Rolling Forecasts in Four Parts
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About the Author

Juan Porter is the president of TopDown Consulting. He has over 20 years combined customer, vendor, customer, and consultant experience with Oracle Hyperion. He specializes in business intelligence, data warehousing, enterprise performance management, technical architecture, master data management, and custom solutions development across a broad industry base including energy, utilities, financial services, retail, government, and defense. Juan is a member of the Oracle Hyperion Partner Advisory Council, he has presented annually at Oracle Hyperion User Groups, and he has served chair of Hyperion’s national steering committee as well as leading many Hyperion enhancement committees.

About TopDown Consulting

Founded in 2000, TopDown Consulting is the preferred Hyperion/EPM solution partner for many of the largest and best performing Global 2000 companies. TopDown’s repeatable, scalable engagement methodology specifically considers an organization’s unique business requirements and accommodates them through technology, process, and best practices gathered from years of working with leading companies across all industries. As an Oracle Partner, TopDown Consulting is a recognized leader in strategy, assessment, implementation, and optimization of Hyperion solutions. TopDown’s exclusive focus on client self-sufficiency and commitment to client success is why hundreds of industry leaders consider TopDown Consulting to be trusted advisor and indispensable partner for addressing all EPM challenges.
Executive Summary

Every successful business plans and forecasts as an opportunity to look back and see what worked, and look forward to prepare for future success and changes. Why, though, do most organizations stick to the once-a-year review? In order to remain competitive and adjust to ever-changing factors, Juan Porter offers a detailed overview of rolling forecasts.

He shows how rolling forecasts afford organizations the ability to plan for both the long-term and immediate future by analyzing monthly, quarterly, and annual information with accurate and clean data. By reviewing the successes and failures while figuring out the business and financial correlations, organizations can become more fluid and versatile in their business planning.

Porter begins with “Transitioning Traditional Forecasting to Rolling Forecasts,” a brief overview of the differences between traditional and rolling forecast methods, highlighting the dynamic business planning abilities that come with adopting a rolling forecast.

“Implementing Rolling Forecasts” provides a basic rundown of the right questions to ask, the key players needed, and hardships and challenges you may encounter. It is not a step-by-step guide on implementation, but rather, key considerations in moving your business towards a more proactive approach through rolling forecasts.

Proceeding to more advanced strategies, “Advanced Methods in Rolling Forecasts” defines a few methods to make your rolling forecasts effective, letting them work for you instead of the other way around. He details how rolling forecasts can become a dynamic review and planning instrument. Included are a few examples of advanced methods and driver-based models.

Finally, “Understanding Your Forecasts” takes you beyond the numbers and discusses the less obvious aspects of rolling forecasts, providing general guidelines to understanding your models in both specifics and the big picture.

With more than 20 years of performance management solutions experience, Juan Porter brings his expertise to you through this overview of how one change can impact the way you do business and your business’s future success.
Transition Traditional Forecasting to Rolling Forecasts

For planning and forecasting, never has the old adage “You can’t manage what you can’t measure,” been more true. To make sure you are working with the most accurate information, the information has to be right.

In every industry there is always talk about businesses needing to stay competitive. The only way to do this is through informed decisions and agile business practices. These only come about with quality forecasts that shape future outcomes and the ability to immediately react to changing events. This is why many companies are looking for alternatives to annual budgets.

Traditional Planning Process

The traditional planning process usually occurs annually. It is out-of-date when finalized and yet, companies still insist on going through this time consuming (usually requiring three to six months to complete) and expensive process (mainly manpower costs). The focus is on detailed data preparation and includes a heavy reliance on offline spreadsheets. In most cases, the deliverable from this undertaking is not followed, yet it becomes the basis for comparison/variance, which is key for the planning cycle; and worse, it is deemed as an authorization to spend because “it’s in my budget.”

The annual budget also is often used as a measurement for compensation, which can cause a tendency toward inaccuracies since negative variances directly affect the responsible party’s paycheck.

Traditional Forecasting Process

The traditional forecasting process takes place monthly or quarterly. It focuses on the current year, is derived from a plan or prior forecast, and the window to forecast is usually two to three days. Compare that to the traditional planning process—four to six months devoted to the annual plan and two to three days to recast it. The result is no time for scenario modeling. Adjustments are made on what has happened so far with no consideration for future possibilities. The data is often summarized and maintained in offline spreadsheets and the level of detail is different than the annual plan. All of this does not add up to the accuracy needed to make smart business decisions.
What is a Rolling Forecast/Perpetual Plan?

At the highest level, a rolling forecast is a more fluid approach to planning and forecasting. If you are doing this, there is no need to do an annual plan.

You will always find change happening in your business, and even the smallest change can impact your numbers, focus, plans, and more. With a rolling forecast, you can emphasize the forward movement of the business, because it is always looking ahead 12 to 18 months. You avoid the cliff event like end-of-year with a continuous process that combines the traditional plan and forecast.

Why Rolling Forecasts?

Rolling forecasts eliminate the need for an annual (perpetual) plan, because they are forward looking. Moreover, this approach is tightly linked to strategy, which means you can review what is taking place in your business, assess the impact, and make necessary corrections. Also, this approach allows you to look both backward and forward, providing a richer view for better decision-making.

Another key benefit is that rolling forecasts are driver-based. Not only does this allow you to derive forecasts based on volumes of activity, it also ensures that people only focus on the data they can control.

Most important, though, is the fact that rolling forecasts emphasize ongoing results instead of a single historic period of time, offering more visibility and balance. You can also use them to model difference scenarios based on varying points-of-view, again deriving more accuracy. In sum, they focus more on factors and analysis than data gathering, thereby providing up-to-the-minute data for decision-making.

So how is all of this different? It is a more proactive approach to financial planning. When you are doing financial planning, you want people involved for continuity. This approach allows the entire team to become true business partners. People are focusing on the data that matters to them. They can closely monitor what is going on (e.g., a line-of-business manager is able to understand more). Add to this by perpetually forecasting (rolling fashion), people can learn by doing, synchronizing efforts with the business—process, metrics, etc.—allowing for better analytical decisions.

In terms of your bottom line, rolling forecasts reduce the cost of doing business. You have less burnout and more time for other activities.
Implementing Rolling Forecasts

Now that we covered the “what and why” of rolling forecasts, it is time to look at how to transform traditional budgeting and forecasting into this innovative approach and make the transition come to life. The first step is implementation.

Initial Considerations

The key to any successful implementation is executive sponsorship from the CFO and/or CEO and not the CIO/IT. Forecasting should be viewed as a management, not a measurement, process. As such, the transition from traditional forecasting to rolling forecasts is a business initiative that falls onto the persons responsible for the overall business (CEO) or the person directing the company’s financial goals and objectives (CFO) as opposed to the technological direction of the company. Leading the change by example is a key component of executive sponsorship. You cannot ask people to do what you are not willing to do yourself.

Another critical consideration is company culture. Culture is critical since it defines the acceptance of change. You have to manage the acceptance of change within the culture. If you do not, you will be adding unnecessary challenges to your implementation.

Key Questions to Ask

First you want to evaluate how to improve current ways of doing business, by asking questions such as:

1. How did our current planning and forecasting process evolve over time?
   Most people look at forecasting as a corporate requirement to provide more insight into the future of the business.

2. What do we like about the current process?
   The answer for this one can be quite interesting and is usually limited only by who you ask and where they fit in the process.

3. What do we dislike about the current process?
   The answer to this one can be quite broad, but many times is focused on the amount of detail required.

Once you have these answers, you will want to understand organizational direction, because that is the best way to determine what information you want to manage and how you want to measure it. A key question to ask your organization is: What is important to the business and does this line up with the corporate goals and objectives (goals and forecasts need to be in sync)? The interesting thing about this question is that there is no specific time frame associated (e.g., year-end). What rolling forecasts do is look beyond the end of year and enable you forecast in a matter that business operates—as an ongoing process.
Decisions and Criteria

The next step in the implementation process is choosing the right solution. Based on the answers to the key questions, what fits your needs? A packaged solution or spreadsheet-based solution?

Once you find your solution, you want to figure out timing (i.e., when is the best time to implement the solution). You need to fit it into the needs of the business to make the transition as smooth as possible.

Resources are the next item on the list. What do you need?

- IT support
- Temps for data entry and validation
- New hardware
- Application and process administration

Finally, you need to have the conversation about consistency across the organization. You are potentially overhauling your entire process, so as painful as it might be, you have to ask the questions:

- What is the time frame to prepare/submit a forecast?
- What level of detail is needed?
- What can you control or influence?

Technology, Process, and Change

You know the old adage, “Technology is great, when it works”? To make sure your technology works, you have to balance the business process with technology. You do this by determining what your current process is, what you want the process to be, and how/where technology helps the process.

- What do you want managers to be responsible for?
- How do you want managers to interact?

Also critical is to pinpoint possible areas of resistance and manage them through executive leadership. Discuss the change early and often. Identify cheerleaders and detractors; if you can convert the detractors, everyone else will fall in line.
Challenges to Implementing

Change is always tough, and make no mistake, transitioning from traditional forecasting to rolling forecasts will be painful. Initial set up is labor intensive. You will meet resistance because people are always resistant to change. Then there is the cost—it is a one-time hit, but you need to be aware of it. You will have software and support costs as well as unanticipated project costs because the existing data is never as clean as you think.

Training, testing, and parallels are critical to get a feel for where the project is, to identify any changes that might be needed, and to ensure that all stakeholders understand why this process is changing.

Final Thoughts

Implementation is all about making great things happen. It is the essence of the strategic plan. The process itself is a step-by-step trajectory towards an innovative solution. And for the full plan to be realized, you cannot skip any steps.
Advanced Methods in Rolling Forecasts

In previous chapters, we covered transitioning from traditional budgeting and forecasting to rolling forecasts as well as implementation. Now it is time to turn our attention to what to do once you have this new approach is in place. To do this, I will spend the next two chapters discussing advanced methods in rolling forecasts.

Making Rolling Forecasts Effective

Once you have decided to implement a rolling forecast, you need to determine how to make the process efficient and valuable to the company. Before we talk about some of the ways to do this, it is good to review the keys to achieving overall success for this innovative approach to managing the forecasting process.

Throughout the implementation, the role of the executive sponsor remains critical. This is especially true as you approach go-live. This is the time when the new process is undergoing adoption; to make sure everyone embraces rolling forecasts, the executive sponsor must continue to operate as the “change sponsor.” Remember, change takes time to adopt, so not only does patience need to be exercised but it also needs to be visibly included in the first few cycles to ensure people have time to perform and understand the new process.

Another thing you will want to review is the new process. This was defined at the start of the project but now the process meets reality. In addition, a regular review of any process is always a good idea so adjustments can be made as the needs of the business change. Make sure who, what, and how still line up with the same departments, groups, and/or people.

The “how” and “what” is what will determine the effectiveness of and ultimately value to your organization. It is not reasonable or feasible for most to perform a true zero-based or bottom-up rolling forecast in a few days. So it is important to determine what information a manager can directly control/influence and how/what data that can then drive. This is where efficiencies and value are gained by using driver-based models.

Driver-based Models

Driver-based models allow you to minimize the amount of data input and focus on key drivers. Using driver-based forecasts facilitates collaboration and business modeling, which in turn raises the quality of the outcomes while providing more control. Moreover, a driver-based approach lets you standardize with a single methodology and align key assumptions across the organization. Driver-based models also offer the ability to model different scenarios (best/worst case).
Simplicity Through Drivers

The key to creating a driver-based model is to understand the relationships and dependencies in your data. From this you can create the drivers that will improve the accuracy and flexibility of your forecast.

At a high level, driver-based models are basically calculations where:

- Users can enter a single base element of a calculation and results are driven from that.

- Certain elements are centrally defined/controlled:
  - Unit price/cost, discount rates, etc.
  - Salary mid-points, benefits, taxes, etc.
  - Depreciation
  - Simple example: Unit x Rate = Amount
    - Unit is input by the user and is their focus
    - Rate is centrally supplied/controlled
    - Amount is the derived result

Some specific examples of this are outlined below.

Revenue/Cost-Based Drivers

- Drivers set by Corporate or LoB
  - Unit Price and Cost
  - Discounts, Returns, DiF, etc
  - Currency dependencies
  - Units sold are input by users
  - Improves Customer and Supplier relationships
    - More focused on strategic relationships
    - Total units sold may impact cost basis
Employee-Based Drivers

- Drivers set by Corporate or LoB
  - Salary levels by grade or position
  - Benefits and Payroll Tax rates
  - Currency dependencies
  - New Hires are input by users
  - Focus on type of resource and when to hire
    - Improves modeling of different hiring plans

Employee-Based Advanced Drivers
Understanding Your Forecast

Rolling forecasts usually place a heavy focus on variance analysis. Analyzing forecast variances and overall accuracy is a key to identifying opportunities to review, streamline, and improve your process. Variances also provide insight into the cause-and-effect relationships that impact the organization. You can use this information to understand what that difference means to the business and then make appropriate adjustments and course corrections.

Understand Why There is a Variance

Evaluating variances takes thought. Although variance analysis can be very complex, the main guide is common sense. Positive variances are not always positive. Say you have a positive variance of $10,000 in advertising. Is this good or bad news? On the plus side, you saved $10,000. On the minus side, you did not place advertising. Now you take a look at your sales numbers and see they are way below expectations for the same period you did not spend your advertising budget. The question to ask here is: Could the lack of advertising be the cause for lower sales?

In general, under-spending is a positive variance, and overspending is a negative variance. But the real test is whether the result was good for business.

The bottom line is every variance should stimulate questions like:

- Why did a project cost more or less than anticipated?
  - Was it budgeted for correctly?
  - Were objectives met?
  - Did we get the expected results?
- Does a positive variance mean money saved or a failure to act?
- Does a negative variance indicate a change in plans, a management failure, or an unrealistic budget?

Questions like these provide visibility into assumptions and dependencies.

Once you analyze your variances, answer your questions, and identify assumptions and dependencies, a best practice is to track and store comments/explanations. This will help you do a more comprehensive analysis of future variances.

It is also important to make sure that currency fluctuations do not skew your variance analysis. As such, it is important to analyze the variances in local currency. This will be the “language” most familiar to the location, geography, etc., and by doing so you can usually get to what the root causes of the variances are.

In many cases it is just as important to analyze the variances in a standard reporting currency (e.g., USD). Then you can eliminate variances in currency fluctuations by using a constant rate (e.g., Actual @ Plan rates, Prior Estimate @ Current Estimate rates).
Beyond the Numbers

The best way to understand your forecast is to expand the type of reports you work with. Do not rely on just Actual vs. Budget (AvB) type reports; generate reports that let you “visually” see what is happening. Use graphs and charts to spot trends. Bar, line, pie, bubble, and scatter charts can provide management with significant information—e.g., identifying trends, contribution, and outliers. Without this data, some of these important questions might go unasked and unanswered.

Waterfall reports are another useful way to measure accuracy and effectiveness in forecasting. These reports look at KPI and reporting metrics and are helpful in identifying trends and behaviors for those who are preparing the forecasts.
Conclusion

For planning and forecasting, never has the old adage “You can’t manage what you can’t measure” been more true. To make sure you have the information you need to manage, the information has to be not only right but relevant.

We started this series discussing the benefits of rolling forecasts as an approach that allows you to look both backward and forward, providing a richer view for better decision-making. In today’s rapidly changing economy, businesses in a position to respond quickly are in the best position to succeed. Because rolling forecasts emphasize ongoing results in addition to the current fiscal year, offering more visibility and balance, you always have up-to-the-minute data for decision-making. By having a finger on the pulse of changing conditions, you can quickly refocus the business accordingly, making instant decisions on what is working, what is not working, and where to invest.
TopDown Consulting, Inc. serves clients nationally and internationally from our San Francisco headquarters. For more information or to inquire about our services, please contact us.

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