BY LARRY LAPIDE

My Year as a Corporate Cassandra

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Cassandra suffered from a special curse: She was the Greek prophetess that no one believed—sometimes to his or her detriment. The same can be true for demand forecasters and the sales and operations planning (S&OP) team when they are planning for, or living through, a downturn that no one else sees coming or believes is possible. As the steadfast harbingers of bad news, their mettle will be tested as pressures are brought to change their forecasts. In order to survive, it's important for them to remember that they are indeed partners in setting and helping a company meet its corporate financial objectives.*

The brunt of these pressures largely falls upon the demand forecasting organization because demand forecasts drive supply plans. When, like Cassandra, the forecast is for a significant downward change in business, sales and marketing personnel will deny it could happen; finance will panic about operating margins, and executives will have doubts. I know this because I experienced a tough year during my five-year tenure managing the forecasting organization for the field service division of a Fortune 500 computer manufacturer. While assuming the role of Corporate Cassandra was stressful, it was both my best and worst year in forecasting because it was an important developmental year.

This column gives an account of a period that began with the preliminary revenue forecast for the following year's budgeting process. I use it to discuss lessons learned should forecasters and their S&OP partners experience a similar year that could involve surviving an awkward, unsettling, and politicized environment.

The Best and Worst Forecasting Year

The period was my best because up to that time, my team had a pretty good track record in forecast accuracy. It wasn't difficult because of the nature of computer-service revenues, which are largely predicated on the installed base of contracts. Every year, more than 90 percent of existing contracts renew.**

However, new computer contracts represent a significant portion of revenue growth. Enter the part that made for the worst year. Historically, the division had double-digit percentage revenue growth, so this was the expectation that executives initially had in mind for the next year. Indeed, a slowdown in new computer sales in a year with a healthy double-digit service revenue growth was the harbinger of flat revenues on the horizon. Because service revenues don't typically change that much, our executives were skeptical of the forecasts—just the beginning of the struggles for our forecasting organization. Luckily, because we historically were transparent about the facts, figures, and assumptions incorporated in forecasts, our credibility never wavered throughout the budget process. But, our executives did need to be convinced.

To do so, we spent many weeks working with our finance group delving into greater detail than ever. Our final conclusion was grounded in recent increases in contract back-billing revenue. (A back bill is generated when a piece of contracted equipment retroactively gets put on to a service contract.) The installed revenue base was unchanged because of a slow-down in computer sales that year, yet revenue growth was 15 percent. The lion's share of that growth was attributed to back-bill revenue, and resulted from a field operations program conducted to make sure that contracts were billing accurately for the equipment that was being serviced. We forecasted that revenue growth would not replicate the following year because the program was complete and back-bill revenues had been written-off as some customers refused to pay the back-bills.

Once the executives were convinced that revenues would likely be flat the next year, the cost-side of the budgeting process began. In the past, our collaborations with a host of other managers were positive and they were our network of "friends." Unfortunately during the budgetary process, the number of friends in our network dwindled.

Once a flat revenue number was set, everyone recognized that next year's cost budget would shrink and that there would likely be no new hiring, few employees would get salary raises, and layoffs were a possibility. Previously, whenever we bumped into these friends, they would always ask: How are we doing in revenue? After giving them the same bad news a few times, they stopped asking. We had quickly become persona non grata; no one wants to hear from a harbinger of bad news. And company politics reached a new high as many employees tried to prove their worth in order to keep their jobs.

Early the next year, an SVP was brought in from outside to run the division. When briefed on the revenue picture he too was skeptical. The revenue forecast prevailed throughout the year because it turned out to be relatively accurate: Instead of flat growth, revenue actually shrunk by 1 percent—it may have been unsettling, but we were 99 percent accurate. During monthly meetings he was routinely disappointed by the fact that none of the fixes was changing the revenue picture. Despite the accuracy of our forecasts, the SVP harbored concerns about me, as was pointed out during my annual performance review. Eventually, as the year was almost over, I was vindicated. During an executive briefing, the SVP said: "Larry is the only person in the division who will tell me what he really believes."

Lessons Learned

The major forecasting lessons I learned during this stressful year are summarized below.

• **Do Opinion Free Forecasting.** Forecasts must be devoid of opinion—especially during a downturn. There is much wishful thinking from others brought into a forecasting process during tough times. Fight the urge to go along and base forecasts solely on the facts, figures, and assumptions used as input to your forecasting models. Position the forecast numbers as "innocent until proven guilty." The forecast is incorrect if it can be proved that some of the facts, figures, and assumptions are incorrect. If that turns out to be the case, then (and only then) updated forecast numbers should be generated using the correct data.

• **Provide an Estimate of Forecast Accuracy.** Because all forecasts are fraught with unavoidable errors, an estimate of error (such as a confidence range) should accompany forecasts. This is important so that planners can use the estimates to mitigate risks associated with the uncertainties. In addition, it might placate those naysayers whose forecast opinions are consistent with the uncertainties (such as when their opinions fall within the confidence range provided).

• **Be Professional.** Successful forecasting organizations are those that are the most credible—not necessarily the most accurate. A history of credibility can go a long way toward getting through the most difficult of times. This mostly comes from acting in a professional manner: Executives need to believe that no one inside or outside of the company could do a better forecasting job. Basically, the executive team needs to fully trust the organization and believe, such as the SVP finally believed about me, that the forecasting organization will tell executives even an ugly truth.

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• **Stay out of Politics.** A forecasting organization should always be viewed as unbiased, unemotional, and having no hidden agendas. Forecasters should always be viewed as "wearing their corporate hats" and not siding with one side or the other when it comes to forecasting. While some political people might appear to thrive for a short period of time, these people come and go depending upon which corporate regime is in place. Generally, a "trusted politician" is an oxymoron.

While I learned these lessons as a forecaster, they are also valuable for S&OP planners charged with developing accurate supply-demand plans. Additionally, because planners are partnered with the forecasting organization, they should not be throwing forecasters "under the bus" when the going gets rough. There was no S&OP team in place during my forecasting tenure. I wish there had been; a Corporate Cassandra needs people to lean on during a difficult year.

* In *Navigating a Course with Planning and Forecasting*, my Insights column from the May/June 2014 issue of *Supply Chain Management Review*, I advocated for having an unbiased and professionally run forecasting organization responsible for generating the demand forecasts used by the S&OP team, yet independent of it.

** See my May/June 2012 Insights column, *Installed-based Supply Planning*, to read about the method used to accurately forecast service revenues.