



## **Risk & Opportunity Analysis Model**

---

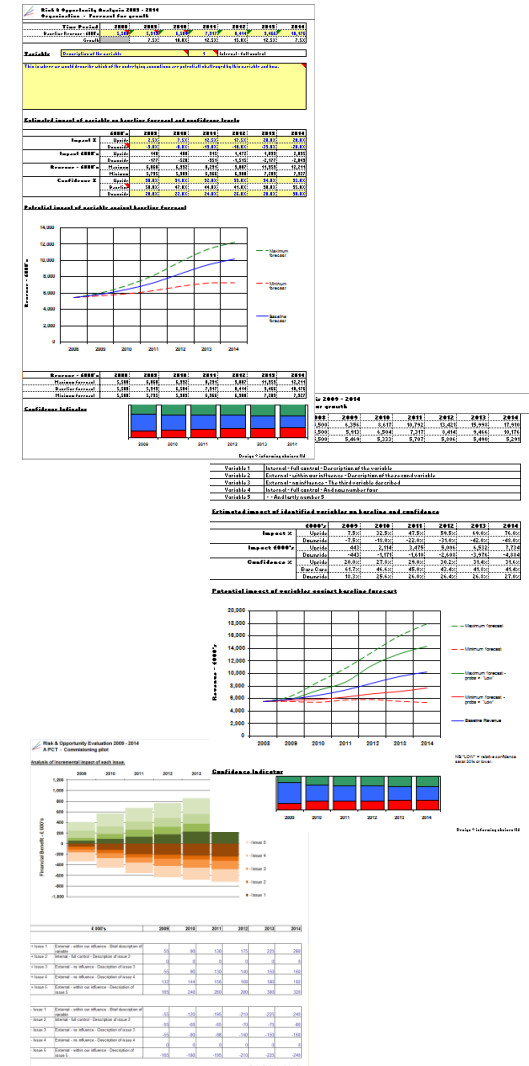
**An intuitive approach to assess the potential financial impact of risks and opportunities, to support informed decision making.**

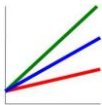
## Background

- Traditional risk analysis often encourages a focus on risks at the cost of identifying and exploring potential upsides. Approaches to risk analysis such as Monte Carlo analysis can be very complex and the outputs can be confusing.
- This **Risk and Opportunity Analysis Model** was originally developed to help product marketers consider the implicit risk and opportunity within long-range product forecasts. At the portfolio level, the product results could be consolidated to provide a “risk and opportunity profile” across a business’s product portfolio.

## Solution

- This model is Excel based, intuitive to use and quickly produces outputs in tabular and chart form that are easy to use and understand. It helps the user to explore the forecast envelope through an evaluation of the potential impact of variables affecting the baseline forecast across a five year time horizon, as well as helping to test forecast confidence. The model can be used for revenue, expense, profit / income scenarios.
- A limited amount of information is required to set the model up. You will then be asked to consider up to five potential variables that could impact the baseline forecast. For each variable identified, the model requires a description of the drivers for the potential variable, an assessment of the potential financial impact – upside, downside or both - of each variable and an assessment of your confidence about the baseline forecast against the variable identified.
- The model then consolidates your data inputs and values the overall forecast envelope and your confidence about the forecast and variables. The next part is up to you; because the model will not provide answers, but it will provide a basis for conversations and discussions that help you make informed choices about your plans or initiatives.
- The following slides are your guide on the use of the **Risk and Opportunity Analysis Model**.





# Guide – Set-up – Confidence Levels – Entering Issues – Review and Analysis

## Getting Started

Once you have opened the Excel Workbook, you will be presented with the *Header Info* sheet. This is where the standard information is entered for population across the rest of the model. A data entry cell is identified by having a yellow background and any entered text in blue.

### You are asked to enter the following information:

- The name of your organisation.
- A brief description of the business issue you are exploring.
- The range of time periods to be considered.
- The currency and unit you intend to use; e.g. £000's.
- The metric you want to evaluate; e.g. Revenues, Income.
- Whether you are evaluating Revenues. (This triggers a calculation setting the total impact of revenue downsides on the forecast at a minimum of zero.)

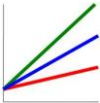
### Other information

This sheet also includes a reminder about confidence levels and a brief process overview.

### Spreadsheet integrity

Spreadsheet protection is set to maintain the integrity of the calculations and formats. However, a password has not been set so if re-formatting is required simply turn protection off. Caution is advised when making any changes, and we accept no responsibility on the integrity of calculations or existing formatting once changes have been made.

Risk & Opportunity Analysis 2009 - 2014		<a href="http://www.informingchoices.com">www.informingchoices.com</a>
Enter organisation name:	<b>Organisation</b>	Maximum 45 characters
Enter brief description of business issue:	<b>Forecast for growth</b>	Maximum 45 characters
Enter last time period:	<b>2008</b>	The model is formatted for one historical period, one current time period and five forecast periods. These can be years, quarters or months; e.g. 2007, Qtr 3 09.
Enter current time period:	<b>2009</b>	
Enter forecast time period:	<b>2010</b>	
Enter forecast time period:	<b>2011</b>	
Enter forecast time period:	<b>2012</b>	
Enter forecast time period:	<b>2013</b>	
Enter forecast time period:	<b>2014</b>	
Enter currency unit:	<b>£000's</b>	E.g. £'s, £M, £000's
Description of metric:	<b>Revenue</b>	E.g. Financial Benefit, Revenue, Profit.
Are you measuring revenues?:	<b>y</b>	Enter "Y" for Yes, "N" for No. (Default set at No).
<b>Guidance on confidence levels</b>		
When assigning confidence levels to potential Upsides and Downsides on each variable, we recommend that you use the following guidelines:		
<b>Certain = 100%</b>	<b>Very High = 90%</b>	<b>High = 70%</b> <b>Medium = 50%</b> <b>Low = 30%</b> <b>Very Low = 10%</b> <b>None = 0%</b>
<b>Process</b>		
Complete the heading detail as above then add the details for up to five potential variables in the Variable sheets that could have an impact on your baseline forecast. Yellow cells with blue text are data input cells. DO NOT enter data to other cells or add columns or rows. Review the forecast envelope and the relative significance of the potential variables identified using the charts and data consolidated on the <i>Summary 1</i> and <i>Summary 2</i> spreadsheets. Each Variable and Summary sheet has been pre-set for printing, so simply click on the print button to produce an A4 schedule.		
Design © informing choices ltd		



## Confidence Levels

The Confidence Levels are a tool to stimulate thinking and debate about the relative confidence of baseline forecasts and potential variables. It is essential to have a shared understanding of what we mean by high or low confidence. We recommend that you use the following guidelines:

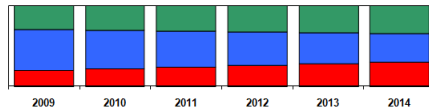
Confidence Level	%
Certain	100%
Very High	90%
High	70%
Medium	50%
Low	30%
Very Low	10%
None	0%

You can use percentages between those stated to increase differentiation between baseline, upsides and downsides or between years where appropriate.

### Where does the model use Confidence Levels?

The model will use these percentages to allocate the impact of potential variables to a more or less likely part of the forecast envelope. In doing this we can choose to focus on mitigating those variables that are more likely to have a negative impact of the baseline forecast, or on those variables that are more likely to improve performance.

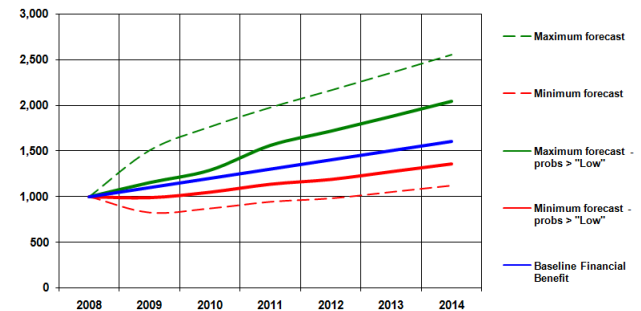
At the consolidated level, the forecast envelope is split between the absolute maximum and minimum forecast, taking into account all identified variables; and the total of the potential variables with a confidence level greater than *low*.

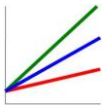


The Confidence Indicator provides a graphical representation of the relative confidence you have of the baseline forecast, upsides and downsides for each potential variable and across the product or business issue.

### What input is required?

For each variable you identify, you are asked to allocate 100 %age points across the baseline forecast, potential upside, potential downside or if appropriate to both potential upsides and downsides. This will represent how confident you are in the baseline forecast against potential upsides and downsides. The baseline forecast should represent the *most likely* case and therefore generally be allocated the highest % confidence across the most significant year or the greatest number of years.





## Guide – Set-up – Confidence Levels – Entering Issues (1 of 2) – Review and Analysis

### Data entry

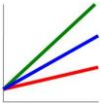
For each variable identified there are a number of common data entry requirements. A data entry cell is identified by having a yellow background and any entered text in blue.

The following data entries should be made:

- Last year actual and the baseline forecast for current year through the following five years. (This data is entered into the *Issue 1* sheet only and carried forward to the other issue sheets.)
- A brief description of the variable and the type of issue; internal or external.
- A more detailed description of the variable including the base case assumptions and an indication of the drivers of the potential variances (Upside and Downside) for the identified variable.
- The impact that the variable (upside, downside or both) could have, expressed as a % of the baseline forecast
- An indication of the level of confidence held about the baseline forecast and potential upside or downside. Allocate 100 %age points across your baseline forecast and potential Upside and Downside to give your view of the relative confidence levels. The baseline forecast should represent *most probable* case and therefore be allocated the highest % confidence.

Continued on next slide.

	A	B	C	D	E	F	G	H	I
1	<b>Risk &amp; Opportunity Evaluation 2009 - 2014</b>								
2	<b>A PCT - Commissioning pilot</b>								
3									
4		Year	2008	2009	2010	2011	2012	2013	2014
5	Baseline Financial Benefit - £ 000's		1,000	1,100	1,200	1,300	1,400	1,500	1,600
6	Growth			10.0%	9.1%	8.3%	7.7%	7.1%	6.7%
7									
8	<b>Issue</b>	Brief description of variable				2		External - within our influence	
9	This is where you would briefly describe the baseline and how this issue impacts the baseline, including potential upside and downside.								
10									
11									
12	<b>Impact of issue on baseline forecast and confidence levels</b>								
13									
14		£ 000's	2009	2010	2011	2012	2013	2014	
15	Impact %	Upside	5.0%	7.5%	10.0%	12.5%	15.0%	17.5%	
16		Downside	-5.0%	-10.0%	-15.0%	-15.0%	-15.0%	-15.0%	
17	Impact £ 000's	Upside	55	90	130	175	225	280	
18		Downside	-55	-120	-195	-210	-225	-240	
19	Financial Benefit - £ 000's	Maximum	1,155	1,290	1,430	1,575	1,725	1,880	
20		Minimum	1,045	1,080	1,105	1,190	1,275	1,360	
21	Confidence %	Upside	25.0%	30.0%	35.0%	35.0%	35.0%	35.0%	
22		Baseline	50.0%	45.0%	40.0%	40.0%	40.0%	40.0%	
23		Downside	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	

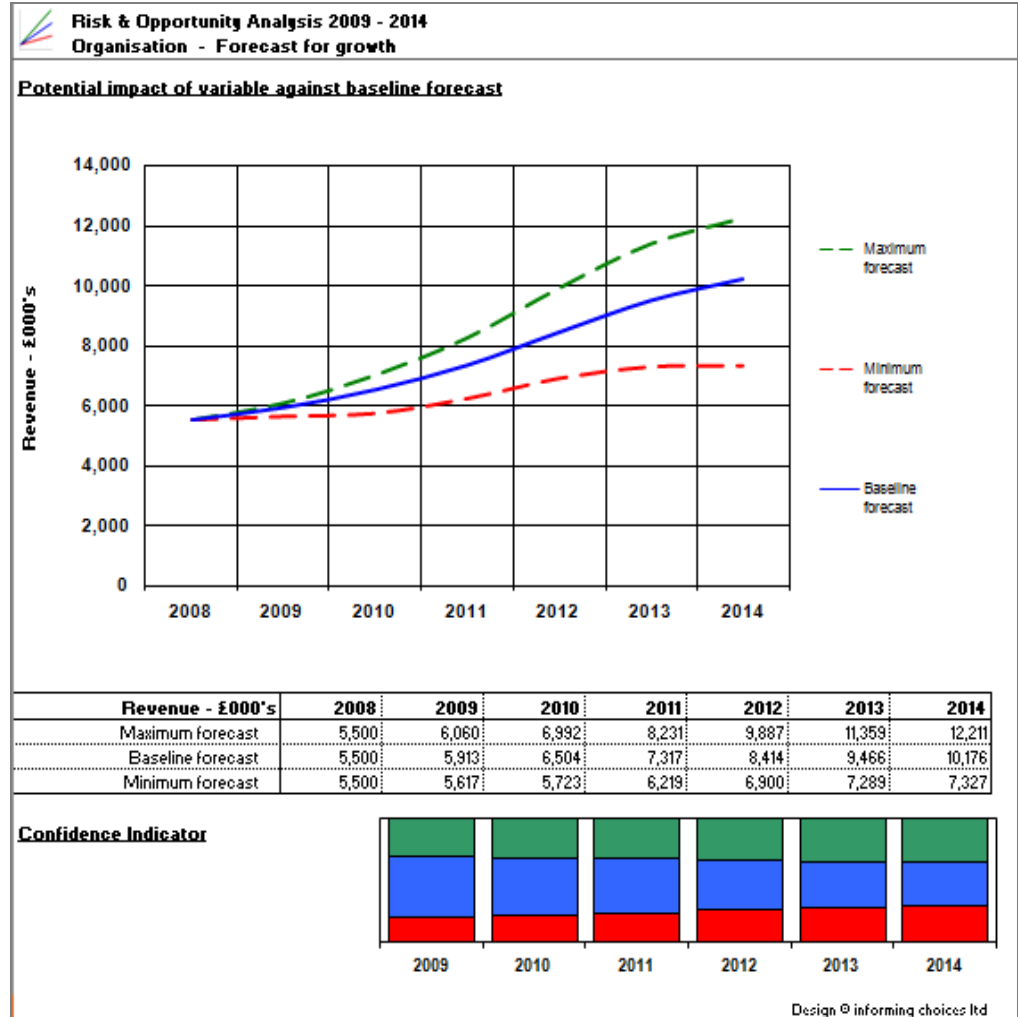


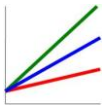
**Data entry (continued)**

Once the data entry for a particular variable has been completed, the impact of it can be reviewed and assessed by looking at the forecast envelope chart and corresponding confidence indicator.

You can then move on to the next variable.

Of course, when you have completed all variables and reviewed the impact across the entire business issue, you can go back and make appropriate adjustments to previously entered data.





# Guide – Set-up – Confidence Levels – Entering Issues – Review and Analysis (1 of 2)

## Summary 1 – reviewing the overall forecast profile for the selected business issue.

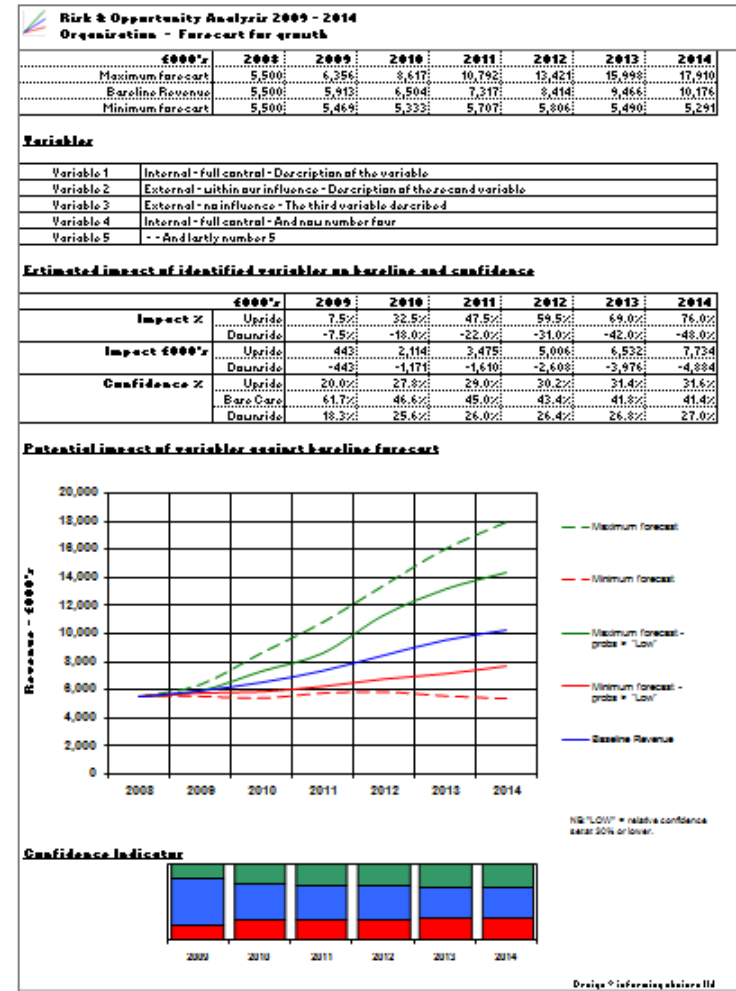
The schedule in this sheet consolidates the data entered for up to five variables. Results are tabulated to show the baseline forecast and the maximum and minimum forecasts as a result of the identified variables.

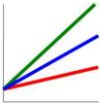
The brief description entered for each issue is shown together with the consolidated impact in % and financial terms and the confidence levels, for each forecast year.

You can then review the consolidated chart that shows the baseline forecast (blue line) and the forecast envelope (green and red lines) for the overall impact of all identified variables. A narrower forecast envelope will also be shown where you have assigned a confidence value of greater than *low*. By definition, this is the *more likely* forecast envelope.

The closer the blue line is to the green line, the more aggressive your forecast is. Many organisations set their forecasts in this way and therefore build in a balance of more risk than opportunity.

Based on your inputs of confidence levels for each variable, the model then provides a consolidated view of your overall confidence of the baseline forecast and potential variables. The more blue you see compared to red and green the more confident you are about the baseline forecast, compared to potential upsides (green) or downsides (red).





## Guide – Set-up – Confidence Levels – Entering Issues – Review and Analysis (1 of 2)

### Summary 2 – reviewing the relative sizes of the potential impact of each variable within the context of the overall forecast profile for the selected business issue.

The schedule in this sheet provides the opportunity to review the overall forecast profile by potential upsides and downsides. Taking the data entered for each issue, the model tabulates each impact for each issue by year and charts them.

The brief description entered for each issue is shown together with each issue's potential impact.

You can choose to display the baseline forecast and as many or as few of the individual issues as appropriate for your review.





informing choices ltd  
86 Hilden Park Road  
Hildenborough  
Tonbridge  
Kent  
TN11 9BN

Email: [steve.wells@informingchoices.com](mailto:steve.wells@informingchoices.com)

Tel: 01732-834365

Mob: 07887-625310

Web: [www.informingchoices.com](http://www.informingchoices.com)