Barriers to implementing a quarterly rolling forecast

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In earlier articles I promoted the use of quarterly rolling forecast forecasts, explained what they are and set out the lessons that organisation have learnt, the painful way. Now I wish to look at the implementation issues.

Whilst all implementations will be unique they should have many common features just like a fingerprint. This article will provide the reader with some useful templates.
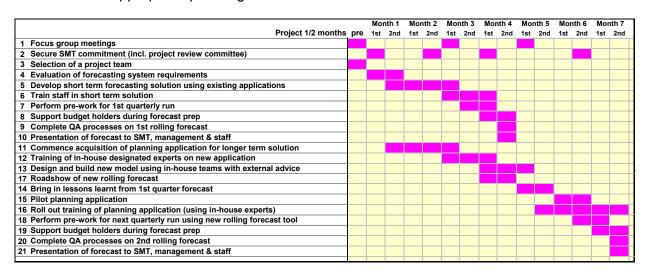
Barriers to implementing a quarterly rolling forecast

Barriers	Actions
lack of budget holder skills	• find those staff who thrive with new technology and train them first • set up new forecasting regime in one unit, a quarter ahead, to iron out the bugs and to promote the efficiencies • train all significant budget holders incl. one-to-one • set up from the outset a quarterly follow-up course (as you should be using the model for forecasting)
the "stop and start" annual planning syndrome	• big sell to management (historic evidence incl. costs, better practices, benefits to them) • get commitment for quick bottom-up forecasts • work closely with the Exec. Assistants re diary bookings so SMT and budget holders are all present during the forecasting weeks • maintain momentum with daily progress reports flagging budget holders who are behind with there forecast (show on an intranet page)
"inaccurate and late data"	• provide more one-to-one support • workshop the forecast process with all major budget holders (with laptop & data show) • provide incentives for prompt forecast returns (e.g. cinema vouchers) • provide daily progress report to CEO of the late names • have all returns go to the CEO office first!!

lack of management ownership	• take SMT to some better practice forecasting sites • deliver more interesting information from forecast process e.g. trend graphs, KPIs • obtain and circulate the white paper by CFO research • market better practice stories constantly • ensure budget holders are directly involved in the forecasting process e.g. not delegating task
the "lack of faith in the reliability of the forecast	• establish in-depth QA procedures • have good working papers • provide reasonableness checks • audit the forecast application prior to use • migrate away from Excel to a planning tool
the lack of understanding of the application	• have forecasting/budget models reviewed and audited prior to use • more than one person involved in design of the QRF • full documentation of logic • keep to Pareto's 80/20 e.g. personnel costs should have much more detail • key drivers should be easily identifiable

the lack of linkage to strategic decisions	• brainstorm with SMT what their likely scenarios are
	• ensure you can accommodate these in model design:
	   ➢ introduction of a new product(s)
	   ➢ close down of an operation
	   ➢ delay of a major initiative
	   ➢ extrapolations on expenditure profiles
	   ➢ major shift in assumptions
	   ➢ implications of changes to output costings (if in public sector

Roadmap and templates

These implementation plan should help those about to start an implementation. One key feature is the time frame. A rolling forecast implementation is I believe a five to six month process if you do not own an appropriate planning tool.

Project 1/2 months	pre	Month 1		Month 2		Month 3		Month 4		Month 5		Month 6		Month 7	
		1st	2nd	1st	2nd	1st	2nd	1st	2nd	1st	2nd	1st	2nd	1st	2nd
1 Focus group meetings						■									
2 Secure SMT commitment (incl. project review committee)	■			■			■						■		
3 Selection of a project team	■														
4 Evaluation of forecasting system requirements		■	■												
5 Develop short term forecasting solution using existing applications			■	■	■	■									
6 Train staff in short term solution						■	■								
7 Perform pre-work for 1st quarterly run							■	■							
8 Support budget holders during forecast prep								■	■						
9 Complete QA processes on 1st rolling forecast									■						
10 Presentation of forecast to SMT, management & staff									■						
11 Commence acquisition of planning application for longer term solution			■	■	■										
12 Training of in-house designated experts on new application						■	■								
13 Design and build new model using in-house teams with external advice								■	■	■					
17 Roadshow of new rolling forecast								■							
14 Bring in lessons learnt from 1st quarter forecast									■	■					
15 Pilot planning application										■	■	■			
16 Roll out training of planning application (using in-house experts)										■	■	■	■	■	■
18 Perform pre-work for next quarterly run using new rolling forecast tool												■	■		
19 Support budget holders during forecast prep													■	■	
20 Complete QA processes on 2nd rolling forecast														■	
21 Presentation of forecast to SMT, management & staff															■

The QRF checklist, see Appendix 1, is an evolving tool, and should a useful checklist helping ensure that while you are juggling the balls you do not drop the ones that matter.

Selecting the software

The key steps to making a good selection process include:
- workshop the QRF process using a focus group see below for an example
- seek approval of draft proposal from the focus group
- research planning tool providers and prepare a short list (avoid RFIs)
- establish selection criteria and issue RFP on preferred 3 suppliers
- organise test of the best two planning applications by contracting the consultants to model some of the required key features. Both teams should be paid a set fee so that you can keep the intellectual property developed
- presentation to decision makers and focus group

The selection criteria for planning application should include:
- have local presence
- understand beyond budgeting concepts (you are not after a better budget process)
- have built rolling 18 month forecasts
- are they skilled trainers
- have they worked with your G/L
- is the tool easy to use
- licence costs
- availability of planning tool supplier's consultants
- evaluation of their demonstration
- feedback from three user sites for each short listed supplier
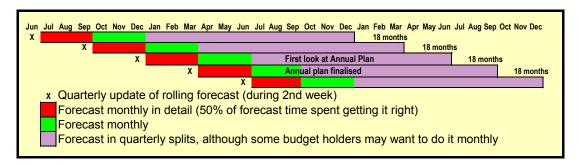
One day workshop on quarterly rolling forecasting

8.15am	Welcome from someone from the senior management team
8.30	Setting the scene - a review of quarterly rolling forecasting and why it is so important to the senior management team covering in summary. This should be attended by a cross section of management and the management and financial accountants. It would cover" • how the annual plan drops out of the bottom-up quarterly rolling forecasting regime • the impact of assigning funds on a quarter-by-quarter basis • the impact on monthly reporting • how each subsequent forecast works • involvement of SMT in a forecasting process The management attendees would leave and the workshop would start with the accounting team and selected budget holders
9.30	An insight into "Better practice" rolling forecasts and some case studies • a bottom-up process • based on a special applications - not Excel • based around key drivers • automated version control • a quick process (an elapsed week/fortnight) • goes on for 18 months • creates the annual plan • creates a quarter-by-quarter funding mechanism
10.15	Morning tea
10.30	Demonstration of a planning system (supplier comes in for a 20 minute presentation of their product)
11.15	**Mechanics of rolling forecasting** workshop where separate teams look at the key components • who should be involved in a bottom -up forecasting process • the potential pitfalls • reporting needs • when can it be implemented • training requirements • what account codes should be forecast (normally higher than G/L code) • project structure
12.30pm	Lunch
1.15pm	Feedback from teams. Participants will document agreed decisions and individuals will be encouraged to take responsibility for implementing the steps
2.00pm	**Workshop on 'post-it' re-engineering of annual planning.** During the workshop we analyse the bottlenecks of the annual planning process. It is important that the problems of the annual planning process are not imported into the rolling forecast process. In this workshop we use "post-its" to schedule the steps (yellow - budget holder activities, red - budget team activities, blue -SMT activities during budget process etc)
2.30 pm	Afternoon tea
2.45 pm	**Workshop on 'post-it' re-engineering of budget process** -Continuation and summary of findings
3.30 pm	Better practice implementation steps outlined and discussed
3.40 pm	**Workshop to develop the implementation programme steps and selling strategies**
4.30 pm	Each participant reports to the group what changes they are going to implement and when and raise any issues they still have
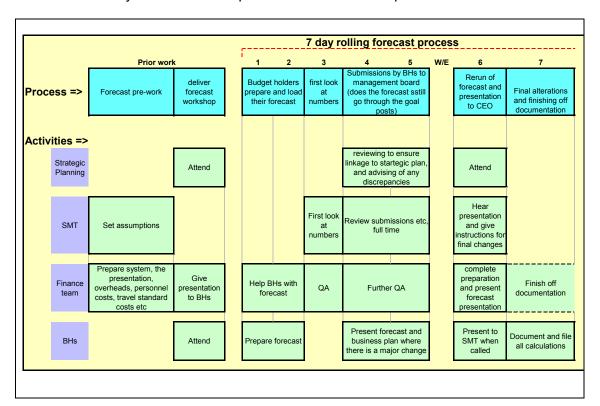
Quarterly rolling forecast cycle

Most organisation can use the cycle set out below if their year end falls on a calendar quarter end. Some organisation may wish to stagger the cycle say May, August, November, February. I will now explain how each forecast works using a June year-end organisation.

Diagram of how the rolling forecast works for a organisation (June year end)

Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
X ▬▬▬▬▬ 18 months
X ▬▬▬▬▬ 18 months
X ▬▬▬▬▬ First look at Annual Plan 18 months
X ▬▬▬▬▬ Annual plan finalised 18 months
X ▬▬▬▬▬

x Quarterly update of rolling forecast (during 2nd week)
▬ Forecast monthly in detail (50% of forecast time spent getting it right)
▬ Forecast monthly
▬ Forecast in quarterly splits, although some budget holders may want to do it monthly

December we forecast out to year end with monthly numbers the remaining in quarterly breaks. Budget holders obtain approval to spend January to March numbers subject to their forecast still going through the annual plan goal posts. The budget holders at the same time forecast next year's numbers for the first time. Budget holders are aware of the expected numbers and the first cut is reasonably close. This is a precursor to the annual plan. This forecast is stored in the G/L.

7 day rolling forecast process

	Prior work		1	2	3	4	5	W/E	6	7
Process =>	Forecast pre-work	deliver forecast workshop	Budget holders prepare and load their forecast	first look at numbers		Submissions by BHs to management board (does the forecast sstill go through the goal posts)			Rerun of forecast and presentation to CEO	Final alterations and finishing off documentation
Activities =>										
Strategic Planning		Attend				reviewing to ensure linkage to startegic plan, and advising of any discrepancies			Attend	
SMT	Set assumptions				First look at numbers	Review submissions etc, full time			Hear presentation and give instructions for final changes	
Finance team	Prepare system, the presentation, overheads, personnel costs, travel standard costs etc	Give presentation to BHs	Help BHs with forecast	QA		Further QA			complete preparation and present forecast presentation	Finish off documentation
BHs		Attend	Prepare forecast			Present forecast and business plan where there is a major change			Present to SMT when called	Document and file all calculations

March we re-forecast to year-end and the first quarter of next year with monthly numbers, the remaining period in quarterly breaks. Budget holders obtain approval to spend April to June numbers. The budget holders at the same time revisit the December forecast (the last forecast) of next year's numbers and fine-tune them for the annual plan. Budget holders know that they will not be getting an annual lump sum funding for their annual plan. The number they supply is for guidance only.

For the annual plan, budget holders will be forecasting their expense codes using an annual number and in quarterly lots for the significant accounts such as personnel costs. Management review the annual plan for next year and ensure all numbers are broken down into quarterly lots and this is stored in a new field in the G/L called "March 04 forecast". This is the second look at 2003/2004 so the managers have a better understanding. On an ongoing basis you would only need a two-week period to complete this process, if you followed the process set out below.

	Prior work		1	2	3	4	5	W/E	6	7	8	9	10
10 day Annual Plan Process													
Process =>	Budget prework	Present budget workshop	Budget rework of November numbers			first look at numbers	rework some budgets		Submissions by BHs to management board			Compilation of final draft budget for Management Board approval	Final alterations and finishing off documentation
Activities =>													
Strategic Planning		Attend						reviewing to ensure linkage to Plan, and advising of any discrepancies				Attend	
SMT	Set assumptions					First look at numbers			Review submissions etc, full time			Hear presentation and give instructions for final changes	
Finance team	Prepare system, the presentation, overheads, personnel costs, travel standard costs etc	Give presentation to BHs	Help BHs with budget plans			QA	Help BHs		Further QA			complete preparation and present AP presentation	
BHs		Attend	Prepare budget				Attend		Present to SMT when called			Document and file all calculations	

June we can re-forecast the end of June numbers and we should be able to eliminate the frantic activity that is normally associated with the "spend or lose it mentality". Budget holders are now also required to forecast the first 6 months of next year monthly and then on to Dec 2004 (6 months into 2004/2005) in quarterly numbers. Budget holders obtain approval to spend July to September numbers provided their forecast once again passes through the annual goal posts. This is stored in a new field in the G/L called "June 04 forecast". This update process should only take one elapsed week.

September we re-forecast the next 6 months in monthly numbers, and quarterly to March 2005 the first 9 months of 2004/2005. Budget holders obtain approval to spend October to December numbers. This is stored in a new field in the G/L called "September 04 forecast". This update process should only take one elapsed week.

You will find that the four cycles take about 5 weeks, once management is fully conversant with the new forecasting system and processes.

Writer's biography

David Parmenter is the CEO of waymark solutions. David specialises in assisting organisations measure, report and improve performance. waymark helps organisations streamline their: month-end reporting and annual planning processes, implement quarterly rolling forecasts, adopt the principles of beyond budgeting, develop decision based reports, and adopt performance measures that will improve performance. He has had speaking engagements in 2007 in Wellington, Auckland, Christchurch, Sydney, Melbourne, Brisbane, Canberra, Adelaide, Perth, Kuala Lumpur, Singapore, Dublin, Edinburgh, Glasgow and London.

John Wiley & Sons Inc are publishing two of his books in 2007 "Key performance indicators – developing, implementing and using winning KPIs" (January 07) and "Pareto's 80/20 Rule for the Corporate Accountant" – better practices from winning finance teams (April 07).

David has an in-depth understanding of better practices of corporate accountants across all sectors. David has also worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse. David is a fellow of the Institute of Chartered Accountants of England and Wales.

He has written over 30 articles for the accounting and management Journals in Australia, Malaysia, Ireland, England and New Zealand. His articles published include: "quarterly rolling planning - removing the barriers to success", "Throw away the annual budget", "Maybe its time to look at your KPIs", "seven time wasters", and "quick month end reporting", "Beware corporate mergers", "Implementing a Balanced Scorecard in 16 weeks not 16 months", "Convert your monthly reporting to a management tool", "Smash through the performance barrier", "Is your board reporting process out of control?"

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