



IDEA BRIDGE

FINNANCIAL FORECASTING FOR INNOVATION

Accurately projecting revenue for corporate startups

THE CONTEXT

This European boutique innovation consultancy has been helping large, multinational corporations validate their innovative ideas for the last 5+ years. One of their financial services clients was struggling to predict revenue for a new service offering idea using their traditional business case tools. That's when our innovation consultancy partner reached out to us for help.

THE CHALLENGE

The innovation team and their investment stakeholders at this financial services client were not confident in the ability of their traditional forecasting tools to accurately forecast the revenue of highly uncertain ideas. Their current approach suffered from:

- Too much detail. This created the illusion of accuracy and multiple sources of estimation error.
- Low maintainability. The more data points in a forecast, the more work it is to maintain them.
- No visualization of uncertainty. Because there was no indication of the forecast's uncertainty, the reader had to assume the forecast was 100% accurate.

"We had struggled to provide our clients with a solution to the problem of forecasting under conditions of extreme uncertainty. Our partnership with Idea Bridge allows us to leverage their probabilistic financial forecasting capabilities to provide accurate projections for our clients."

DAN

Founder, OUTCOME

THE APPROACH

These challenges made it clear that a more modern approach that communicated the true uncertainty of the forecast was required. With probabilistic financial forecasting as a core competency, our approach saw us:

- Facilitate a workshop to create a model for the innovative idea's profit and loss (P&L).
- Calibrate participants to accurately estimate uncertain elements of the revenue model in ranges.
- Create a graphical depiction of the idea's true ranges of P&L at a snapshot in time in the future..

THE RESULTS

The new probabilistic financial forecasting approach allowed the innovation team to:

- Create more accuracy in their financial forecast by estimating uncertain variables in ranges rather than estimating those variables in each time period far into the future.
- Immediately see the financial impact of experimenting with the business model and its variables instead of having to wait for the finance department to construct a new spreadsheet model.
- Quickly identify the biggest financial risks and focus efforts on validating those risks first.
- Better communicate the financial outcomes of a new, uncertain business model to upper management.