Good morning, everybody, Dennis Engelbrecht, Family Business Institute, Digging Deeper today.

So, as I've been out with some clients lately, I've seen some folks sort of misuse the concepts of goals and forecasts. So, I really wanted to talk today about the difference between goals and forecasts and try not to let them get confused in your organization.

So first of all, let's talk about goals. Goals are aspirational sort of mile posts in the future, things that you're striving to achieve. Where I think some folks get confused is they want goals to be too detailed, too specific, but really, they're not meant to be. They're meant to be aspirational. They're meant to stretch you to someplace you aren't today. It's more establishing a trajectory than the specific result when you get there. Goals are meant to bring motivation and maybe purpose to your daily efforts, because you never achieve a goal in one big leap. It takes daily effort to get there. So, goals are meant to be out there to help you create that motivation and purpose, and again, kind of stay on that trajectory.

Goals are also measuring sticks for when you do get to that point in the future, you can look back and say, "Did I accomplish something? And if not, why not?" And if so, celebrate, and maybe you set the next goals going forward. So, it's a good way to evaluate efforts in performance. Goals are not intended to be precise or accurate. I'm in pursuit now, as I've sort of reached my retirement phase, to win a national championship in my age group in tennis next year, but that's pretty specific, but it's really not about that. It's about me being the best tennis player I can be. And if I make a couple of finals, or I make a national team, or I get ranked a certain place, I'll definitely view that as a success. But my message here is goals don't have to be specific. They don't have to be precise or accurate. They're not intended to be precise or accurate. Goals also should be worthy. There should be some value in the achievement or the process of getting there.

Now, let's talk about forecasts. Forecasts are very important in construction, but they're different. Forecasts should be your best guess as to what will happen in the future, based on all the knowledge, data, and facts that you have at your disposal. These, unlike goals, you want to be precise and accurate. Now having said that, they don't need to be to the penny or anything like that. That's not what's important when I talk about precision and accuracy. But if you're doing a manpower forecast, you want it to be as accurate as possible, so you don't have to end up moving folks around at the last minute, or last-minute hiring, or anything like that.

If you're doing a cash flow forecast, the objective is to know what your cash flow needs are going to be at a certain point in the future, so that you can make decisions today to be there. If you're forecasting your revenue out into the future, so you know whether or not you need to grow your organization, or shrink your organization, or stay the same. You want that to be as accurate as possible.

Now, the further you go out with a forecast, obviously the less accurate it's going to be, but it is still about accuracy. Think about what you do on a monthly basis, most of you have a cost to complete forecast for each of your jobs. You really want that to be as accurate as possible. You don't want your folks out there just bringing you something hopeful month after month after month. And then, you get to the end of the project, and you find out you're going to run three months late and you're going to fall $400,000 short of budget. You want an accurate forecast. Now, you might take a conservative approach to showing those to outsiders or recognizing it as income or whatever, but you want to know precisely the best guess of where that job's going to finish, schedule wise, dollar wise, et cetera. And that's the whole idea of forecast.

Forecasts are used to make decisions on resources, manpower, and capital. For that reason, you want as much accuracy as possible. They're used to inform no go decisions, as to what work you might pursue. They're used to develop bid strategies, "Do we need work at this point in the future? Do we have the manpower to handle work at this point in the future?" At which point, you might bid it higher, or you might bid it lower, depending on what the answers to those questions are, which come from your forecast. Again, if you have good forecast, you can have solid bid strategy.

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So that forecast, you want to get all the data you can to make that as accurate as you can. And a good back office financial processing in your company allows you to make good forecasts going forward. So, you have good information with which to do that.

If you are forecasting further than the actual facts can tell you, there are ways to forecast into the future using historical data. For example, as a company, you might be doing $100 million, and let's just say you come into the year with $70 million of work that you expect to complete during the course of that year. Well, if year after year, you have landed an additional $30 million of work that takes place during that current year and you've done that each year, well, then you can reliably forecast that you're going to do that $100 million dollars this year. But if you look back and you've only done $10 million of work you've generated that year and done it in that year, well, then it's more likely that you're going to do $80 million at the end of the year.

So, the same thing, you may have a pipeline of work out there and you don't know exactly when something's going to fall or how much of it's going to fall. But typically, if you've been able to convert 25% of your pipeline to work within the next year, well, you have a historical information with which to, again, form that forecast. Again, if you go too far out into the future, then the forecasting really becomes meaningless and useless to you. So, you have to make judgments, again.

Forecasts should be foreseeable to a certain extent, but there's a tremendous amount of value in those. And again, if there's not a clear purpose for that forecast, don't forecast. If you have no need or use for a cash flow forecast, why are you doing the cash flow forecast? I think you should have a cash flow forecast, but maybe you haven't figured out what the clear need is as yet. But anyway, there should be a clear purpose for any forecasting that you're doing.

And kind of as you forecast the goals, if the idea of the forecast is to be accurate or your best guess, your objective, once you have that forecast should be to exceed it, to do better than forecast. Now, that comes back to the goals. So forecast is intended to be accurate. You may have a goal to do better than the forecast. So again, come back to your job cost projections, your cost to complete, or your schedule forecast, all of those things. You want the best guess, but then you want your folks to go out there and try to better it.

So, think about your forecast and your goals differently. The forecast is that best guess, the goal is to do better than that best guess in all cases. And I've seen out there where there's confusion, particularly in areas of job forecast and things like that. People are doing forecasts as if it's a goal, it's a pie in the sky, and then they don't achieve the forecast, and you've made bad decisions along the way based on a faulty forecast. So, make sure your forecasts are accurate and your goals are aspirational and don't let precision get in the way of setting some good worthy goals.

Again, Dennis Engelbrecht, Digging Deeper.

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