How to implement quarterly rolling planning - and get it right first time by David Parmenter

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By David Parmenter (davidparmenter.com)

"Quarterly rolling planning (QRP) is the most important management tool of this decade and is a process that will revolutionise any public or private sector organisation!" states David Parmenter, CEO, *waymark solutions* **limited**

QRP removes the four main barriers to success that an annual planning process erects. An annual funding regime where budget holders are encouraged to be dysfunctional, a reporting regime base around monthly targets that have no relevance, a three month period where management are taken away from making money, and the remuneration system based on an annual target. The only thing certain about an annual target is that it is definitely wrong, it is either too soft or too hard for the trading conditions.

The critical building block for the QRP is the **quarterly rolling forecast**. This article is part of a series that will explain why QRP is the most important management tool of this decade and why the rolling forecasts of the past are a different beast to the 21st century QRP.

Although many organisations are using forecasts to monitor performance they are, in many cases, flawed from the start as they often feature some or all of the following:

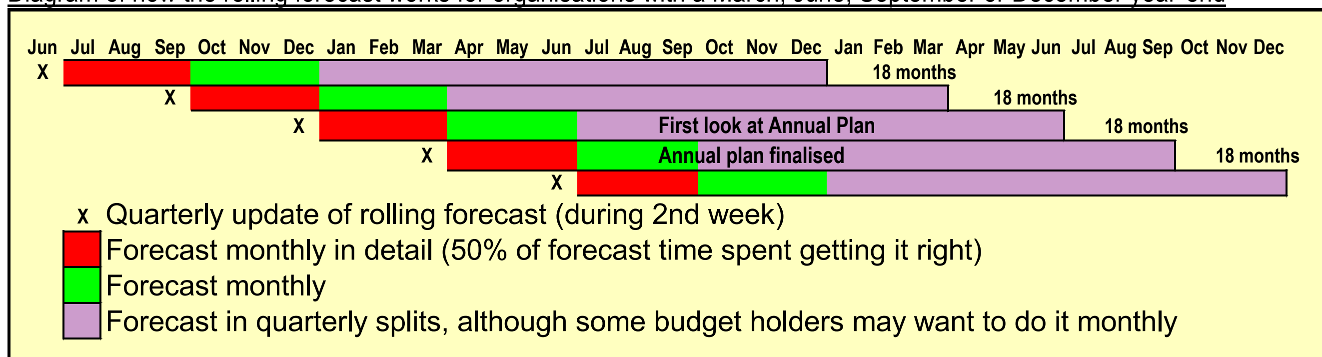
- due to poor tools and expediency the forecaster (budget holder or analyst in finance) uses the budgets of the remaining months as a guide to future expenditure
- the forecasts do not involve the budget holders as it would be a nightmare to use the budget Excel models so they are prepared centrally by the finance team with little or no consultation with the work face, I call these top-top forecasts
- the forecasts are updated monthly, an unnecessary time frame creating much number noise
- forecasts only go up to year end even though the new business year may be starting in the near future e.g. only four weeks away and management is still only focused on year end.

There is an answer, quarterly rolling planning.

What is a quarterly rolling planning process?

The quarterly forecasting process is where management sets out the required expenditure for the next 18 months. Each quarter, before approving these estimates, management sees the bigger picture six quarters out. All subsequent forecasts while firming up the short-term numbers for the next 3 months also update the annual forecast. Budget holders are encouraged to spend half the time on getting the detail of the next 3 months right as these will become targets, on agreement, and the rest of the time on the next 5 quarters. Each quarter forecast is never a cold start as they have reviewed the forthcoming quarter a number of times. Provided you have an appropriate forecasting software management can do their forecasts very quickly, one airline even does this in three days!! The overall elapsed time of the four forecasts is as little as five weeks. Compare this to your annual planning cycle that on average takes 8-12 weeks.

Diagram of how the rolling forecast works for organisations with a March, June, September or December year-end



The key points of a rolling forecast are:
• budget holders' provide an annual plan through the bottom-up quarterly rolling forecasting regime but are not assigned those funds, this is done on a quarter-by-quarter funding
• monthly reporting is more meaningful as it measures performance against the most recent forecast and not a monthly split of the original annual plan
• each subsequent forecast is still expected to put the ball through the annual plan goal posts the difference being the ball carries on to the next pitch (into next year). e.g. always looking forward 18 months
• forecasting is carried out on an appropriate planning tool that can handle a bottom-up forecast once a quarter - Excel is not, and has never been, an appropriate tool for a key company system

The difference between quarterly rolling forecasting (QRF) and quarterly rolling planning (QRP)

A recent study of over 200 US organisations found that 80% of them expect to have quarterly rolling forecasts in place by 2005! Many of these will be using these forecasts as a funding regime and thus they will be a QRP process.

QRF on it own simply gives management a better picture of the future. Organisations then report against the forecast and the budget. In other words they still have not tackled the main issue holding back their organisation the annual planning process and its undesirable offspring, the monthly budget.. Organisations who gone the extra steps and thrown out the annual planning process entirely have converted their QRF to a QRP process.

It is significant as the rolling quarterly planning process allows:
• an adaptive performance management structure, responsive to the fast and dynamic world we work in
• it forces management to look forward on a regular basis - a continual planning process
• it replaces the monthly budget with a more up to date monthly target
• radically improves monthly reporting - you now report against a meaningful target

The features of a quarterly rolling planning (QRP) process

There are a number of key features of a QRF and these are set out below.

Recognise that it is a bottom-up process

Most forecasting models, built in Excel, tend to be a top-top approach, what I mean by that is that consultation is often restricted to people who are removed from the work face and thus tend to have a very skewed view of the future, and in some cases simply reiterating the misconceptions that the head office wish to believe.

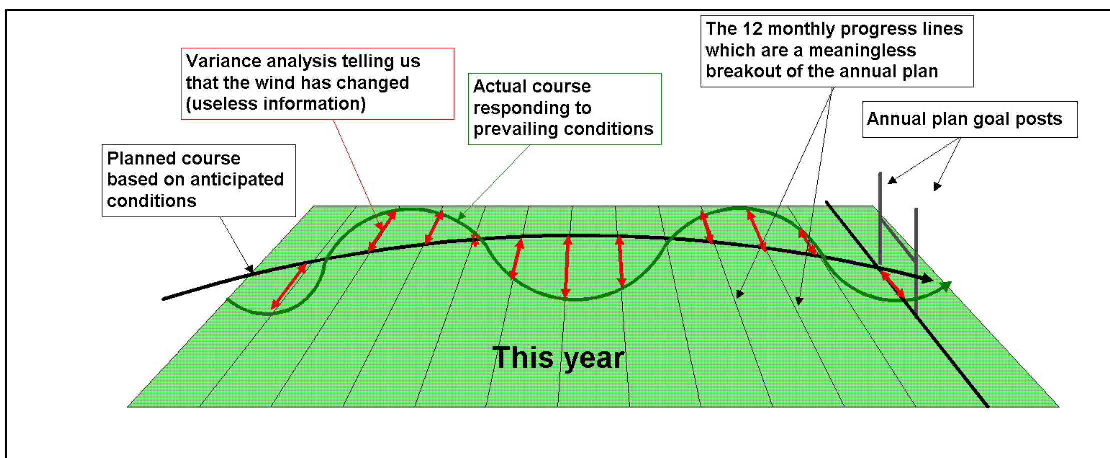
A proper rolling forecasting regime is one which is a bottom up process and which is consistent between the various different functions, in other words, production is being based on forecast demand rather that the other way around. A bottom-up process also helps ensure that there is a general consensus in the longer-term view.

Creates the annual plan goal posts

Lets get one thing straight, the standard annual planning process takes too long, is not focused on performance drivers, is not linked to strategic outcomes or 'critical success factors', leads to dysfunctional behaviour, builds silos and is a major barrier to success.

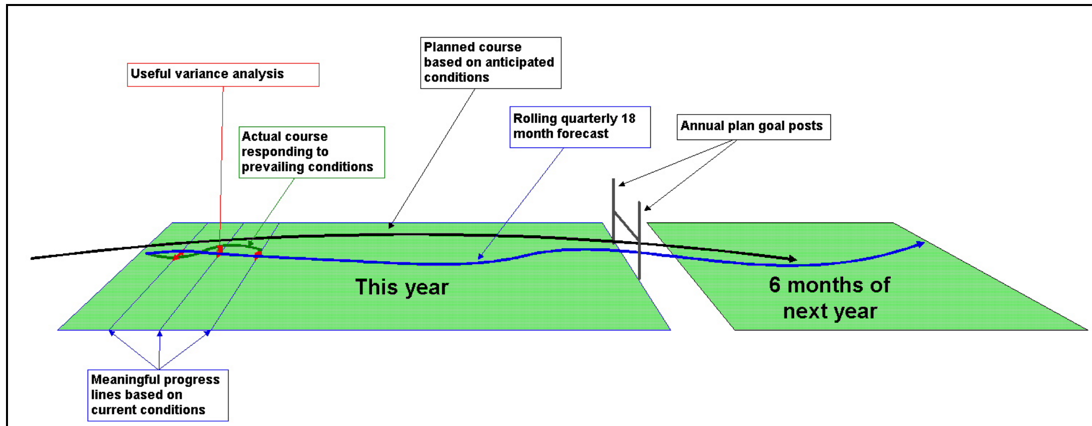
This paper will show how the quarterly rolling forecasting process will allow you to set quick annual plan goal posts but throw out the flawed monthly budget yardsticks and annual appropriation to budget holders.

I use a rugby analogy to explain how the QRP solves these problems. The annual plan is the establishment of goal posts at the end of the pitch, the budget process is where we set 12 X 10 metre lines to report against, see diagram. The two problems about the current situation is that firstly, the 10 metre lines (the monthly budgets) are wrong as soon as the year has started, and secondly, there is no need to pass the agreed appropriation on to budget holders based on their annual plan.



Creates a quarter-by-quarter funding mechanism

The key is to fund budget holders on a rolling quarter-by-quarter basis. In this process the management asks, "yes we know you need $1m and we can fund it, but how much do you need in the next three months". It will come of no surprise that a budget holder can be much more precise for the funding requirement for the next three months. Say in this case $225,000. The "ground staff" then draw these lines on the pitch and management become very accountable about progress, see diagram below. This process means that the approval process through the SMT will be quicker as the SMT are only approving the funding of the next quarter and can adjust the quarter by quarter funding as the conditions and environment dictate.



Some organisations are recognising the folly of giving a budget holder the right to spend an annual sum, while at the same time saying if you get it wrong there will be no more money. By forcing budget holders to second-guess their needs in this inflexible regime you enforce a defensive behaviour, a stock piling mentality. In other words you guarantee dysfunctional behaviour from day one! A benefit of QRP is that it highlights “free funds” for new projects earlier on in the financial year as it is harder for a budget holder to hide surplus funding in the next quarters allocation.

The released funds can fund new initiatives that the budget holder could not have anticipated previously. This will get around the common budget holder dilemma “I cannot undertake that initiative, though we should, as I did not include it in my budget”. In the new regime the budget holder would say. “I will put it in my next update and if funds are available I am sure I will get the go ahead”

This more flexible funding environment will have good buy-in from cost centre managers, as long as the regime is communicated clearly and frequently.

Based on a planning application – not Excel

Forecasting requires a good robust tool not a number “8 wire” spreadsheet built by some innovative accountant which now no one can understand. If you have not already up skilled in this area you need to do so immediately.

Acquiring a planning tool is the first main step forward. This is particularly important as in my view there is no room for top-top forecasts, where management prepare it with out consultation from budget holders. They exist only because organisations use Excel, a nightmare for a bottom-up process. To do bottom-up forecasting every quarter you need a bolted down system.

Excel is a great tool for an expense claim at the airport. It is not and never should be a building block for your company’s key systems.

As a forecasting tool Excel **fails on a number of counts:**

- it has no proper version control, we have all burnt the midnight oil pulling our hair out wondering whether all spreadsheets are the correct versions!!
- for every 150 lines in your forecasting model there is a 90% chance of a logic error (from a recent study)
- lack of robustness (show me a CFO who can be confident of the number an Excel forecast churns out!)
- cannot accommodate changes to assumptions quickly e.g. how could you cope if the CEO asked “what is the financial impact of stopping production of line x?”. “I need to know by close of play today”
- designed by staff who are not programmers, nor have been trained in documentation, quality assurance or other vital skills for a core system

These planning tools are being built all the time. The table below covers some tools and is not intended to be comprehensive list as this would be a paper in itself.

Package Name	Web address
Business Planning and Budgeting	www.peoplesoft.com
Camelot	www.descisys.com
Cognos Planning (previously Adaytum)	www.cognos.com
CorStrategy	www.corvu.com
Everest	www.outlooksoft.com
GEAC Performance Management Suite	www.beaconit.com.au
Hyperion Planning	www.hyperion.com
MIS DecisionWare	www.misag.com.au
Mondelio	www.mondelio.com
Olapworks	www.olapworks.com
Oracle9I Developer Suite	www.oracle.com
OS systems - crystal reports	www.oasystems.co.nz
Perceive	www.perceive.com.au
Predictive Planning	www.gfg-group.com
Proclarity Analytics	www.bipredict.co.nz
QSP Performance Manager	www.qsp.com.au
Sage WinForecast	www.sage.co.uk
Strategic focus	www.strategicfocus.co.nz
TARGIT	www.targit.com
TM1	www.applix.com, www.cortell.co.nz

Based around key drivers

One of the key issues of a forecasting tool is that it needs to be based on the key performance drivers that management may need to know. In-depth interviews with the SMT coupled with some brainstorming will quickly identify the main ones which may include:

- what if we contract e.g. stop production of one line, sell a business
- what if we grow through acquisition
- business from key customers and supply requirements from suppliers
- key economic indicators, interest rates, inflation,
- exposure to volatile markets
- plant capacity limits

If you have second guessed the likely SMT requests and have designed the model around them you will have a planning tool that can quickly model the implications of such changes robustly.

Based around a quick process

QRFs should be performed within 5 working days, with the one exception that the 4th quarter's forecast, which creates the annual goal posts will have one extra week for additional negotiations and quality assurance. QRFs can be quick because:

QRFs can be quick because:	
•	planning tools enable instant consolidation
•	the model is robust and doesn't have multiplicity of formula within it
•	numbers preparation can be done in advance e.g. personnel costs
•	the quarterly repetition aids efficiency and effectiveness
•	repeat costs can all be standardised e.g. Sydney to Melbourne flight cost can be A$180 for the whole year and overnight in Sydney would have a standard amount A$200 etc.

Rolling 18 months not 12, 13 or 15 months

I advocate an 18-month rolling forecast regime, as it has some substantial benefits that include:

- you see the full next year half way through the current one, e.g. the third quarter forecast can set the goal posts for next year's annual plan
- the QRF is consistent each time it is performed, as opposed to organisations who always look ahead for two financial years (the QRFs will vary between 13 to 23 months)
- your annual goal posts are never set with a cold start

Quarterly process not monthly

Only businesses that are in a very dynamic environment would need to forecast monthly. One has to remember that for every event that goes your way, there will be another event in the future negating the positive impact e.g. it is not worthwhile changing your year-end forecast due to the loss or gain of a large customer. These changes are better picked up on a quarterly basis, this will help ensure less oscillations of your year end numbers.

For those organisations that are in a dynamic environment, you do not need to get all budget holders to participate in their monthly re-forecast, you may be able to limit this extra monthly work to sales and production with the major all embracing cycle still being quarterly.

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?"
He can be contacted at parmenter@waymark.co.nz or telephone +64 4 499 0007 He has recently completed a series of white papers which can be purchased from his website http://www.waymark.co.nz.His recent thinking is accessible from www.DavidParmenter.Com