and the marketplace.

Identify trends

Take note of patterns in your performance, marketplace trends, and other key indicators (such as material and overhead).

Forecast performance

Apply your findings to predict how your business/projects will perform in key areas.

Plan and budget

Use forecasts to plan for the future ("Should we hire more staff?") and to help scope new initiatives ("Do we have the funds to cover cash outflows?").

Execute

Act decisively based on your plans but prepare to make course corrections, as needed.

Forecasting at the business level

When forecasting revenue, embrace your aspirations and build at least one set of projections with aggressive assumptions.

At the business level, your forecasts help you develop your budgets, establish a vision for the future, and create benchmarks to measure and reward performance. Using various predictive indicators such as customer satisfaction, sales pipeline, and accounts receivable turnover, you can create your forecasts.

Recommended forecasts include:

- Backlog.
- New orders or contracts.
- Revenue.
- Direct and indirect costs.
- Cash flow.
- Gross margin.
- Net profits before taxes.

Put together a contingency plan in case actual results fall below projections. Always plan for the worst but project for the best.

Be leery of forecasts that have your gross margin making a significant leap. Costs that are high today will likely remain so in the future.

Forecasting at the project or job level

Each new business initiative must be controlled carefully from beginning to end. Forecasting plays a vital role in identifying potential problem areas—after all, how can you know when a project gets off course unless you first understand the destination? Successful businesses are systematic with their forecasts, typically requiring finance and operations to work together to provide monthly forecasts.

Key project areas to forecast include:

- Net profit.
- Cash flow.
- Cost to complete.
- Equipment or labor resources.

Forecasts typically rely on accurate and timely input from teams across purchasing, inventory, production, scheduling, facility location, transportation, and distribution. From these indicators, you can derive a forecast variance and make adjustments. To improve the timeliness of this data, companies are increasingly providing mobile access so data is being shared as it becomes available.

Forecasting external forces

In addition to making projections regarding internal business performance, it's important to consider how external factors will impact your organization. Regardless of your business, the external driving forces typically fall into five categories:

- **Economic**—Continued recession or rebound?
- **Political**—What new regulations are on the horizon? Where are taxes headed? How will government spending affect your industry?
- **Social**—How will an aging population change the type of products and services in demand?
- **Technological**—How will innovations in mobile and automation impact the industry?
- **Environmental**—In what new directions will the "green" movement pull the industry?

Scenario planning: Prepare for what might happen.

Without a crystal ball, the best way for an executive team to understand these forces is to use a method called scenario planning. According to the Journal of Accountancy, scenario planning is focused on answering three questions:

1. **What could happen?**
2. **What would be the impact on our strategies, plans, and budgets?**
3. **How should we respond?**

To better understand how to approach scenario planning, read the Journal's article, Scenario Planning: Navigating Through Today's Uncertain World.

Scenario planning is only as effective as the actions you take. Develop a playbook to respond to various triggers identified during the planning process. This allows you to take proactive steps quickly and strategically, protecting—and potentially helping—your bottom line.

Learn more about the visibility every business should have

For information about how Sage solutions give you better visibility into your business and projects call 866-530-7243 or visit www.Sage.com/us/erp