Special Report For:

Business Owner
Managers
Office Manager

Looking Ahead Series

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Looking Ahead – Use of Scenarios

As mentioned in the previous article it is sometimes difficult to forecast out sales. So to explore this further we will be using various scenarios to see the effect. We will set up three different scenarios, the worst case, most likely case and the best case.

The basic version of Multi-SWAC does not include the more advanced feature of scenarios. To access this feature we need either Multi-SWAC Standard or Multi-SWAC Advanced. We will use Multi-SWAC Standard for this article.

We need to open up Multi-SWAC Standard and the file saved from created in the previous articles. Multi-SWAC Standard will open Multi-SWAC Basic files, you will just need to change the open file filter to show all files. Once opened you should get the following:

Note now that there are more tabs, Scenario 1, Company 1 and Graphs. We will concentrate on Scenarios.

Assuming that the current data is the most likely case, we will rename the Scenario tab to give the tab a more appropriate name. Right click on the Scenario tab and choose Edit Scenario. The Edit Scenario window will open as below. Change the Scenario Name to Most Likely and the select OK. Do not worry about Weighting at this stage.
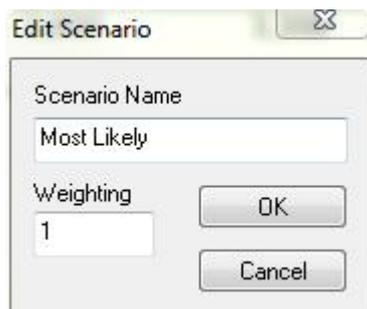
You should now have the following:
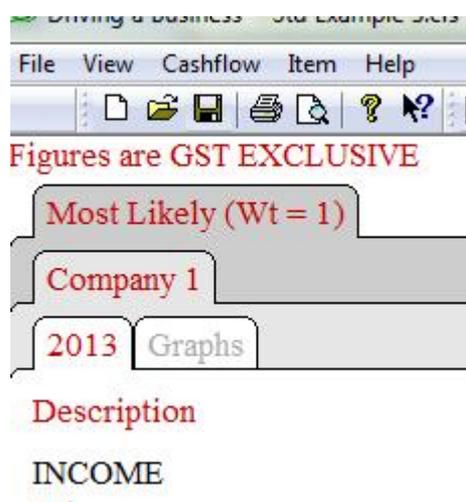
We now want to set up another scenario called Worst. Once again right click on the Scenario tab but select Add Scenario, select the Most Likely from the Copy From drop down list (this will copy all the data from the Most Likely into the new scenario) and name the scenario Worst.

Now have:
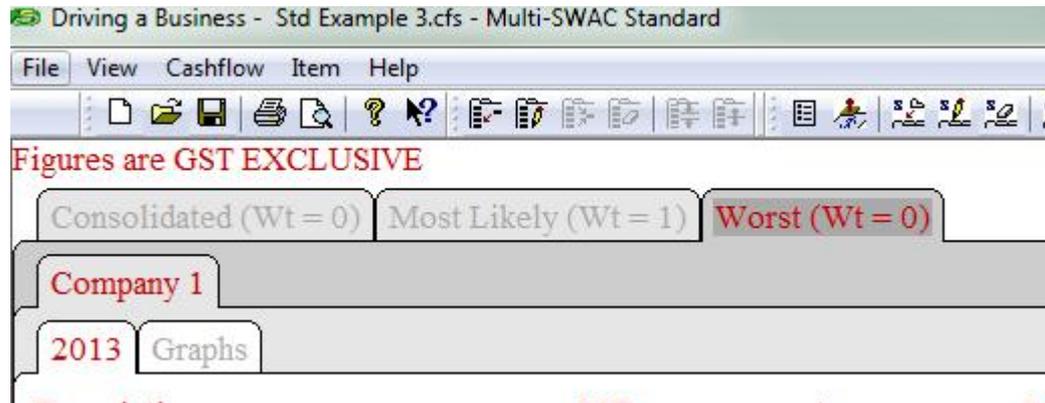
It has inserted the Worst scenario at the right hand end and a Consolidated scenario at the left hand end. I like to have the Worst before the Most Likely so place the mouse over the Worst scenario tab, hold down the left mouse button and drag to the position you want then release. We now have:
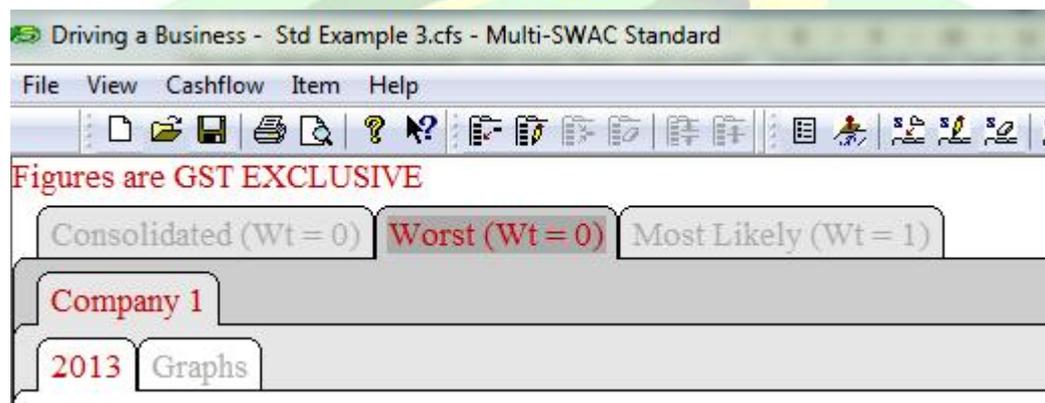
At this stage the Worst and Most Likely are the same. We will now alter the expected sales in the Worst scenario. You will notice that the data that has been selected is shown by the tabs being highlighted in red. Edit the sales figures to reflect the Worst sales expectations as below:

Description	GST	Apr	May	Jun	Jul
INCOME					
Sales	S	4,000	5,000	5,000	5,500
Total Income		4,000	5,000	5,000	5,500
DIRECT COSTS					
Purchases	S	2,400	3,000	3,000	3,300
Total Direct Costs		2,400	3,000	3,000	3,300
GROSS SURPLUS		1,600	2,000	2,000	2,200

Notice how Purchases have adjusted automatically as we had previously set it up as a percentage of Sales.

Next add the Best scenario as before copying from the Most Likely scenario. Once again edit the Sales. We now have:

Figures are GST EXCLUSIVE

| Consolidated (Wt = 0) | Worst (Wt = 0) | Most Likely (Wt = 1) | Best (Wt = 0) |

Company 1

2013 | Graphs

Description	GST	Apr	May	Jun	Jul	Aug
INCOME						
Sales	S	6,000	8,000	10,000	12,000	12,000
Total Income		6,000	8,000	10,000	12,000	12,000

To see the cash effect for each scenario look at the change in the bank account balance. Bear in mind that all we have changed is our sales expectations. Using the figures in this example the balance in the bank account for July in the Worst scenario is $4,414, Most Likely $5,674 and Best $11,704. This is quite a difference which can tell you a lot about the effect of sales in your company.

We now come to the scenario tab that we have ignored so far, the Consolidated tab. This tab is a combination of all the scenarios, in our case the Worst, Most Likely and Best. The Consolidated is a combination of all the scenarios based upon the weighting factor provided to each scenario. The weighting factor is the chance that you believe a scenario has of occurring. On each tab after the name is shown the weighting factor as (Wt = x), where x is the chance of it occurring. To edit the weighting factor right click and edit the scenario. It is only a matter of overwriting the Weighting shown in the Edit Scenario window.

Adjusting the weighting factors to Worst - 2, Most Likely - 4 and Best – 3. When you look at the Consolidated forecast you now have the following sales:

Figures are GST EXCLUSIVE

| Consolidated (Wt = 0) | Worst (Wt = 2) | Most Likely (Wt = 4) | Best (Wt = 3) |

Company 1

2013 | Graphs

Description	Apr	May	Jun	Jul
INCOME				
Sales	5,111	6,444	7,111	7,667
Total Income	5,111	6,444	7,111	7,667

These figures are the weighted average of all the scenarios and as such provide a better estimate of likely sales. It is not just one guess but a combination of various guesses.

The next article we will look at multiple cost centres and companies.