
Death, Taxes and Forecast Error

Focus on What You Can Actually Control

We are in the middle of helping a client restart a business that was on the verge of shutting down just three months ago. It's an interesting story in itself, but that's for another time. Suffice it to say, we need a forecast for a lot of reasons. The problem is we don't have an adequate basis—there's nothing useable from last year, and there are no useful numbers from this year. The only thing we can actually be certain of is that a portion of our forecast will be wrong. It's the predictive nature of the beast! The key is to make sure you're close (not exact) and don't spend too much time on things you can't control.

For example, a previous employer of mine spent more than \$1.5MM annually on developing a forecast that ultimately was wrong. And sometimes very wrong. The company employed an army of people who developed a whole host of "models" to prepare their forecast. At the end of the day, if the results weren't what the management team wanted, they plugged it. Yep, they blew up their own forecast.

Don't get me wrong, I'm not saying don't forecast, I'm simply suggesting that you spend a practical amount of time and energy on the exercise. The point of the forecast is not to focus on the number itself. Instead pay attention to the variance—*why is your outcome different than expected?* If you focus on the variance, you may discover better ways to forecast. You may also find ways to spend time on things you can control: what people do, how long it takes them, when inventory is purchased and how much, the number of R&D projects and how far to push them.

Our forecasts are fast, so you can react to variances instead of chasing reality with revisions. They are also metrics-based, so if revenue does "X," you know the business will have to do "Y" and not the other way around.

At the end of the day the only truths are death, taxes and forecast error. Make your business less dependent on forecasts. Aim to control the things you actually can control.

Patrick Stewart is a Partner at Momentum Advisors, where he specializes in process improvement, streamlining business operations, operational turnarounds and financial restructurings. He has advised companies ranging in size from several million to several billion dollars in value and held numerous executive management positions serving as CEO, COO, CFO and CRO. Patrick has significant transaction experience including M&A transactions, recapitalizations and alternative financing transactions

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