IMPACT ANALYTICS

CASE STUDY

Revenue forecasting

CLIENT SITUATION

In 2016, a leading US-headquartered regional bank contracted Impact Analytics (IA) to forecast and augment revenues from 'loans and leases', assets that made for nearly 85% of their USD 20 Bn balance sheet

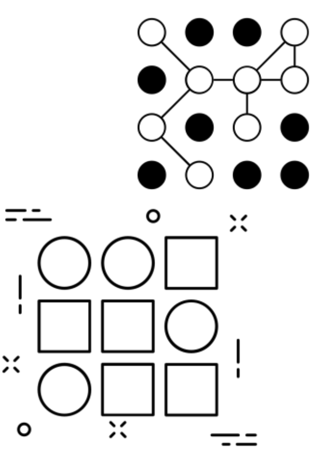
- Last financial year, the bank experienced **an 8% spurt in expenses,** approximating USD 30 Mn
  - The increase was primarily because of an increase in staff levels to support the growth of the auto finance division and the development of a risk-management practice
- A growth in leasing and equipment finance income, resulting in operating lease depreciation, added to their woes
- Staff reorganization became inevitable

A key objective of the engagement, therefore, was to optimize operational costs of the bank by studying sales trends and market conditions

THE SOLUTION

IA Team's solution started with a review of the revenue potential of targeted staff and ended with providing a predictive framework for a re-allocation

IA adopted market indicators accurately forecasting revenues by geography, products and customer segments → Developed a framework via interactions with relevant client teams → Identification of key customer demographics and macroeconomic factors with feasible sector specificity followed



- A modelling tournament, leveraging a mix of 15-20 models built at the granular level with high precision, was instituted
- Each model in the mix smoothened data and weighed past data in a different way
- As a result, only a specific model in the mix would work best for forecasting a specific revenue pattern of a specific product for a specific geo/customer segment
- Furthermore, for each granularity, forecasts from all the models were evaluated against actual revenue for a recent validation period
- Finally, the most accurate model was chosen for forecasting

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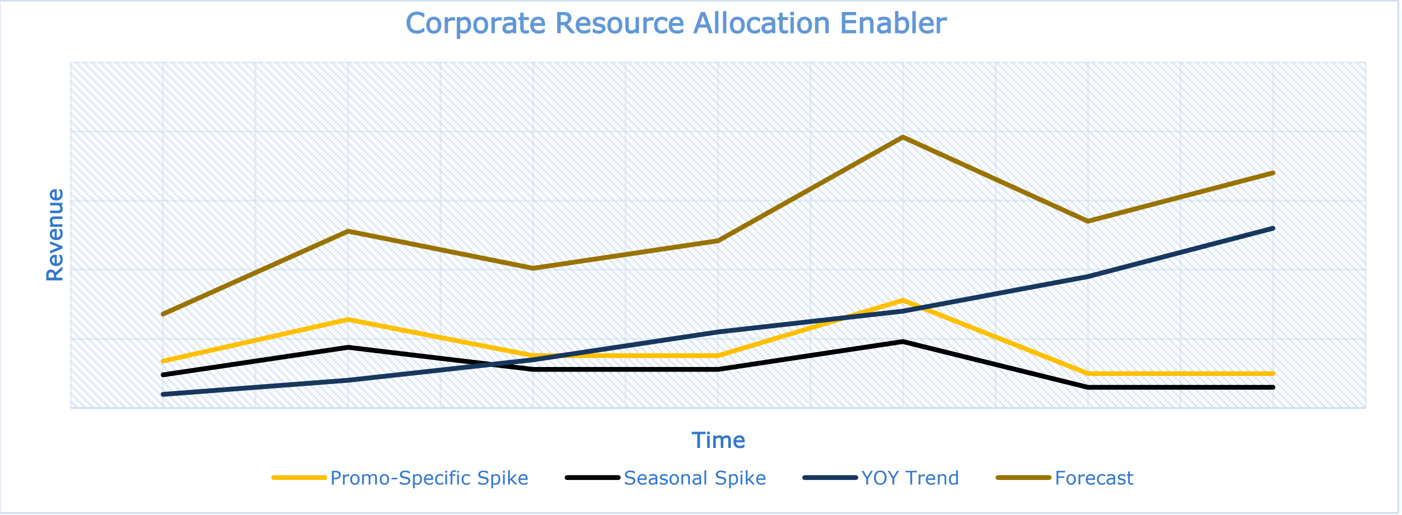

ALGORITHM

- Splitting Sales into the hidden component viz. Promotion-specific spike, Year-over-Year trend, Seasonal spikes at specific time-of-year and a Random piece
- Smoothening each component for easier prediction without losing the original patterns
- Weighing the recent data most
- Determining how far back in time to go to learn the patterns
- Learning the patterns and forecasting

IA closed the engagement by developing a web application for the bank's decision makers. It became an important financial analytics tool. The predictive models found their worth with the management in that they could project revenues for the next quarter at various granularities, enable scenario analysis and lead to successful optimization of operations. The forecasting framework was accorded reasonable portability across multiple domains and businesses.

OPERATIONAL EXPENSE DOWN BY 17%

- By the end of the engagement period, operational expenses at the client bank were brought down 17 percent to reach USD 25 Million
- IA Team had not just solved the business' then-current problems but had also equipped the management for smarter human capital modeling for the future

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