SKODA MINOTTI
CPAs, BUSINESS & FINANCIAL ADVISORS

Forecast – Windy With a Chance of Bad Data

Using Good Data Wisely to Benefit Your Manufacturing and Distribution Business

by Randal Slifer

In 1965, humankind had yet to walk on the surface of the moon, and Bob Dylan sang "You don't need a weatherman to know which way the wind blows." Of course, Mr. Dylan was referring to the social changes occurring in 1960s America, and these signs were starting to appear on the evening news broadcasts and in newspapers that were delivered by bicycle. In 2018, our smartphones have more computing power than the Apollo 11 spacecraft and our local television meteorologists can predict wind speed and direction on a town-by-town basis as a storm rolls in. In short, we have more access to data.

Data itself isn't new at this point, as we've witnessed the evolution from the earliest management information systems, through business intelligence, and are now in the age of "Big Data." What's changed is the sheer volume of data, as well as the speed at which it can be retrieved. Keep in mind, though, that bad data is just as voluminous and accessible as good data. Good information can only be derived from good data.

Sales Forecasting – Bad Data, Bad Information

To illustrate the aforementioned point, I recently helped a client improve their sales forecasting process. The client is a service provider and typically sells its offerings via annual contracts for bundled services. Prospective sales were valued and tracked via a Client Resource Management (CRM) software application, and this information was used by management to drive spending decision-making. However, management noticed that actual sales often fell short of forecast sales, resulting in higher relative spend when compared to actual sales. The root cause of the shortfall was that the CRM program was not updated to reflect changes in estimated revenues as contracts were modified during the contract period.

In essence, management was relying on bad data because the original forecast wasn't updated to reflect contract and revenue changes as they occurred. Skoda Minotti's Manufacturing and Distribution Group helped management identify the root cause of the forecasting issue; validate an updated factoring ratio to account for typical sales loss due to routine contract alterations; and implement new processes to review and update forecasts on a timely basis to improve the quality of the information.

More Data, More Metrics, Better Management?

Because we have access to more data than ever before, it may be tempting to develop new metrics with the intention of more closely managing aspects of a business. For example, it may be useful for a clothing retailer to understand if customers are returning a certain shirt due to color, fit or styling issues. In the example of my client above, a deeper dive into its sales trends revealed which of its service offerings had a higher rate of cancellation. As a result, we were able to identify what customer behaviors were driving those decisions.

The key to creating an effective metric is to fully consider all of the drivers that impact it. A well-designed metric takes all drivers into account and weighs the inputs appropriately to produce a meaningful and actionable output. I encourage you to test any newly designed metric against this criteria prior to adopting the metric in your organization. Maybe we don’t need a weatherman to know which way the wind blows, but we can understand much more than that if we analyze our data appropriately.

Performance metrics can be a powerful tool to assist you in monitoring the health of your business; yet, their usefulness can be impacted by the quality and integrity of the input data. For more information on how Skoda Minotti can help review your performance metrics, please contact Randal Slifer at 440-605-7236 or email Randal.