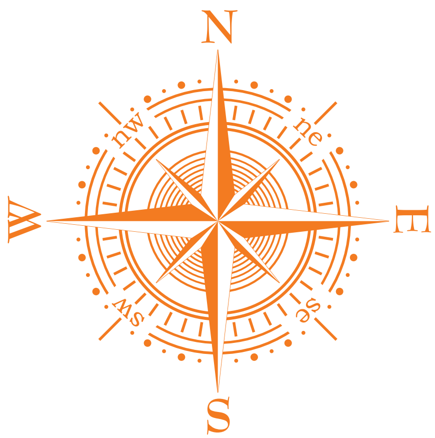
Adaptive Insights

5 Steps
to Getting Your Business On Board with Rolling Forecasts

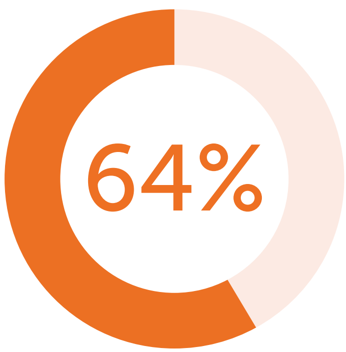


Overview

Imagine a ship that sets course based on last month's weather patterns. No matter what happens, the ship doesn't deviate from the course. Unexpected squalls batter it. Fog banks materialize out of nowhere. Storm clouds suddenly appear on the horizon. But the ship doesn't alter its course, because after all, the forecast predicted calm weather. So the ship sails right into a hurricane—and disaster.

"The most reliable way to forecast the future is to understand the present."

John Naisbitt, author of Megatrends



Annual targets are obsolete in 4-6 months.

Source: Beyond Budgeting Round Table

These Mistakes Are All Too Common

But many businesses make similar mistakes every day. They spend weeks or months laboring over the annual plan or budget, even though by the time it's finished, the market has changed dramatically and its assumptions are out of date. They forecast based on historic data and the best guesses of functional business leaders and line managers. They don't change course no matter what competitive winds batter them.

“71% of top-performing organizations mitigate this risk [of forecast inaccuracy] by continuously updating forecasts to reflect current business conditions. ”

Aberdeen Group, May 2013.

Set Your Course with Rolling Forecasts

But there’s a better way to navigate choppy business seas: rolling forecasts. Instead of being once-a-year exercises, rolling forecasts happen on a regular cadence. Unlike budgets that may have hundreds of line items, rolling forecasts focus on key business drivers. And rather than focusing on the past, rolling forecasts act as early warning systems when you’ve drifted off-course; they help to raise visibility beyond the traditional budgeting “wall” by continually updating your forecast with actuals, you’ll be able to quickly adjust the levers that drive performance.

"True rolling forecasts go beyond the budget barrier and predict an organization's performance in response to economic change and growth."

APQC

Why Try Rolling Forecasts?

- Enable agile responses to changing market conditions
- Optimize decision-making for better planning
- Identify future performance gaps
- Help senior executives manage performance expectations
- Shorten long planning cycles with a more efficient model—and direct the extra time toward more strategic activities

"In a study by the Aberdeen Group, organizations that performed rolling forecasts saw a 10% revenue growth over the past 24 months in comparison to a 7% growth for organizations that did not. "

Aberdeen Group, May 2013.

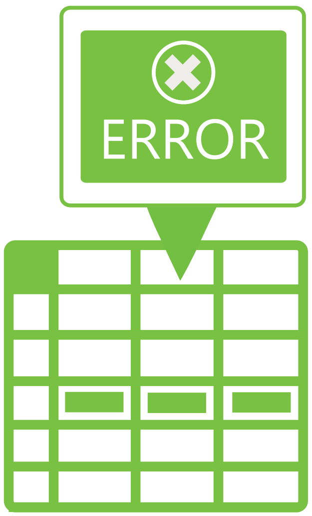
They can boost the bottom line, too.

That's not to say that implementing rolling forecasts will be smooth sailing. Some people object that they take the focus away from company goals. But in fact, rolling forecasts ensure that these goals are realistic because you're continually updating your plan and tracking performance against it. For example, say your annual budget was $100 million. If rolling forecasts indicate that you're going to fall short of that figure due to external headwinds, you can work to get management's buy-in for a more realistic outcome and make decisions to change your investment levels or key priorities.

STEP 1

Use a dedicated application for rolling forecasts—don't try to perform them with spreadsheets.

> "More than 90% of spreadsheets contain serious errors, while more than 90% of spreadsheet users are convinced that their models are error-free."
>
> ACCA



Spreadsheets Make Things "Almost Impossible"

While 80% of organizations use spreadsheets for FP&A, the Association of Financial Professionals warns, "[a]ttempting to do a rolling forecast for a multimillion or multibillion-dollar company in Excel is almost impossible." That's because multiple versions—which good rolling forecasts need to create different scenarios—are extremely difficult to update and manage with spreadsheets. They're prone to errors, with broken links and formulas, so finance spends more time stemming tiny leaks than stemming the tide.

"90% of spreadsheets contain serious errors."

ACCA

Another problem...

Another problem is the spreadsheets scattered like islands across marketing, sales, finance and other departments. They may all use different assumptions, standards, and even software, making it difficult to aggregate, combine and consolidate forecasts.

“We analyze performance data from our three biggest sources of new revenue in order to plan and forecast with more precision. It has been a huge contributor to our international expansion, and helps us make strategic decisions on hiring and investing in the business.”

Charles Best, CFO, BlackLine

Steer clear of these problems.

To steer clear of these problems, automate rolling forecasts with a dedicated cloud-based application. This type of solution can reduce the time you need to complete financial planning by 70% or more. Look for a solution that allows you to easily and frequently roll up and integrate actuals from any system. You should be able to quickly create multiple versions that allow you to analyze performance and different what-if scenarios. A cloud-based system lets you take action quickly, from anywhere. Forecast accuracy will improve, and you’ll be able to batten the hatches faster in the face of performance storm warnings.

STEP 2

Model your course on drivers, not details.

> If one does not know to which port one is sailing, no wind is favorable.
>
> Lucius Annaeus Seneca

> "76% of best-in-class companies incorporate business drivers into their ongoing forecasting process."
>
> Aberdeen Group

Don't Get Bogged Down

Yes, your annual budget lists thousands of line items, but you need to perform rolling forecasts at a much higher level, or you'll get bogged down in minutiae and your forecast will become a recompilation of budgets. Rolling forecasts based on key business drivers, rather than masses of detail, also become a "light-touch" (and therefore less onerous) process for everyone involved. Managers may mutiny if they think that rolling forecasts will require the work of a full budget, but they'll be much more engaged if they know they can zero in on the few key variables that matter.

“Our rolling financial forecast in Adaptive is really helping us focus on the key decisions and initiatives to guide the ship, and how these different initiatives impact our overall results.”

Jeff Bergstrom, CFO, Winshuttle

Focus On Significant Business Drivers

Focus your rolling forecasts on significant business drivers such as risk, profit, and working capital.

A flexible and customizable application will also let you reflect the specific drivers for your industry. For an energy company, profit drivers might include customer demand, refinery utilization and volume. Working capital could be affected by headcount costs and pricing changes. Risk factors might include commodity price volatility and backlash against renewable subsidies. The drivers for a software company would be totally different.

“One ship drives east and another drives west by the same winds that blow. It’s the set of the sails and not the gales that determines the way they go.”

Ella Wheeler Wilcox, American author and poet

One Thing Leads To Another

The links between drivers are also important. Changes in the sales forecast affect revenue projections, which affects expenses, and so on. Look for a system that gives you visibility into how your model’s drivers link to and affect each other. To that end, it should also let you create driver-based models that span departments. For example, since price is a driver for sales, changing a price will affect total sales, COGS, expenses and more.

STEP 3

Use rolling forecasts to sound out multiple "what-if" scenarios.

> "If you have to forecast, forecast often."
>
> Edgar Fiedler, American Economist

Ask The Question: “What If”?

The beauty of rolling forecasts—and one of the ways to demonstrate their value—is they allow you to model “what-if” scenarios in a way that disparate spreadsheets, linked together with formulas, just can’t. With the right system, you should be able to change a few key assumptions and drivers and instantly see their effect on the overall plan, such as the impact a price change has on headcounts and cash.

“Find a tool that lets you model all potential outcomes in just minutes.”

Save Yourself Some Time

Look for a tool that lets you model—in minutes, not hours—the many potential outcomes of different assumptions and scenarios. For example, let’s say that payroll taxes are increasing in Texas, where you have an office and employees. The best systems allow you to simply enter the percentage of the increase to update every calculation automatically, so you can go to your income statement and instantly see the effect on your expenses.

"A good traveler has no fixed plans, and is not intent on arriving."

Lao Tzu, Chinese Philosopher

Imagine All Scenarios

You should also be able to save unlimited versions of scenarios—such as your best case, worst case, 80% sales, or any permutation you need. Trying to manage different versions with spreadsheets will sink your ability to implement a rolling forecast.

Modeling these what-if scenarios has an important benefit: organizations can use them to build contingency plans so they can react immediately when conditions change.

STEP 4

Scrub your forecasting process; don’t link it to targets, measures, or rewards.

> It is not the ship so much as the skillful sailing that assures the prosperous voyage.
>
> George William Curtis, American Writer and Public Speaker

"We send a cash flash to our executive team every single week so they understand what the next 18 months look like in terms of our cash forecast. Adaptive is the only way we'd be able to do that."

Don Sherwood, Senior Director FP&A, Rimini Street

Get Everyone On Board

To be successful, top management must support rolling forecasts, and managers must accept them. But a common problem is that executives and managers conflate forecasts with budgets. They think that they will be evaluated based on forecast accuracy, much like they're rewarded if they hit budget targets.

"Before Adaptive we spent a disproportionate amount of our time quality controlling our forecasts. Now getting financial statements produced is a breeze."

Gene Domecus, COO, Blurb Inc.

Avoid Linking Forecasts to Targets & Rewards

Rolling forecasts are a strategic management tool, not an evaluation tool. As soon as they are linked to targets and rewards—in other words, as soon as managers think they'll walk the plank if they get it wrong—team members will begin to pad the numbers. Let managers forecast based on real business demands and the real business environment. Imagine if an echo sounder offered a view of the ocean floor based on what a captain would *like* to see, instead of the actual depth of the water and submerged obstacles. The result would most likely be a shipwreck.

"People are adding more performance data that help us in finance to produce reports and forecasts that better support long-term, organizational strategy. Our CEO is so happy with our improved monthly forecasts that he even held up a report in a meeting and talked about how great it was."

Sarah Renaud, Team Leader of Budgets, Blue Cross & Blue Shield Rhode Island

Make It Clear. Make It Available.

Give executives a clear view into rolling forecasts with dashboards, rather than endless tables of numbers. Dashboards should always be available, so that executives and managers don't have to wait for a report from IT (a problem with on-premise systems). This way, they can use a rolling forecast to quickly see how performance is tracking against actuals and change course before they collide with the perfect storm. This is where an automated system or application that pulls in actuals data in on demand, from a central repository aggregating all data sources, is invaluable.

STEP 5

Choose the right forecasting horizon for your industry.

> The rules of navigation never navigated a ship.
>
> Thomas Reid, Scottish Philosopher

"The ability to build a model in Adaptive that matched our unique business requirements was a huge advantage over other, more rigid solutions."

David Smith, Head of Financial, Management and Performance, Alternative Futures Group

Forecast The Future

A rolling forecast is aligned to business cycles, rather than the fiscal year. To really help senior management look at the future and proactively manage it, a best practice is to forecast at least four to eight quarters past the current quarter's actuals.

Six Helpful Questions To Ask Yourself

However, there's no hard-and-fast guideline for the time interval included in a rolling forecast. It all depends on your industry, your business needs, and how long it takes to make decisions about operations, capacity and spending. Here are some questions to ask to determine your forecasting horizon:

1. What is the speed of change in my industry or business?
2. How intensive are the capital requirements?
3. How long does it take to bring facilities online? Years or months?
4. What are the lead times for our products?
5. How long does it take to change supply contracts?
6. What is involved in adjusting marketing programs?

"Solidify a plan by considering your industry, business needs, and how long it takes to make decisions about operations, capacity, and spending."

Source: Morlidge, Steve, and Player, Steve. Future Ready: How to Master Business Forecasting, Wiley, January 11, 2010.

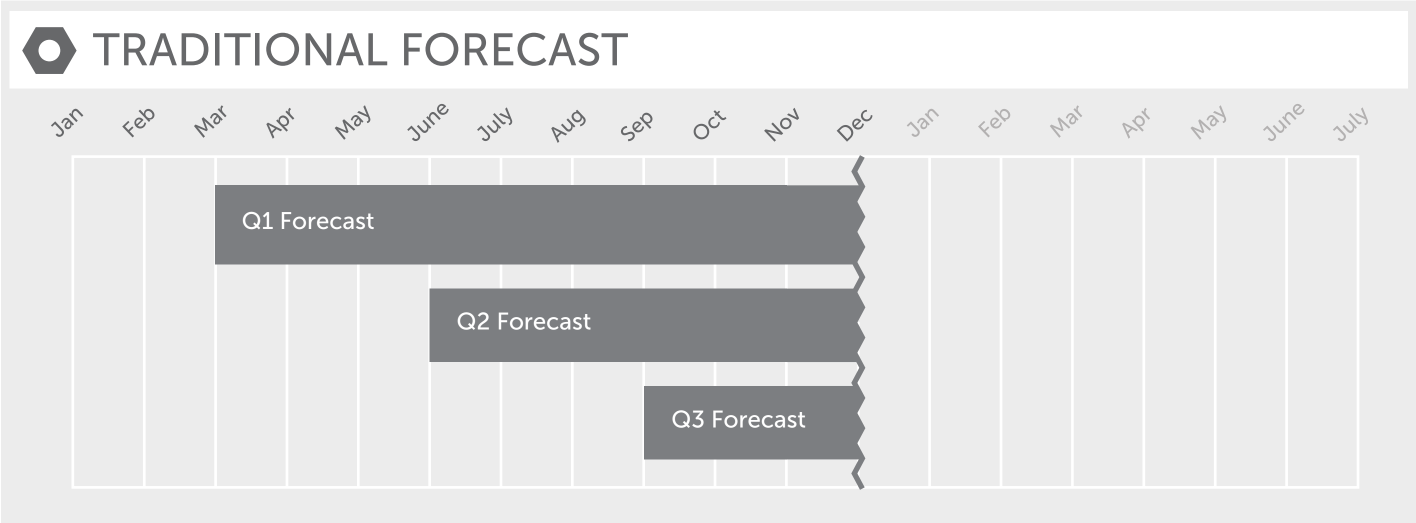
Hint: It's Probably Not A Spreadsheet

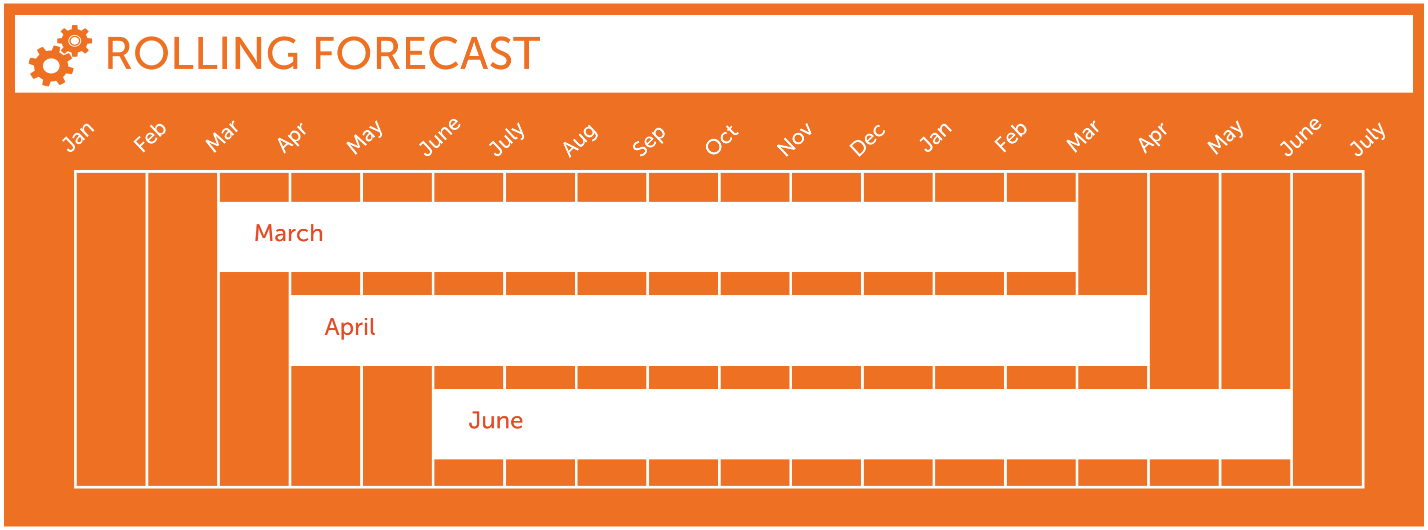
Look for a system that will let you easily and quickly model various scenarios over different time periods with just a click. (Hint: it's probably not a spreadsheet.) And while it might seem obvious, spend your time on near-term periods, where you're likely to have more accuracy.

Like a weather forecast, rolling forecasts will never be 100% accurate, so focus your efforts on developing a repeatable process for creating them and their predictability.

A rolling forecast is aligned to business cycles, rather than the fiscal year. Extend past the typical one-year planning horizon and forecast at least four to eight quarters past the current quarter's actuals to really help senior management look at the future and proactively manage it.

Traditional versus Rolling





Adaptive Planning can get you underway with rolling forecasts.

> “We must free ourselves of the hope that the sea will ever rest. We must learn to sail in high winds.”
>
> Aristotle Onassis, Greek shipping magnate

"Blue Cross blue shield, CollabNet, Hortonworks, and NorthStar Financial Services reduced cycle times by up to 90%."

It's Time For A Reduction

Market volatility is inevitable. Learn how companies like Blue Cross Blue Shield, CollabNet, Hortonworks, and NorthStar Financial Services use rolling forecasts to navigate uncharted markets and business conditions. With Adaptive Planning's comprehensive budgeting, planning, and forecasting capabilities, these companies reduced cycle times by up to 90%.

Adaptive Planning's intuitive "Excel-like" interface makes it easy to collaboratively plan and forecast revenue, expenses and headcount, create rolling forecasts, and more.

Summary

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STEP 1
Use a dedicated application for rolling forecasts—don't try to perform them with spreadsheets.

STEP 2
Model your course on drivers, not details.

Step 3
Use rolling forecasts to sound out multiple "what-if" scenarios.

STEP 4
Scrub your forecasting process—don't link it to targets, measures, or rewards.

STEP 5
Choose the right forecasting horizon for your industry.

Adaptive Insights is the worldwide leader in cloud business and financial analytics solutions for companies and nonprofits of all sizes—with capabilities for budgeting, forecasting, reporting, consolidation, dashboards, and business intelligence. Adaptive Insights enables finance, sales, and other business leaders to make better, faster, more collaborative decisions that drive a true competitive advantage.