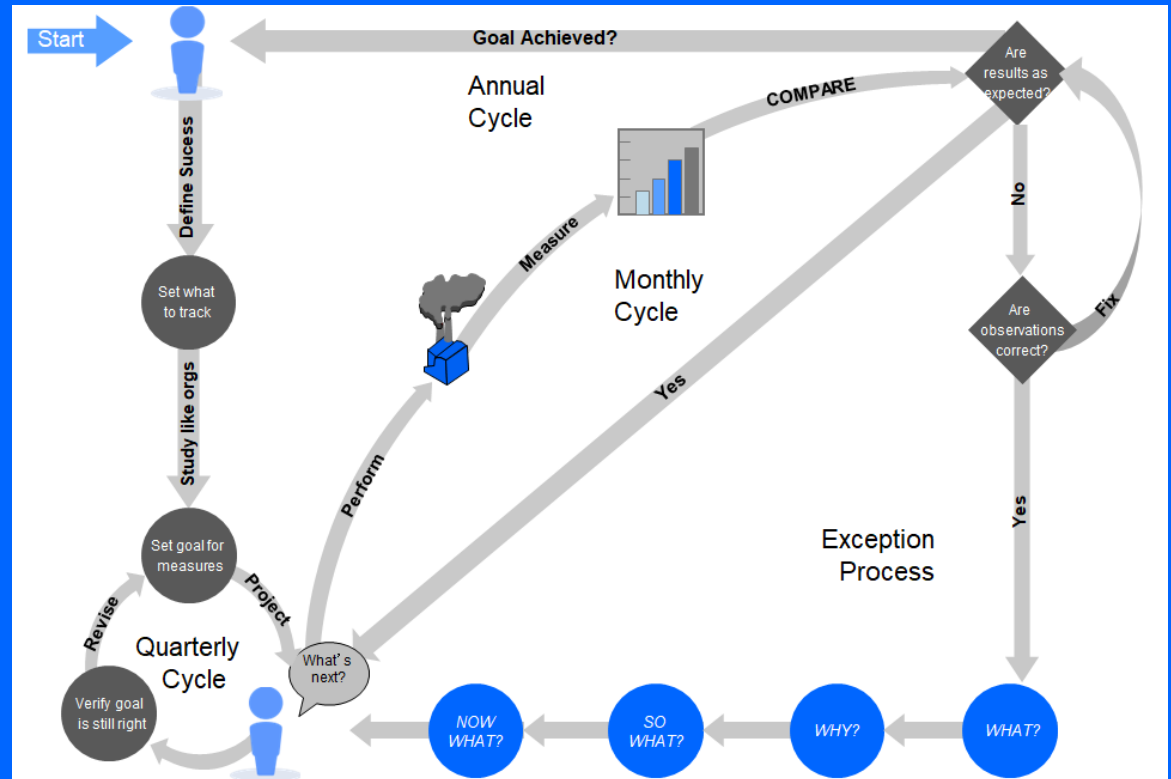# Monthly Projections

To be accountable a leader needs to convey:

- Where the organization has been.

- Where the organization was expected to be now.

- Where the organization is now.

- Where the organization aims to go in the long run.

- Where the organization is headed next.

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Many early-stage organizations find it hard to know how things are financially.

Case for Change

Time could be better spent;
Can't tell stakeholders how we are doing until after results are in;
Get financial surprises…usually bad ones.

Current State

Spend an inordinate amount of time figuring out financials after books close every quarter.

What must be done to achieve the Target State.

Target State

Know where things are going to end up well before they do so we can do something about it.

Barriers

Planning, reporting, and controlling reports are complex and take an enormous amount of time.

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When do you want to know how things are going at a given point in time?

BEFORE (BEST)	NOW (BETTER)	AFTER (BUST)
With time to do things to get where you WANT to be	Too late to do anything about it	Other matters have overtaken the agenda

Point In Time
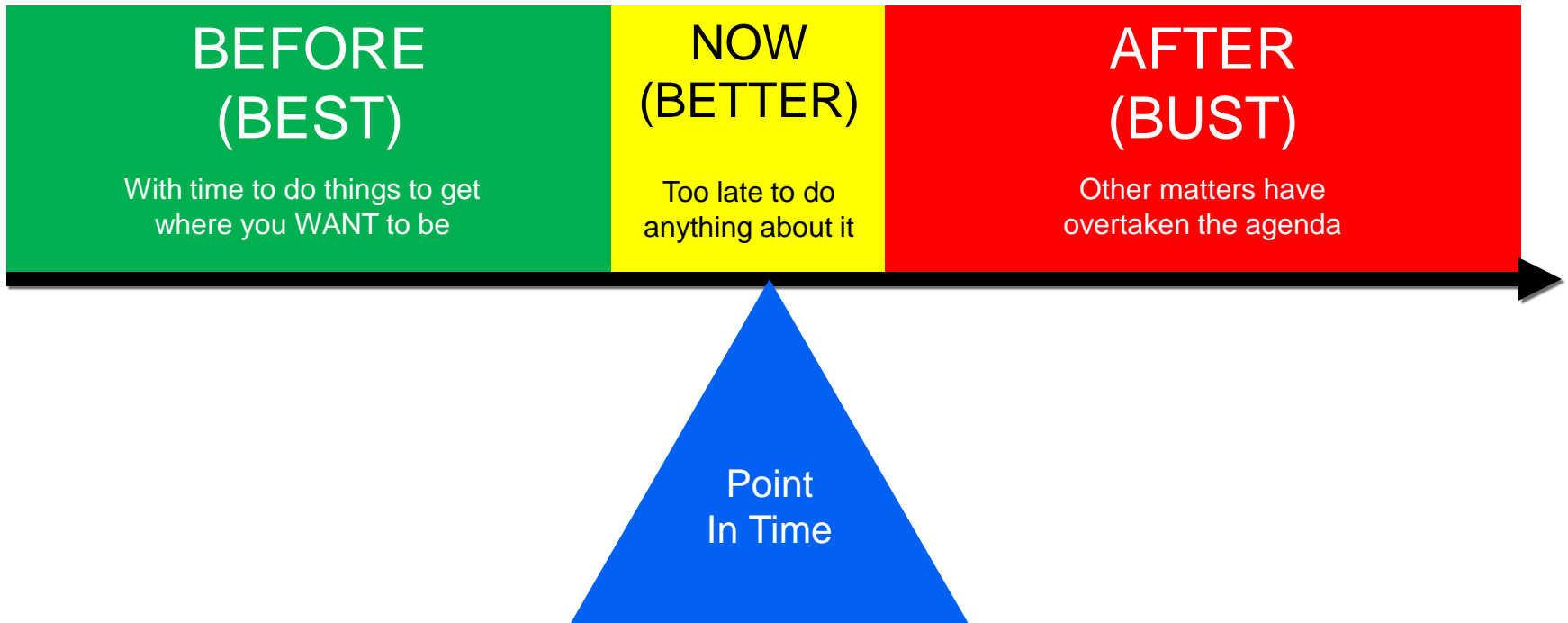
With growth in size and complexity, add just enough structure for maximum effectiveness.

HIGH

Your Co

X_2 Add just enough structure to maintain or increase effectiveness.

X_0

X_1

Effectiveness

IBM

Accenture

- Larger organizations need more structure.

- In small organizations each person does a lot of different things.

- With growth, people need to specialize and processes and systems are required to get things done well.

LOW

Systems & Process Maturity

HIGH

Dot.Com

Government Agency

Electric Utility

LOW

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5

Leaders learn to work more **on**, not just **in**, their business with growth in scale and complexity

- Majority of leader time is on **do**, **sell**, and **grow** activities.

- With success, growth, and complexity, swap time getting work done to **building and managing** *systems* **to get work done.**

Time spent **on** the business

Time spent *in* the business

IntelliVen
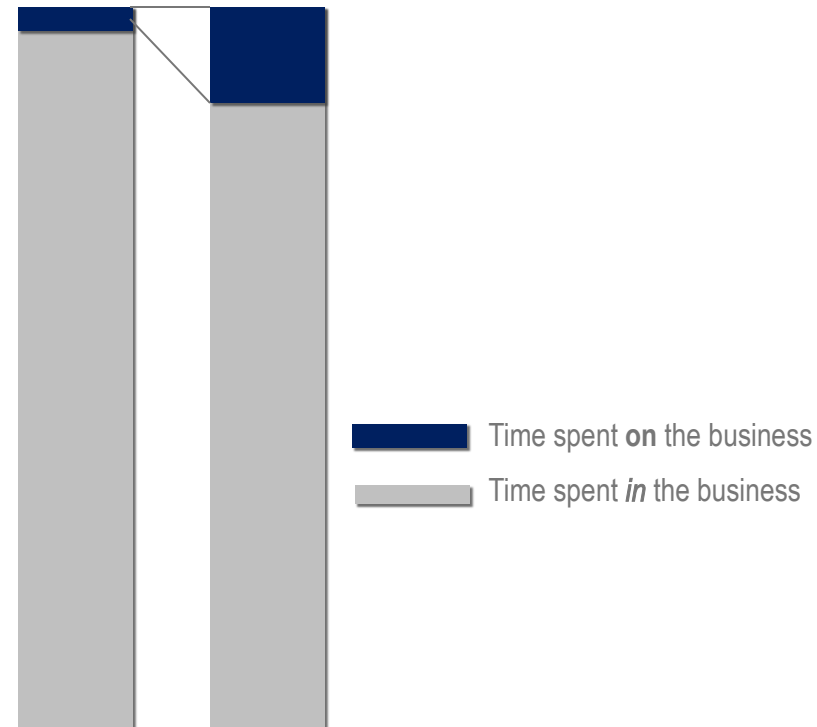
Implement Do & Review cycle.
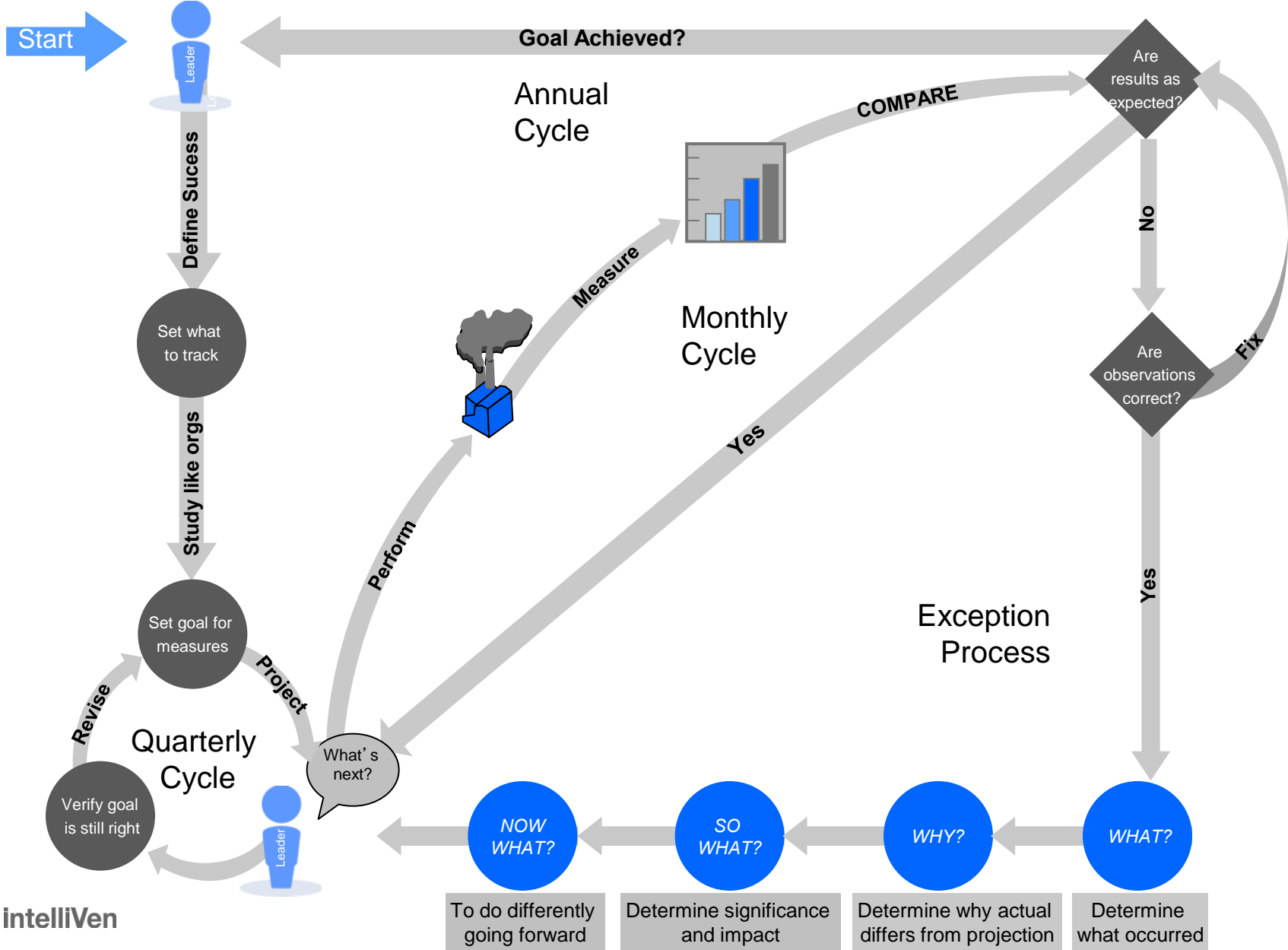
To be in control of operations requires a systematic and programmatic approach to always knowing where things sit.

TERM	DEFINITION	KEY COMPARISON
Target or Goal	How things would ideally be in the long term; i.e., what we ultimately seek to accomplish,	Similar organizations in the same industry
Plan or Budget	How things are supposed to be over a planning horizon (e.g., a year); i.e., what we are supposed to make happen next,	Target; prior period actual results; other players
Projection or Forecast	How things are expected to be in a near-term performance period; e.g., over the next 1 to 3 months; i.e., what we now realistically believe is going to happen next.	Plan; prior period actual results;
Actual	Actual results from a past period; i.e., what has actually already happened.	Past projections; other players; past results; forward projections
Working View	Sum of Actual and Projected results for a planning horizon; i.e., where we now think things will end up for this performance period.	Plan; other players

To prepare a revenue forecast:

- Think critically about each prospect to reach an informed judgment as to whether the projected revenue will happen in the period or that it won't.

- Compute a forecast that has a target % chance (say, 90%) of being no worse than a degree of tolerance (say, 10%) below the forecast.

- This takes more careful, critical, and rigorous thinking than most leaders are willing to invest but when they do, it pays off and they get better at it over time.

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Wrong Numbers

You stare in disbelief at the Q3 earnings report just handed to you by your trusty CFO (see next slide):

- How could actual results be 30% less than the projection you turned in just 13 days ago?
  - You notice right away that services and maintenance revenue and indirect costs are all about on projection but license fees are off by 15%.
  - You look at the data that backed-up your projection for license revenue that came from your VP of sales as you try to keep from seething.

- How could the license revenue projection have been so wrong? You reach for the phone to ring your VP of Sales when it hits you:
  - What happened?
  - Why did it happen?
  - What is learned because of what happened?
  - What should you and the Sales VP do?

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Wrong Numbers

	($000)			
	Projected	**Actual**	**Delta**	**% Delta**
Revenue				
Services	1,325	1,342	17	1%
License	2,837	**2,406**	(431)	-15%
Maintenance	683	682	(1)	0%
Total	4,845	4,430	(415)	-9%
Gross Margin	3,841	3,418	(423)	-11%
Indirect Costs	2,538	2,500	(38)	-1%
Net	1,303	**918**	(385)	**-30%**
Margin	26.9%	20.7%		

	Actual
License Fee Revenue	
FEMA	500
EPA	750
DOT	275
DC Housing	881
Total License Fees	**2406**

			License Revenue Tracker (000)		
	Prospect	**%Probability**	**License**	**Weighted**	
Highly Probable	Federal Emrgency Relief Program	95%	500	475	
	EPA Experimental roadways	95%	750	713	
	DOT Volpe Center (Boston)	95%	275	261	
	Total Targeted		1,525	1,449	
Targeted	DC Housing	75%	881	661	
	Transcom	75%	970	728	
	Total Targeted		1,851	1,388	
	Total		**3,376**	**2,837**	

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Wrong Numbers

- A Revenue Forecast asserts that a certain amount of revenue will be earned in a certain period of time with a certain probability that the actual result will be within a certain tolerance of the forecasted result.

- For example: management may forecast there is a 90% chance of actual revenue being more than 10% less than a certain amount.

- % probability of revenue from a source is assigned by management based on their judgment in the face of their collective past experience with similar situations and similar circumstances.

Click for more:
Revenue Forecasting

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Wrong Numbers

Some managers set forecasts as the expected value (sum of entries each multiplied by a probability of occurring).

There are three potential problems with this approach:

1. It allows **fractional results**. For example, $100,000 with a 50% probability of occurring would contribute $50,000 to the forecast even though the actual result will either be $0 or $100,000. Actual Results are more likely to binary because the sale either happens or it does not, so fractional results do not occur.

2. Probabilities assigned often reflect the probability revenue will ever occur but not for the period in which the revenue will occur. A good approach to forecasting sets the probability of **revenue in a specific period.**

3. Assigned probabilities often reflect **stage of progression through to a sale** not the probability of occurring. For example, a 75% probability assigned to prospects for which a proposal is submitted may indicate that the prospect is 75% of the way through the sale process but it may be that only 50% of submitted bids are won.