Success Stories

Streamline Forecasting Process with Improved Financial Model

Challenge

A division of a pharmaceutical company faced a demanding schedule for its forecasting process. With projected P&L and balance sheets due on the eighth business day of each month, the business continually dealt with time pressures as it processed actual results, evaluated key demand trends and considered pricing and other decisions available to the management team.

The critical first step in the forecasting process focused on projecting sales volume and net pricing for the upcoming periods. Unfortunately, the Forecasting group relied on opaque, unwieldy models that did not directly reflect the key business drivers or the impact of management decisions. As a result, completion of the revenue forecast often entailed multiple review meetings with the senior management team over the course of several days. As a result, downstream forecasting activities such as calculation of projected incentive compensation payments for the sales staff and the projection of working capital needs often occurred near the deadline for submitting the forecasts.

Actions

The development of new revenue forecasting models helped ease the time constraints on the management team. Based on appropriate business drivers and highlighting management decision points, the revised models more closely mirrored the commercial performance of the product lines. A novel input format enabled rapid changes to model assumptions, which in turn simplified the comparison of options and the quantification of potential upsides and downsides to the approved forecasts.

To provide perspective on the projected trends and assumptions, dashboards for accessing historical data were developed. Based on data stored in Access and extracted using Excel pivot tables, the dashboards allowed the management team to view actual data from prior periods and compare these values with forecast parameters.

Results

The new models and dashboards streamlined the forecasting process and alleviated much of the time concerns. The Division President and CFO routinely reviewed, modified and approved revenue forecasts during one meeting. The entire management team clearly understood and approved the key forecast assumptions. The Finance group gained valuable time to finalize the complete P&L and balance sheet forecast and also reduced the time required to quantify risks and opportunities.

The improved revenue forecast models proved easy to transition. A newly hired employee, unfamiliar with the business and product lines, required only two days training to successfully understand the means of operating four forecast models and assume responsibility for their day-to-day operation.

Robert Thomson, PhD, MBA
Thomson Consulting LLC
E-Mail: rtthomson@optonline.net
Phone: 914-318-9464