The Predictive CFO

USING AI AND ECONOMIC LEADING INDICATORS TO FORESEE FUTURE PERFORMANCE

prevedere

AI and Economic Leading Indicators

The role of the Chief Finance Officer is evolving as fast as the world is changing.

The CFO that has access to external leading business drivers and visibility to performance risks ahead of the competition can act more quickly and effectively than the competition with this information. With predictive insights derived from external data, finance leaders can influence the entire company to seize market opportunities when tailwinds are expected or change course to avoid future headwinds.

A CFO with external predictive insights can better inform shareholders and board members and can assure them of bold strategic moves designed to benefit long-term profitability vs short-term gains. **The "Predictive CFO"** can evolve an enterprise to thrive amidst rapid advances in technology, economic volatility, and changing consumer behavior.

One of the most promising applications of artificial intelligence (AI) is to assist the CFO in determining the true drivers of business performance. By mimicking the methodology of economists, AI-based solutions can rapidly discover and monitor economic and consumer behavior leading indicators specific to their business or industry. Such a solution can provide the CFO with visibility of upcoming risks or opportunities, up to 18 month in the future, providing enough lead time for the company to take corrective action.

By combining AI and leading indicators, the Predictive CFO can radically transform the way their company makes strategic decisions in **three areas** discussed in this report:

1. **Predicting consumer demand and sales**
2. **Knowing when to enter or exit a market**
3. **Benchmarking growth against competitors**

The Predictive CFO

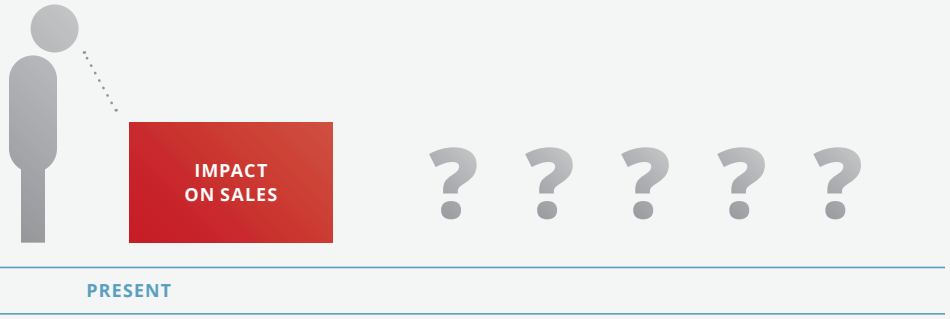
For CFOs of large enterprises, the idea of getting ahead of future risk is a daunting challenge. Many organizations are overwhelmed by vast quantities of their own internal and historical performance metrics.

Traditional analytics solutions are not designed to automatically identify internal and external drivers of business. Manual methods of doing so are time and resource intensive, yielding inconclusive results.

THE PREDICTIVE CFO

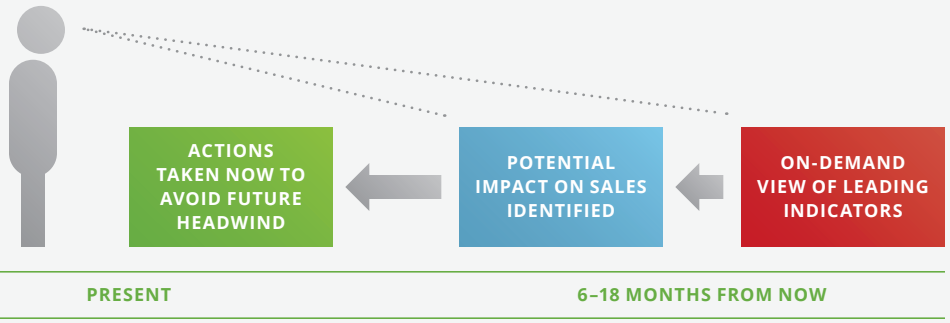
The Reactive CEO makes decisions immediately after missed performance targets or unexpected external challenges, such as changing demographics or competitive pressures. The Reactive CFO has visibility to performance metrics as they are happening. They strive to make the best decisions with limited information at hand. The concerns of shareholders and board members add to the "fire drill."

Daily reports focused on current and historical performance; experiences missed sales or revenue targets by unknown reasons. Last minute actions taken to hit targets.



The Predictive CFO, with the help of AI and economic leading indicators, can have far greater visibility to upcoming threats or opportunities. The Predictive CFO spends more time on strategic decisions and gaining consensus with business stakeholders, knowing they have enough lead time to get ahead of change.

On-demand visibility to global economic leading indicators, predictive financial models of future performance, and "what-if" scenarios. Decisions are made with months of lead time.



BENEFIT #1

Predicting Consumer Demand and Sales

There are few elements of business that are more important than accurately gauging demand, given the direct relationship it has on revenue.

While marketing, promotions, and price changes affect future sales, demand is also driven by numerous external factors. Wages, cost of fuel, sentiment, and online search trends can impact the consumer's willingness to buy. Companies who develop plans without the full demand story risk experiencing loss of revenue, missed sales targets, or lackluster promotion performance. According to the Institute of Business Forecasting, **the average annual category forecast is off between 17% and 25%**. For a retail or consumer goods company with $1B in sales, that overage can result in $5M to $6M of carrying costs for inventory on hand

▶▶ CASE STUDY

Leadership at RaceTrac Petroleum, Inc., an Atlanta-based owner and operator of over 300 convenience stores and gasoline stations in the U.S., desired to greatly improve their ability to predict category demand. Since shelf space at convenience stores are limited, the possibility out-of-stock or overstock situations can occur often. Previously, RaceTrac determined product demand largely on vendor speculation and subjective industry trend data.

RaceTrac now uses Prevedere's AI-based analytics solution to identify and monitor leading indicators for store traffic in each of their markets. They can better anticipate category demand by integrating internal sales information with external leading indicators, such as local construction job rates or population changes, to produce highly accurate predictive models.

> "Now that we have a clearer sense of what is likely or not likely to sell in a particular region at a certain time of the year. We're able to make better product choices and can adjust our pricing to generate more volume."
>
> — **BRAD GALLAND**, *Director of FP&A, RaceTrac*

BENEFIT #2

Knowing When to Enter or Exit a Market

However, investing in the wrong markets can consume capital that could be directed to a better geographic opportunity. Knowing when to enter or exit a market is one of the hallmarks of business success. It requires the CFO to know whether the customer population of a particular region is growing or shrinking, the employment opportunities for those population segments, and the economic factors that impact their ability to spend. The CFO also needs to know what is happening with supply and demand for various commodities to discern whether expanding into that market will maintain expected profit margins.

External leading indicators are available to provide forward-looking insights to specific regions in the US as well as entire countries. For example, the growth of newly issued housing permits in the U.S. can be as geographically specific as zip code, allowing companies to use home purchases as a leading indicator for the economic health of their specific territories. Country specific population growth and health can be found from sources such as the World Health Organization, OECD, or The World Bank.

According to *Harvard Business Review*, organizations that utilize leading indicators in their planning processes achieved **2.95% higher Return on Assets (ROA) and more than 5% higher Return on Equity (ROE)**.*

▶▶ CASE STUDY

A leading beverage manufacturer wanted to determine the growth opportunity for their products in China. By using leading indicators discovered by Prevedere's solution, leadership was able to utilize information such as privately-collected survey data and anonymized spending information to improve growth forecasts in this country. They calculated for every 3% improvement in forecast accuracy, over $9M was added to the bottom line annually. Using Prevedere, this company was able to achieve 18% improvement in forecast accuracy.

* *Harvard Business Review*, Coming Up Short on Non-financial Performance Measurement, November 2003

BENEFIT #3

Benchmarking Performance With the Competition

"Are we growing market share?" "Did last quarter's flat performance indicate a problem with the company while the rest of the market grew?" "Did the market shrink and the company was outperforming competition?" These are common questions asked by shareholders and board members to the CFO. Companies face enough challenges in determining the future of their own company, let alone how their performance compares to others.

By using AI and economic leading indicators, it is possible to understand the unique drivers of competition and benchmark future market share changes. Every company has a unique set of leading indicators that influence performance that are usually determined by geographic reach, target demographics, or price point. Some industries, such as CPG and retail have the advantage of accessing sales information of the category or segment through syndicated data providers like Nielsen. Automotive companies can get detailed information from individual competitors through new vehicle registration data. Using historical information from competitors or syndicated data, it is possible to benchmark performance with economic leading indicators.

▶▶ CASE STUDY

A global luxury automotive company was losing market share in the biggest region in the northeast. Leadership thought this market's demographic comprised mostly of wealthy empty-nesters. As a result, the majority of vehicles produced and sold to dealers in this region comprised of their expensive flagship model. Using Prevedere, they learned that consumer sentiment of the 18+ demographic and college graduation rates were stronger leading indicators of sales than competitor brands. Armed with this insight, they were able to start the process of shifting their product distribution and advertising to promote their entry-level models.

The CFO estimated that they were able to improve their marketing ROI by as much as 14% in some markets by understanding their competitive advantage.

ABOUT PREVEDERE

Prevedere is an industry insights and predictive analytics software company, helping business leaders make better decisions by providing a real-time view of their company's future. While most companies can easily report on internal performance, Prevedere's external real-time insights engine constantly monitors the world's activity, identifying future threats or opportunities to business performance. Along with a team of industry experts, data scientists and economists, Prevedere helps business leaders make the right decisions in an ever-changing world To learn more, visit **www.prevedere.com** and follow **@Prevedere** on Twitter.

To learn how Prevedere can help provide executive-level strategic insights, please contact **888.686.7746** or **inquires@prevedere.com**.

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