Forecasting

Business & Management

Building a forecast that can be argued with, rather than one that is asserted.

The structure of a defensible financial model.

1. **Separate inputs from calculations**
   Every assumption on one clearly marked sheet.
2. **Build revenue bottom-up**
   Units × price, or customers × ARPU. Not a growth percentage.
3. **Split fixed from variable costs**
   So the model responds to volume properly.
4. **Model working capital**
   Receivables, payables and inventory as days.
5. **Sensitise the key drivers**
   Which two assumptions move the answer most?

RED FLAGS

Hard-coded numbers inside formulas
Hockey-stick growth with no mechanism
Costs growing more slowly than revenue forever
No downside case

> Every model is wrong. A useful one makes it obvious which assumption to argue about.