Business Forecasting and Analytics Forum  
September 19-20 • Chicago, IL  

Forecasting as a Financial Management Process  

September 20, 11:00am  

Jean-Paul Michel – LanzaTech  

- 16 years as Controller / CFO / CEO for Automotive companies in France, Belgium, UK, US, Mexico  
- 2012: CFO for Sylvania’s Parent Company (OSRAM, a SIEMENS company till 2013) APAC operations in Hong Kong  
- 2013: CFO for OSRAM’s Global Lamp business in Munich  
- 2014: OSRAM Group Head of Manufacturing and Business Unit COO  
- 2015: Executive VP for LanzaTech (Green Tech / Bio Tech start-up)  

View presentation online at:  
https://jpkgroupsummits.com/attendee5
Forecasting...

... WHY?
Quick bio

- French / US citizen
- BA / MBA in Accounting and Finance

- 30 years of professional experience
  - 15 years as Controller / CFO / CEO for Automotive companies in France, Belgium, UK, US, Mexico
  - 2002 - 2011: Financial executive and CFO for (OSRAM) Sylvania
  - 2012: CFO for OSRAM (SIEMENS company till 2013) APAC Region in Hong Kong
  - 2013: CFO for OSRAM’s Global Lamp business in Munich
  - 2014: OSRAM Group Head of Manufacturing and Business Unit COO
  - 2015: Executive VP for LanzaTech (Green Tech / Bio Tech start-up)
Most quotes address the issue clearly: *Forecasting is a “lost cause”*

- Prediction is very difficult, especially if it's about the future. (Nils Bohr)
- Forecasting is the art of saying what will happen, and then explaining why it didn’t.
- An unsophisticated forecaster uses statistics as a drunken man uses lamp-posts - for support rather than for illumination.
- ...

What is the relevance then?
How do we make forecasting ... “worthwhile”?

Let’s start with one important differentiation:

**MODELLING IS NOT FORECASTING**

MODELLING is extremely important, it can provides, in its sophistication, a fairly accurate mathematical representation of how changes in environment and operational performance may impact the KPIs.

Once modelling is complete, FORECASTING starts...
FORECASTING is meant to enable a CORE-MANAGEMENT PRINCIPLE

MAKE YOUR NUMBERS.
NO SURPRISE,
NO EXCUSE.

It is about CONTROL and CREDIBILITY
Since PREDICTING is not realistic...

- **FORECASTING** will NOT be about trying to predict the future, but about **SHAPING** it.

Modelling defines the range of possible futures

⇒ hence **NO SURPRISE**

Forecasting is about Management decisions

⇒ hence **NO EXCUSE**

vis-à-vis the company’s path forward.
Understanding how the forecast will be delivered is FUNDAMENTAL

- Forecasting is much more than putting together a set of KPIs and numbers.

- A forecast is instead a set of:
  - Objectives
  - Decisions made / to be made;
  - Actions to be taken;
  - Expected impacts and deliverables;
  - Assumptions / “validity range”.

It answers a “simple” question: what are we **DOING** about the future?
“The most reliable way to forecast the future is to understand the present.”

- In my experience, the (immense !) majority of the forecasting failures ...
  - DOES NOT RESULT from drastic unanticipated changes in the environment nor business conditions,
  - STEMS instead from assumptions or goals not supported by capabilities nor execution (or willingness thereof).

- So **Knowing your customers** and **Understanding your process capabilities** is essential to a REALISTIC forecast.
“The most reliable way to forecast the future is to understand the present.”

For instance:

- Is the customer acquisition lead-time consistent with the growth forecast?
- Are the planned productivities achievable given customer approval requirements or legal obligations?
- ...

Can we achieve **TIMELY** what we are forecasting?
“The most reliable way to forecast the future is to understand the present.”

- This does not mean that extrapolation works for everything!
  - DISRUPTIONS must be captured in the forecasting process.
  - Does your forecasting process leave enough room to engage your key-resources on IDENTIFYING these disruption factors? Or does forecasting correspond primarily to discussions about “Business as Usual” (i.e. maintenance, T&E etc.)?

⇒ Drive a VALUE ADDING FORECAST!
FORECASTING is about shaping the future and **COMMITTING** to it.

- A forecast provides a revised path to achieve the goals (Budget).
- It is also an INFORMATION and WARNING tool, but it does not “exorcise” from prior goals and obligations:
  - “I told you in my forecast that I would not be making Budget”
- **Avoid “gray zones”**
  - For example: no 50%-50% probability, either 90/10 or 70/30!
  - It forces more explanations so as to why and how the business is expected to develop!
FORECASTING means ANTICIPATION. It relies on RISK (*) identification

- Understanding the forecast implies understanding:
  - the key “Opportunities” (levers) for the deliverables;
  - the critical “Risks” (hurdles) that will prevent to achieve the objectives.

- Which allows to prepare:
  - EXECUTION plans for the Opportunities,
  - MITIGATION plans for the Risks.

(*) Risks & Opportunities
In such dynamic environments, how often should one forecast...?

- Obvious answer:
  - As often as required.
  - But no more.

- Conversely, how do we make this efficient? WHAT should we (re) forecast each time?

- FORECASTING carries a tremendous value by the management activity and focus it requires.
This is ultimately about PERFORMANCE CULTURE

- Ensuring that every employee understands
  - The objectives,
  - The actions,
  - The risks and the opportunities,
- ... and is *able as a result to make on the spot the right arbitrages*

Forecast delivery demonstrates Performance Culture by means of Control and “Dynamic Correction”
Do you know the Top 5 - 10 most critical actions in your forecast?

- Whether “defensive” (risk mitigation) or “offensive” (opportunity generation)!

- Do you track them regularly...?

If not:
“there are 2 types of forecasts: the wrong ones and the lucky ones.”
In summary:

- To be fully effective, FORECASTING must become a CULTURE;
- It is a focus on EXECUTION and RISK MANAGEMENT;
- It relies on the organization’s INTERNALIZATION of the connections between objectives, performance drivers and the environment;
- It demonstrates overall management capabilities:
  - Communication of the goals,
  - Training vis-à-vis the performance drivers,
  - Financial and operational transparency,
  - Open Enterprise Risk Management platform.
Ultimately, it is about control of the business:

- We are not a passenger of our forecast
- We are the DRIVER
with ONE RULE in mind:

MAKE YOUR NUMBERS.

NO EXCUSE,

NO SURPRISE

FORECAST can be wrong. ACTUALS (i.e. EXECUTION) as well...
Thank you for your attention.