

The Top 10 Forecasting Mistakes and How to Avoid Them

Steve Player – Live Future Ready

Brad O'Bryan - ArcBest

Introducing your Speakers



Steve Player
Director, BBRT North America
Managing Director, Live Future Ready

- Steve Player serves as the North America Program Director for the Beyond Budgeting Round Table (BBRT) and works with BBRT member companies to implement continuous planning processes.
- He has over 30 years experience with improving performance management and implementing strategic planning processes. He is also the Managing Director of Beyond EPS Advisors, a Business consulting firm, and founder of Live Future Ready.
- He is the co-author of *Future Ready: How to Master Business Forecasting* and *Beyond Performance Management* as well as five other books. He writes the “Finance Transformation” column for Business Finance Magazine featuring CFO interviews from leading organizations on innovative finance and planning processes.



Brad O'Bryan
Director of Financial Planning
and Forecasting at ArcBest

- Brad O'Bryan is the Director of Financial Planning & Forecasting for ArcBest Corporation. His responsibilities include the oversight of the consolidated forecasting process as well as various strategic financial projections and analyses for the executive leadership team at ArcBest and its subsidiaries.
- Brad began his career as a Systems Analyst with ArcBest's technology subsidiary and has held roles in Business Intelligence & Analytics and Yield Management before joining the ArcBest Corporate Accounting team in 2013.
- A graduate of the Sam M. Walton College of Business at the University of Arkansas, Brad has a BSBA degree, with majors in Accounting and Computer Information Systems, an MBA, also from the Walton College of Business, and is a CPA.

Learning objectives

Participants will –

1. Learn how Awesome FP&A departments use innovative techniques to deploy rolling forecasts in order to provide more effective support for management decision making and become valued business partners.
2. Examine key process and system pitfalls often encountered when implementing rolling forecast as well as see which best practices can be used to avoid them.

New & Improved

Do's and Don'ts of Driver-based Rolling Forecasts

Common Practices	Best Practices
1. Confusing forecasts with targets	1. Run-rate forecast projecting the most likely outcome
2. Relying on Excel spreadsheets	2. Prototype in Excel; deliver in purpose-built technology
3. Forecasting to the wall	3. Use consistent rolling forecast horizon
4. Using drift forecasts	4. Develop predictive logic diagrams to create actionable driver-based rolling forecast
5. Demanding forecast accuracy	5. Tracking reliability to eliminate bias and continuously learn from your results
6. Using the same horizon and frequency for all forecasts item	6. Forecast time horizons matched to business needs based variability and importance
7. Excessive detail	7. Focus on the “big rocks” (key items; driver-based)
8. Treating forecasting as a “special event”	8. Deploy a forecasting process that’s an on-going part of monitoring the business
9. Thinking rolling forecast alone can eliminate budgets	9. Separate the budget into specific purposes and improve each one
10. Paying any bonus related to hitting forecasts	10. Money taints the process. Only pay for actual performance relative to the environment.

Mistake #1: Confusing forecasts with targets

Forecast:

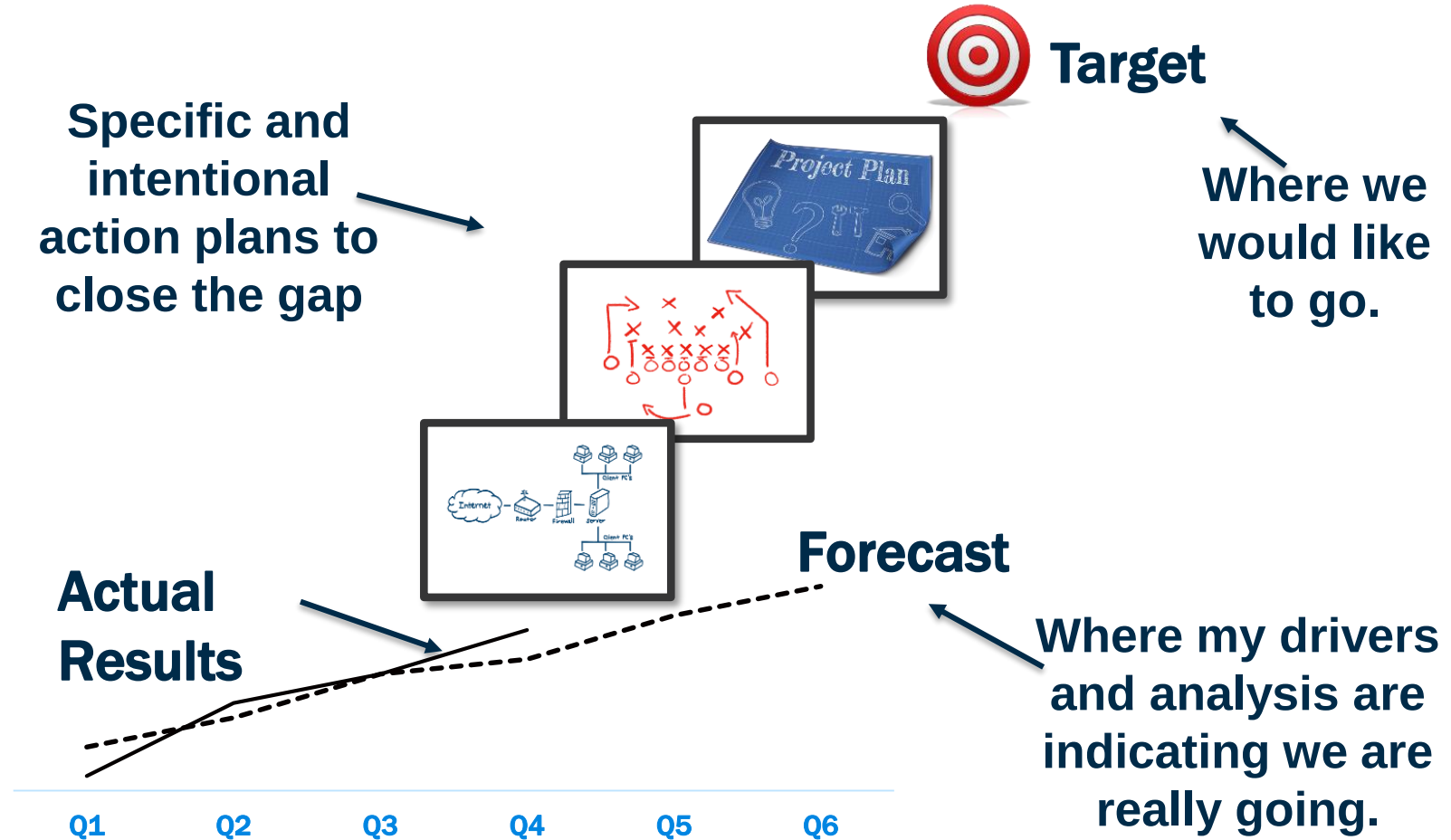
Where you
think you're
headed

Target:

Medium term
aspirational
goal



Forecast vs. Target



Mistake #2: Relying on Excel spreadsheets



Mistake #3:
FORECASTING
to the WALL



Mistake #4: Using a Drift Forecast

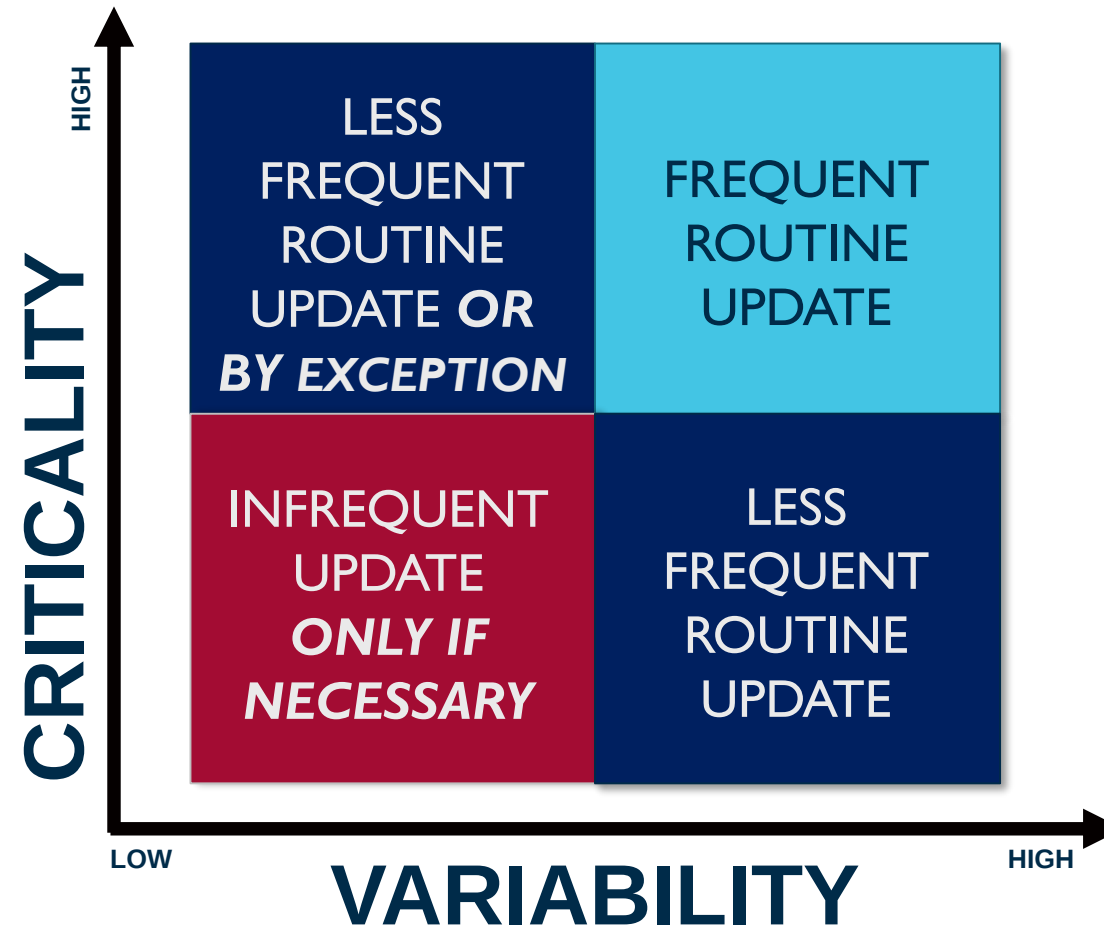


Mistake #5: Demanding forecast accuracy

Mistake #6: Using the same horizon and frequency for all forecasts item



Mistake #6: Using the same horizon and frequency for all forecasts item



The frequency at which we forecast is driven by the rate of change in key variables

Mistake #6: Using the same horizon and frequency for all forecasts item

	Economic Relevance	Variability	Speed of response	Update Frequency	Forecast Horizon	
Revenues	High	High	High	Daily	Quarter	
Labor Costs	High	Low	Medium	Twice monthly	Six months	
Fuel Costs	High	High	Medium	Weekly	Quarter	
Maintenance Spending	Medium	Medium	Medium	Twice monthly	Six months	
Advertising Spending	Medium	Medium	High	Monthly	Six months	
Aircraft Ownership Costs	Medium	Low	Low	Quarterly	Year	
Airport Rates and Charges	Medium	Medium	Low	Weekly	Six months	
Other Operating	Medium	Medium	Medium	Twice monthly	Quarter	

4351401	3965279	3533037	5159550	5762367	8112702	9029528	3299474	5559483	4756697	7824353	3419277	4471556	5988029	8232512	5741333	6872932	1330686	9746345	2229029	4582461	9190051	4010867	3131264	5618564
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8125290	9123893	1510205	2661961	4327010	5160588	75																		

**Mistake #8:
Treating
forecasting as
a “special
event”**



Mistake #9: Thinking rolling forecast alone can eliminate budgets

Step 1

Separate



Target & rewards



Planning & forecasting



Resource allocations



Measures & controls

Step 2

Improve

- Self-imposed
- Aspirational goals
- Aim to "be the best"

- Rolling views
- Continuous planning
- Rolling forecasts

- Fund activities
- SS draw-down
- Cost ratios/benchmarks

- Holistic
- KPIs and trends
- Relative improvement



**Mistake #10:
Paying any
bonus related to
hitting forecasts**

ArcBest

More Than Logistics

Financial Planning & Analysis

ArcBest – Case Study

WHO ARE WE?

**A LEADING
LOGISTICS
COMPANY**

With **creative
problem solvers**
who deliver
integrated
solutions.

We'll find a way to deliver:

Knowledge

Expertise

Options

A can-do attitude with
every shipment and supply
chain solution, household
move or vehicle repair



DEEP ROOTS AND BROAD REACH

\$2.8 BILLION

Revenue in 2017

13,000

Employees

1923

Founded



SOLUTIONS AND SERVICES



**LESS-THAN-
TRUCKLOAD**



TRUCKLOAD



**EXPEDITE &
TIME CRITICAL**



**INTERNATIONAL
AIR & OCEAN**



**SUPPLY CHAIN
OPTIMIZATION**



**MANAGED
TRANSPORTATION**



**FINAL
MILE**



**RETAIL
LOGISTICS**



**PRODUCT
LAUNCH**



**PREMIUM
LOGISTICS®**



WAREHOUSING



**TRADE SHOW
SHIPPING**

OUR VALUES



CREATIVITY

We create solutions

INTEGRITY

We do the right thing

COLLABORATION

We work together

GROWTH

We grow our people and our business

EXCELLENCE

We exceed expectations

WELLNESS

We embrace total health

ArcBest Case Study – FP&A

A new role as Director of FP&A at ArcBest

Day 1:

Congratulations!

Welcome to Planning & Forecasting 😊

Day 2:

Why are we doing this? 😞

ArcBest Case Study – FP&A

Background...

Long-standing Annual budgeting process

- Replaced with rolling forecasts

Rolling forecasts were too optimistic

- Rarely met, frequently lowered each quarter

Emphasis shifted to forecast accuracy

- Forecasting platform grew far too detailed and complex
- Frustration with the process ensued

“Prediction is very difficult, especially if it is about the future” Nils Bohr

The Don'ts of Driver-based Rolling Forecasts

Confusing forecasts with targets

“We can get there” bias

- Better economic environment coming
- All plan initiatives will deliver on target
- Competitive spirit of high achievers in leadership

“We must get there” bias

- Favorable forecasts required:
 - To cash flow desired capex budget
 - To justify departmental budget growth
 - To satisfy Executive Leadership

The Don'ts of Driver-based Rolling Forecasts

Demanding Forecast Accuracy...

- Explanations required for even small variances
- Prevalent misperception of micro-managing
- Over balanced to analysis of historical results versus forward-looking corrective actions
- Emphasis on accuracy led to push-back on FP&A efforts to simplify segment forecasts

“All models are wrong, some are useful” George Box

The Don'ts of Driver-based Rolling Forecasts

Excessive detail...

Workforce planning at individual employee level

Forecasting at the general ledger account level

4,000 GL accounts, each with its own detailed formula

Commonly added GL accounts to accommodate forecasting

Nearly 15,000 non-financial metrics linked to the model

Detailed forecast book created for each quarterly update

Frequency of rolling quarter schedule causing frustration

ArcBest Case Study – FP&A

and then, THE Question...

Why are we doing this?

The reason why we forecast is that we need to make informed decisions.

ArcBest

MORE THAN LOGISTICS

Planning – the process of defining a set of future actions with the aim of achieving an objective

“The biggest value of effective forecasting lies in its contribution to steering the business; to the day-to-day decision-making that lies at the very heart of business”

CFO Magazine survey: 70% of respondents said that they were unable to see more than one quarter ahead, but abandoning the prediction game is not an option.

ArcBest FP&A

FP&A Process Overhaul...

Primary goals

Align the FP&A process with Strategy

Implement a common forecasting platform

Enhance data visualization

ArcBest FP&A

FP&A Transformation...

- “Walled garden” approach to financial data
- Driver-based forecasting models
 - Axiom Software solution selected
- Annual Plan emphasis
 - Trend forecast + Strategic Initiatives = Plan
- Trend Forecast updated monthly/quarterly
- Forecast horizon extends to next full year
- Evergreen Long-term 5-year forecast



KaufmanHall
axiom software

ArcBest FP&A

Lessons Learned...

1. Executive buy-in is absolutely critical
2. Software selection process will require more time and energy than expected
3. Extensive in-house system and data prep required
4. Collaboration is a key to success – over communicate throughout the process

ArcBest FP&A

Three Cs of FP&A at ArcBest

1. Confidence

(in the process & models)

2. Compression

(development timeline condensed,
focus on the biggest difference-makers)

3. Collaboration

(aligned with Strategy, essential part of
managing the business)



Questions?

