Chapter 16 Implementing Quarterly Rolling Forecasting and Planning

Overview

With many organizations questioning the validity and usefulness of annual planning the search is on for an alternative. Quarterly rolling forecasting and planning appears to solve all the major issues. This chapter explores the foundations stones required for a rolling forecasting and planning process to work and the key implementation steps that need to be covered.

Keywords: Emotional drivers, annual planning, Svenska Handelsbanken case study, Myths, Quarterly Rolling Forecasting and Planning, Foundation Stones, abandonment, Peter Drucker, Wisdom of the crowd, Planning tool, Jeremy Hope, Ballance Nutrients case study, Efficient Forecasting and Planning Processes, templates, formats, checklists, Post - it Reengineering

As mentioned in Chapter 9, the annual planning process takes too long, leads to dysfunctional behavior, builds silos, and is a major barrier to success. Organizations around the world are questioning the value of the traditional annual budgeting process.

This chapter is a summary of the content in my white paper *"How To Implement Quarterly Rolling Forecasting And Quarterly Rolling Planning– And Get It Right First Time"* [i]

Selling and Leading the Change

It is important to sell to management why they need to move to a quarterly rolling forecasting and planning regime. As mentioned in Chapter 2 *Selling and Leading Change* it is important to start the process off by getting management to see that the default future is not what they want. We need to sell the change using emotional drivers rather than selling by logic, as already discussed.

In Chapter 9 I have set out the emotional drivers regarding why annual planning needs to change. The following points are some of the additional emotional drivers you could use to sell the need to move to quarterly rolling forecasting and planning process to the SMT:

Rolling forecasting and planning is now considered a best practice.	It is better practice to implement quarterly rolling forecasting and planning (e.g., 70 percent of top performing organizations undertake rolling forecasting[ii]).
Better allocation of resources	Allocating budgets on a quarter-by-quarter basis will mean that funding is adaptable to the changing conditions. The finance team and budget holders are skilled staff that could be doing more meaningful activities.
Appropriate monthly targets	Setting monthly targets (budgets) a quarter ahead will make them more meaningful and improve the value of the variance commentary.
Better buy-in from budget holders	An adaptive quarterly rolling forecasting and planning process will have more buy-in, create less arguments and greatly assist seeing the future clearer.

Annual Planning is a Questionable Activity

Jeremy Hope was the world's foremost thought leader on corporate accounting issues. Sadly he passed away in 20…. Hope had an uncanny ability to have a vision, at least five years ahead of time, about what better corporate accounting practices should look like. Hope has stated that not only is the budget process a time - consuming, costly exercise generating little value, but it also, and more importantly, a major limiting factor on how your organization can perform. He has many examples of how companies, following the philosophies he has expounded, have broken free and achieved success well beyond their expectations. Here are three quotes that challenge the very concept of budgeting.

So long as the budget dominates business planning a self – motivated workforce is a fantasy, however many cutting - edge techniques a company embraces.

Modern companies reject centralization, inflexible planning, and command and control. So why do they cling to a process that reinforces those things?

The same companies that vow to respond quickly to market shifts cling to budgeting — a process that slows the response to market developments until it's too late.

Jeremy Hope and Robin Fraser, Beyond Budgeting[iii]

Hope and Fraser in their beyond budgeting book, pointed out that the annual budgeting process was doomed to fail. If you set an annual target during the planning process, typically 15 or so months before the last month of that year, you will never know if it was appropriate, given that the particular conditions of that year will never be guessed correctly.

A Burning Platform

The major problems that are associated with annual planning include:

- An annual funding regime where budget holders are encouraged to be dysfunctional building silos and barriers to success
- The monthly budgets set in the annual plan bearing no relation to reality
- Takes too long – often a three month period where management is not particularly productive
- Using the annual plan as part of a bonus system.
- Costs too much – annual planning costs in time alone runs into the millions each year for larger organizations
- Often needs to be updated during the year to reflect the dynamic and a rapidly changing environment we work in see Exhibit 16.1.
- Is an "anti-lean" process

In a poll during webcasts to corporate accountants I asked the attendees "How long does your planning take each year?, see Exhibit 16.1. Around 80% were investing two months or more and 60% were taking three months or more.

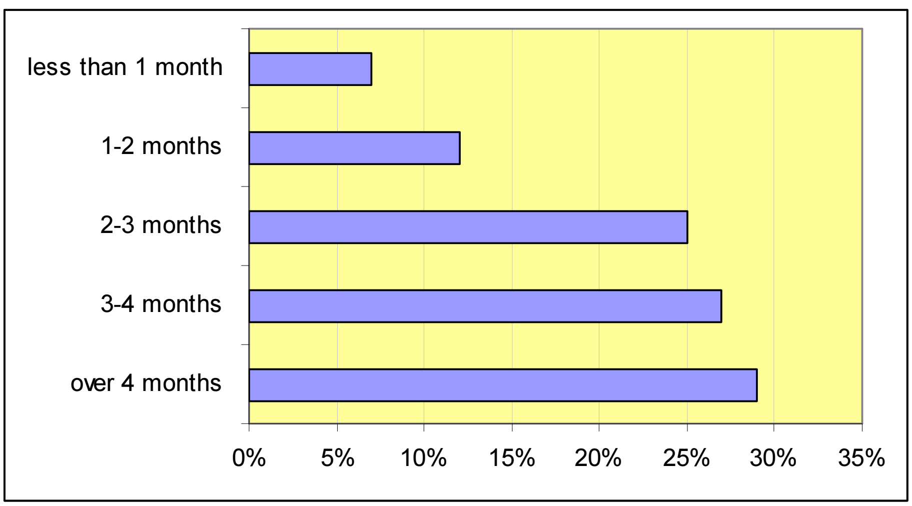


EXHIBIT 16.1 Speed of Annual Planning (Source Waymark Webcast Polls Canada, Australia and NZ)

In Chapter 9 the estimated cost for annual planning in a 500 FTE organization is between $1.2 and $1.7m a year.

The only thing certain about an annual target is that it will be wrong; it will be either too soft or too hard for the operating conditions. The answer is to throw away the annual budget and its associated processes, as smart organizations do not do an annual planning process anymore. By 2020, very few progressive organizations will be doing annual planning as we know it today.

To find out the latest organizations that do not do annual planning visit the Beyond Budgeting Roundtable (www.bbrt.org) that was co-founded by Jeremy Hope. You can access much valuable information including the Svenska Handelsbanken case study.

Beyond Budgeting in New Zealand: A Major Road Contracting Company

I was presenting Beyond Budgeting and key performance indicators (KPIs) in New Zealand and was introducing myself to the managing director of a large road contracting company. He politely informed me that he was mainly interested in hearing the KPI part of my presentation, as the beyond budgeting session was of little interest as they were already doing it. In fact, the group had never had an annual planning process. He said if the group could predict when it was going to sunny and when it was going to rain, annual planning would be useful.

The business encompasses concrete, transport (local and rural), fuel distribution, and roading. The group has around 1,000 staff members and a consistent profit growth, the envy of many larger organizations.

The growth path has been either to grow from scratch or buy existing family companies. As the CEO says, "Expansion is often driven by opportunity". It has 23 companies as well as a number of joint ventures.

The business has different performance tables depending on the size of operations, so the companies can compare with one another. Each table shows the ranking of the operations within that table with reference to some key ratios. The ratios they monitor include:

Return per km — revenue and cost per km

Margin per liter

Delivery cost per liter

Concrete cost per cubic meter

Cubic meter delivered by pay hour

Monthly reports are short and based on major cost categories (not at detail account code level). They do not waste time showing a consolidated result each month; this is done at year - end only. There is much delegation to the other offices, which manage staff levels within given limits, set staff salaries, and choose which suppliers to use (providing there is not a national contract in place).

The Myths around Annual Planning

There are many reasons why your annual planning in your organization is not working. One main factor is a lack of understanding of the myths surrounding annual planning.

Just like six centuries ago we are blind to the realities that are there to see on closer observation. We have for centuries blindly applied old thinking to how we measure, monitor and improve performance.

Myth 1: There Is A Need to Set Annual Targets

It is a myth that we know what good performance will look like before the year starts and, thus, it is a myth that we can set relevant annual targets. In reality, as former CEO of General Electric, Jack Welch[iv] says, "It leads to constraining initiative, stifling creative thought processes and promotes mediocrity rather than giant leaps in performance". All forms of annual target are doomed to failure. Far too often management spend months arguing about what is a realistic target, when the only sure thing is that it will be wrong. It will be either too soft or too hard.

Jeremy Hope, and his co-author, Robin Fraser, were the first writers to clearly articulate that a fixed annual performance contract was doomed to fail. Far too frequently organizations end up paying incentives to management when, in fact, they have lost market share. In other words, rising sales did not keep up with the growth rate in the marketplace. As Hope and Fraser point out, not setting an annual target beforehand is not a problem as long as staff members are given regular updates about how they are progressing against their peers and the rest of the market. Hope argues that if you do not know how hard you have to work to get a maximum bonus, you will work as hard as you can.

Just like a high jumper in the Olympics in order to win they have to jump the highest. Having a predetermined height set in their minds will only limit their performance.

Myth 2: We Could Set Monthly Targets from the Annual Plan

As accountants we like things to balance and our work to be neat and tidy. Thus it appeared logical to break the annual plan down into 12 monthly breaks before the year had started. We could have been more flexible. Instead, we created a reporting yardstick that undermined our value to the organization. Every month we make management, all around the organization, write variance analysis which I could do just as well from my office in New Zealand. “It is a timing difference” “We were not expecting this to happen”, “The market conditions have changed radically since the plan” etc.

Myth 3: We Only Need To Forecast Out To the Current Year-End

Typically corporate accountants have reforecast the year-end numbers every month. This is flawed on a number of counts. Firstly, why should one bad month, one good month translate into a change of year-end position. We gain and lose major customers, key products rise and wane; this is the life cycle we have witnessed many times. Secondly, the forecast is a top-top forecast with little input and no buy-in from the budget holders. Thirdly, two months before year-end management appear to ignore the oncoming year. Fourthly management and the Board know whatever number you have told them is wrong. You will change it next month!

Myth 4: Giving Budget Holders an Annual Entitlement Made Sense

Doing an annual plan is daft enough but to compound it with asking budget holders what they want and then, after many arguments, giving them an ‘annual entitlement’ to funding is the worse form of management we have ever presided over. The logic of changing to a quarterly rolling funding regime can be shown in an analogy.

The nine year old’s birthday cake

An experienced parent, at a nine year old’s party, is careful about how much cake they give to the children. Offering a slim slice of cake and saying, “Here is the first slice of cake, if you finish that slice, and want more, I will give you a second slice”.

In the annual planning process we divide the cake up and portion all of it to the budget holders. Budget holders behave like the nine year olds who lick the edges of their cake so even if they do not need all of it nobody else can have it.

Why not, like the clever parent, give the manager what they need for the first three months, and then say “What do you need for the next three months?” and so on. Each time we can apportion the amount that is appropriate for the conditions at that time.

Myth 5: We Need To Budget at Account Code Level

What made accountants ever conceive that we needed to set targets at account code level? It was done by our forefathers so we duly followed in the well-trodden steps. It makes no sense.

Having budgets at account code level has encouraged budget holders to allocate expenditure to an account that that has room for it, thus at a single stroke undermining the purpose of the G/L which is to account for costs and revenue in the right areas.

Do you need a target or budget at account code level if you have good trend analysis captured in the reporting tool? I think not. We need to apply Pareto's 80/20 rule and establish a category heading which includes a number of G/L codes.

Myth 6 An Annual Plan Requires Months Of Work To Complete

The annual planning process is not adding value, instead it is undermining an efficient allocation of resources, encouraging dysfunctional budget holder behavior, negating the value of monthly variance reporting and consuming huge amounts of time from the Board, senior management team, budget holders, their assistants and of course the finance team.

When was the last time you were thanked for the annual planning process? At best you have a situation where budget holders have been antagonized, at worst, budget holders who now flatly refuse to co-operate!

Like a laboratory rat we go down the same pathway each year to find there is no cheese, no passing 'Go' and collecting £200 (Monopoly Game), just mayhem. The annual planning process may have worked for Julius Caesar but certainly not for us.

The nightmare of three to four months arguing over resource allocation when nobody knows the answer, the endless cut-back rounds, and the game playing, the spend–it or lose-it-mentality is not befitting the 21st century.

Myth 7: We Have to Plan Around Calendar Months

Julius Caesar gave us the calendar we use today. It is not a good business tool because it has divided up the year in uneven periods. With the weekdays and number of weekend days, in any given month, being different to the next month it is no wonder forecasting and reporting is unnecessarily compromised.

Even if we are stuck, in the short term with reporting results on calendar months we can and should base our forecasting models around a 4,4,5 weeks quarter e.g. there are two four week months and one five week month in a quarter. The model would them smooth back the numbers to the correct working days for monthly targets.

Myth 8: The Annual Planning Process Will Be Quicker This Year

Each year I was involved in the annual planning process I thought I had discovered the secret to cut months out of the process. I even had budget holders on my side saying, “Yes we agree that four months is ridiculous and we will cooperate.” As you all know the next annual plan will be as worse as the last one because once the annual planning process has begun budget holders commence their political gesturing. It is just like Pavlov and his dogs.

Quarterly Rolling Forecasting and Planning

The quarterly rolling forecasting (QRF) process is where management sets out the required revenue and 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 three months, also update the annual forecast. Budget holders are encouraged to spend half the time on getting the details of the next three months right, as these will become targets, on agreement, and the rest of the time on the next five quarters. The quarterly forecast is thus used to:

- Fund budget holders, on a quarterly rolling basis, once their forecast has been approved
- Set the monthly budgets to be used for month-end reporting (set only one quarter ahead)
- Update the annual forecast
- Give a view of the next financial year

Each quarter forecast is never a cold start as budget holders have reviewed the forthcoming quarter a number of times. With the appropriate forecasting software, management can do their forecasts very quickly; one airline even does this in three days. The recommended elapsed time spent on the four quarterly forecasts during any given year is no more than five weeks.

Exhibit 16.2 shows how the quarterly rolling process works for a June year-end organization. The dark shaded zone is the forecast for the next quarter and the most important part to get right. The light shaded zone is the second quarter. Quarters one and two will be forecast monthly and quarters three to six are forecast in quarterly blocks as less detail is required.

As a guide, budget holders should spend 60 percent of their time on the first quarter because first quarter numbers will become targets, 20 percent on the second quarter and 20 percent on the remaining four quarters.

Most organizations can use the cycle set out in Exhibit 16.2 if their year-end falls on a calendar quarter end. Some organizations may wish to stagger the cycle say May, August, November, and February. An explanation of how each forecast works, using a June year - end organization, follows.

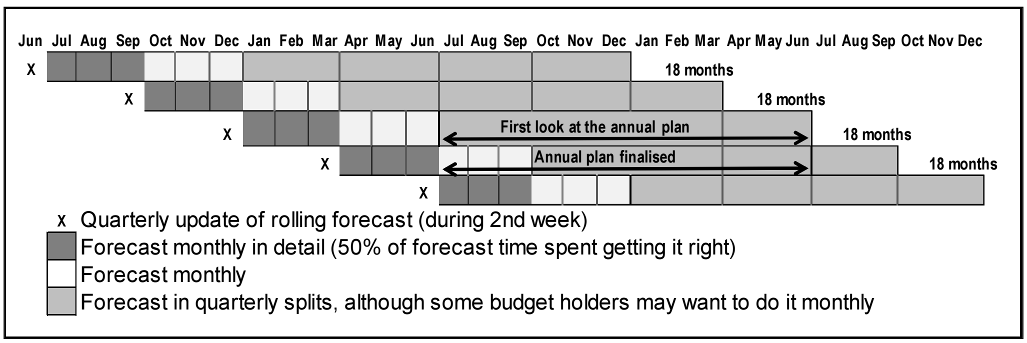


EXHIBIT 16.2 How the Rolling Forecast Works for an Organization (June year-end)

The Process Quarter By Quarter For June Year-End Organization

December update (one week duration) In the second week of December, budget holders forecast to the end of the year, with monthly numbers, and the remaining period in quarterly breaks. Budget holders obtain approval to spend January - to - March numbers subject to their forecast, still going through the annual plan goalposts. 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 forecasting and reporting tool. This update process should take only one elapsed week.

March update and annual plan (two week duration) In the second week of March, budget holders re-forecast to year-end in monthly numbers and we should be able to eliminate the frantic activity that is normally associated with the spend - it - or - lose - it mentality. They also forecast the first quarter of next year with monthly numbers, and the remaining periods in quarterly breaks. The budget holders at the same time revisit the December forecast (the previous 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 for the annual plan is 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 reviews the annual plan for next year and ensures all numbers are broken down into quarterly lots. This is stored in a new field in the forecasting and reporting tool called "March XX forecast" This is the second look at the next year, so the managers have a better understanding. On an ongoing basis, they would need only a two - week period to complete this process.

June update (one week duration) Budget holders also are now required to forecast the first six months of next year monthly and then on to December in the following year in quarterly numbers. Budget holders obtain approval to spend July - to - September numbers, provided their forecast once again passes through the annual goalposts. This is stored in a new field in the forecasting and reporting tool called "June XX forecast." This updated process should take only one elapsed week.

September update (one week duration) Budget holders reforecast the next six months in monthly numbers, and quarterly to March 18 months forward. Budget holders obtain approval to spend October - to - December numbers. This is stored in a new field in the forecasting and reporting tool called "September XX forecast." This updated process should take only one elapsed week.

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

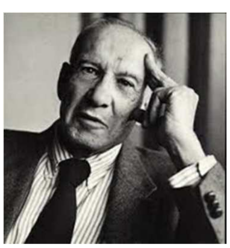
The Foundation Stones of a Rolling Forecasting and Planning Process

In Chapter Nine on lean annual planning processes I separated out the practices (foundation stones) that you have to adopt to progress forward, from those practices you can choose to adopt or not without adversely affecting the process. This Chapter needs to be read after you have absorbed Chapter Nine as some of the foundation stones are the same and thus are not repeated.

A number of QRF foundation stones need to be laid down and never undermined. You need to ensure the entire construction of the QRF model is undertaken on these foundation stones:

1. Abandoning processes that do not work
2. The QRF model should be built by in-house resources
3. Separation of targets from realistic forecasts (covered in Chapter 9)
4. A quarterly process using the wisdom of the crowd
5. Forecast beyond year-end (e.g., six quarters ahead)
6. The monthly targets are set, a quarter ahead, from the QRF
7. A quarter-by-quarter funding mechanism
8. The annual plan becomes a by-product of the QRF
9. Forecasting at category level rather than account code level (covered in Chapter 9)
10. The QRF should be based around the key drivers
11. A fast light touch (completed in an elapsed week)
12. Built in a planning tool – not in a spreadsheet (covered in Chapter 4)
13. Design the planning tool with four and five week months
14. Invest in a comprehensive blueprint

Abandoning processes that do not work



Management guru Peter Drucker[v] who I consider to be the Leonardo de Vinci of management, frequently used the word '*abandonment*'. I think it is one of the top ten gifts Drucker gave us all. He said

"Don't tell me what you're doing, tell me what you've stopped doing."

He frequently said that abandonment is the key to innovation, in other words, the key to fast forecasting process. In planning many of the processes are carried out, year-in year-out because they were done last year. When staff question why do we do this the answer being "There must be a reason".

All the previous givens with regards forecasting need now to be challenged and all the inefficient processes thrown out. Here is a list, by no means complete, of what needs to be abandoned.

Using Excel	Forecasting in Excel, just because we are good at it

At account code level	Forecasting in detail, at account code level and to the dollar
Only forecasting to year-end	Only forecasting to the current year-end as if next year did not exist
An annual entitlement	Giving budget holders an annual entitlement, they have not got a clue as what the next year is really going to be, nor do we in Finance.
Forcing numbers	Forcing the annual plan to be the same number that the Board want to see - we have just lied!
A three month process	A three month process when it can be done in two weeks – both will be wrong. You may as well be wrong quickly!
Setting the monthly targets	Setting the monthly targets from the annual plan - since we cannot see into the future this breakdown of the annual plan has always been a stupid activity
Written instructions	Annual plan written instructions – nobody reads them and if they say they have don't believe them.

Your time is limited, so don't waste it living someone else's life. Don't be trapped into living with the results of other people's thinking. Don't let the noise of other's opinions drown your own inner voice" **Steve Jobs**

The QRF Model Should Be Built By In-House Resources

The project team must always design the model themselves. You need to use the planning tool consultants more as advisors and trainers and make sure you drive the mouse. The planning tools are relatively simple to use providing the in-house staff have attended in-depth training.

If the model is built by the consultants, not only will the project cost more money, you have the added risk of bringing someone who may not fully understand your business, and who will endeavor to build you a better annual planning model, the very thing you need to migrate away from.

The in-house team has a better chance of designing a model that fits your industry and your decision-making processes than an external consultant. Consultants, with the best will in the world, cannot help but design a model based on their prior experiences, which may be adrift of techniques described in this white paper.

In other words it's just like learning to drive a car, the team will need a series of lessons and hopefully practise first on "quiet country roads" (pilot the model) before they drive on the motorway (unleash the model to all budget holders).

Separation of Targets from Realistic Forecasts (Covered in Chapter 9)

Please review Chapter 9 to understand this important foundation stone.

A Quarterly Process Using the Wisdom of the Crowd

A forecasting and planning regime model should be designed with a view to involve budget holders in updates four times a year. The goal is for them to buy into the targets that they will report against and accept the new funding level.

Typically management reforecasts the year - end numbers on a monthly basis. Why should one bad month, or one good month, translate into a change of the year - end position? We gain and lose major customers, key products rise and wane; this is the life cycle we have witnessed many times. Besides, if you change your forecast each month, it is too costly and the benefits are not worth the effort. Management and the board know whatever number you have told them is wrong — you will change it next month. As shown in Exhibit 16.3, we now have only four reforecasts a year, instead of the 12 updates.

Many forecasts have little input and no buy-in from the budget holders. Companies have, in order to save money, centralized data input within the finance function. I call these forecasts "a top-top forecast," whereby the finance team talks amongst themselves and with senior management but believes they do not have time to involve budget holders. Such a centralized approach can slow down the forecasting process, limits the budget holders' buy-in to the planning tool and does not take advantage of collective knowledge of the wisdom of the crowd, as outlined in Chapter 9.

To achieve a bottom-up process, all budget holders should be able to enter their data. Training and adequate support from forecasters is needed and you should have sufficient licenses to enable budget holders to enter data during the two-three day window for data entry.

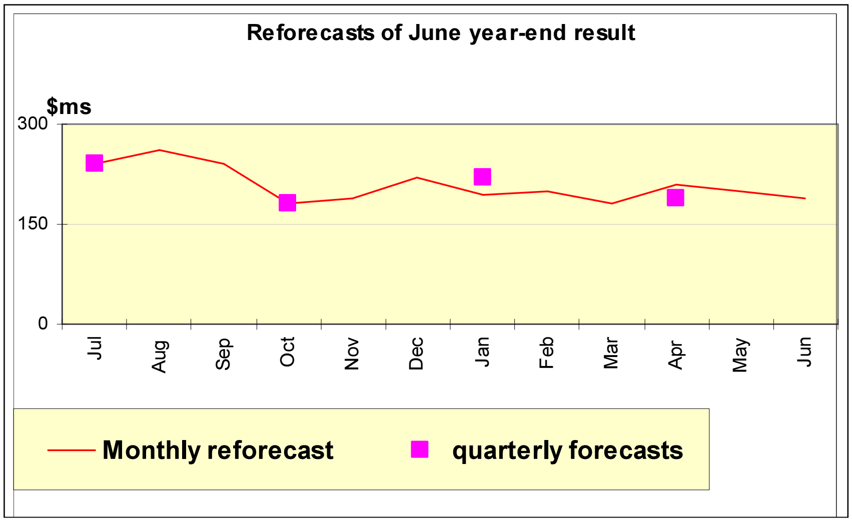


EXHIBIT 16.3: Quarterly re-forecasting

Only businesses that are in a volatile sector would need to forecast monthly (e.g., the airline industry). Even for these organizations, you do not need to get all budget holders to participate in a monthly reforecast. You may be able to limit this extra work to sales and production, with the major all - embracing cycle still being quarterly.

Forecast Beyond Year - End (e.g., Six Quarters Ahead)

As mentioned it is a myth to believe that you only need to forecast out to year-end. There are various options as to how far forward you go, including:

- Always forecast two years ahead — this is particularly relevant where the business is very seasonal and much activity happens in the last quarter.
- Forecast six quarters ahead.
- Use variations such as four or five quarters ahead.

I advocate the six - quarter - ahead (18 - month) rolling forecast regime, as it has some substantial benefits, which include:

- You see the full next year halfway through the current year (e.g., the third - quarter forecast can set the goalposts for next year's annual plan).
- The QRF is consistent each time it is performed, as opposed to organizations that always look ahead for two financial years (the QRFs will vary between 15 to 24 months).

- Your annual plan is never set from a cold start, as you have seen the whole financial year in the previous quarter forecast.

Monthly Targets Are Set, a Quarter Ahead, from the QRF

As mentioned earlier it is a myth that we could set meaningful monthly targets from the annual plan.

We instead should report against more recent targets derived from the quarterly rolling forecasting process. This process will give us the monthly targets for the next quarter. It is important to realize that monthly targets are not set any farther out than the quarter ahead. In fact, information for quarters three, four, five, and six are set only quarterly. In other words, we patiently wait until the relevant quarter is upon us before putting the budget holders 'estimates in the reporting tool.

This change has a major impact on reporting. We no longer will be reporting against a monthly budget that was set, in some cases, 15 months before the period being reviewed.

A Quarter - by - Quarter Funding Mechanism

As mentioned it is a myth that we needed to give budget holders an annual entitlement to spend. The key to a better allocation of resources is to fund budget holders on a rolling quarter - by - quarter basis. In this process management asks, "Yes, we know you need $One million and we can fund it, but how much do you need in the next three months?" At first the budget holder will reply, "I need $ this quarter," The management team replies, "How is this? Your last five quarterly expenditures have ranged between $180,000 and $225,000. Pat, you are two team members short and your recruiting is not yet under way; realistically you will need only $225,000 tops. "

It will come as no surprise that when a budget holder is funded only three months ahead, the funding estimates are much more precise and there is little room or nowhere to hide those slush funds.

This means that the approval process, through the senior management team (SMT), will be quicker as the SMT are approving only the annual number and can adjust the quarter - by - quarter allocations as the conditions and environment dictate.

By funding quarterly, and not yearly, the quarterly rolling forecasting and planning process thus highlights "free funds" that can be reallocated for new projects earlier in the financial year.

The released funds can provide for new initiatives that the budget holder could not have anticipated at the time of the budget round. This will get around the common budget holder dilemma, “We cannot undertake that initiative, although 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 environment, as long as it is communicated clearly and frequently to budget holders, will have good buy - in.

The Annual Plan Becomes A By-Product Of The QRF

With quarterly rolling forecasting, one of the quarters also generates the annual plan. The QRF process will allow you to have a quick annual planning process, as:

- Budget holders will become more experienced at forecasting (they are doing it four times a year), and they have already looked at the next year a number of times.
- Politics is taken out of the annual planning cycle, as budget holders realize that they no longer obtain an annual entitlement. There is no use demanding more than you need, as the real funding is sorted out on a quarter - by - quarter basis, where slush funds cannot be hidden.
- The third - quarter forecast firms up both the fourth quarter funding and the annual plan numbers.
- The CEO supports the guillotined process.
- There is no point spending too much time, as the next quarter forecast is a more up - to - date view of the future.

Organizations that have truly adopted the Beyond Budgeting principles also will throw out the annual plan target. Why should one view of year - end be any better than a subsequent, more current view? The March quarter forecast is no longer called the annual plan; it simply is the March quarter forecast. The board will want to monitor the extent of forecast creep, and this can be easily shown in a graph.

Forecasting at Category Level Rather Than At Account Code Level

Please review Chapter 9 to understand this important foundation stone.

The QRF Should Be Based around the

Main Events/Key Drivers

Forecasting needs to be based on the main events / key drivers and thus the finance team should be able to quickly inform management of the impact should there be a major change with any of these drivers. In-depth interviews with the Senior Management Team (SMT) coupled with some brainstorming will quickly identify the main drivers which may include:

- What if we contract in size e.g. stop production of one line, sell a business?
- What if we grow through acquisition?
- What if we lose a major customer?
- What if there is a major change to key economic indicators e.g. interest rates, inflation, and exchange rates?
- What if a major overseas competitor sets up in our region?
- What are the plant capacity ramifications from gaining a large increase in business e.g. collapse of a major local competitor?

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.

American Express found that their forecast has principally based around two drivers, number of active card users and average customer expenditure.

A Fast Light Touch (Completed in an Elapsed Week)

QRFs should be performed within five working days (see Exhibit 16.4), with the one exception that the fourth quarter forecast, which creates the annual plan (see Exhibit 16.5) will have one extra week for additional negotiations and quality assurance. QRFs can be quick because:

Reliability	Consolidation is instantaneous with a planning tool
Pareto's 80/20	The model is based on Pareto's 80/20 and the "keep it simple" (KIS) principle.
	Budget holders can enter numbers directly into the planning tool after training as the model is based around Pareto's 80/20 principle, focusing on the major items, events, drivers etc.
	Because forecasting is at category level, only 12-15 categories are forecast by a

	budget holder.
	Only need monthly data for the first two quarters
Quarterly repetition	The quarterly repetition aids efficiency
Pre-work	Repeat costs can all be standardized for the whole year, e g Dublin to London return flight € 250, and overnight in London € 280
Extended support	There will be one-to-one support by expanding the budget team
Exception based approval process	New funding requests or error prone forecasts require an audience with the Forecast Approval Committee

Jeremy Hope sees no reason why the forecast process could not be done in a day in a financial services organization, where there is no physical supply chain and inventories to manage. For more complex businesses, Jeremy Hope believes that these forecasts can be done in several days."[vi]

Exhibit 16.4: Timetable for a Seven Day Forecast

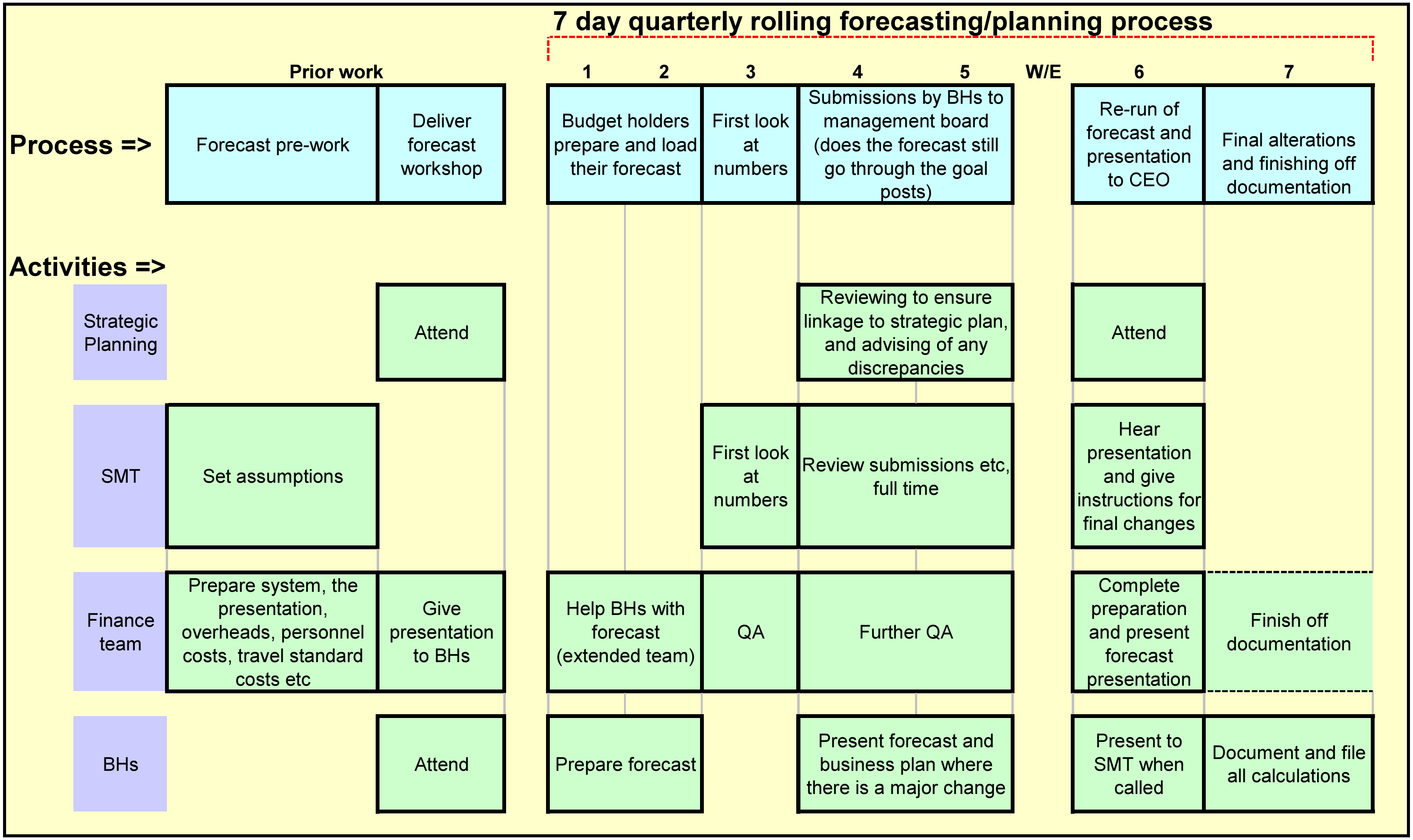
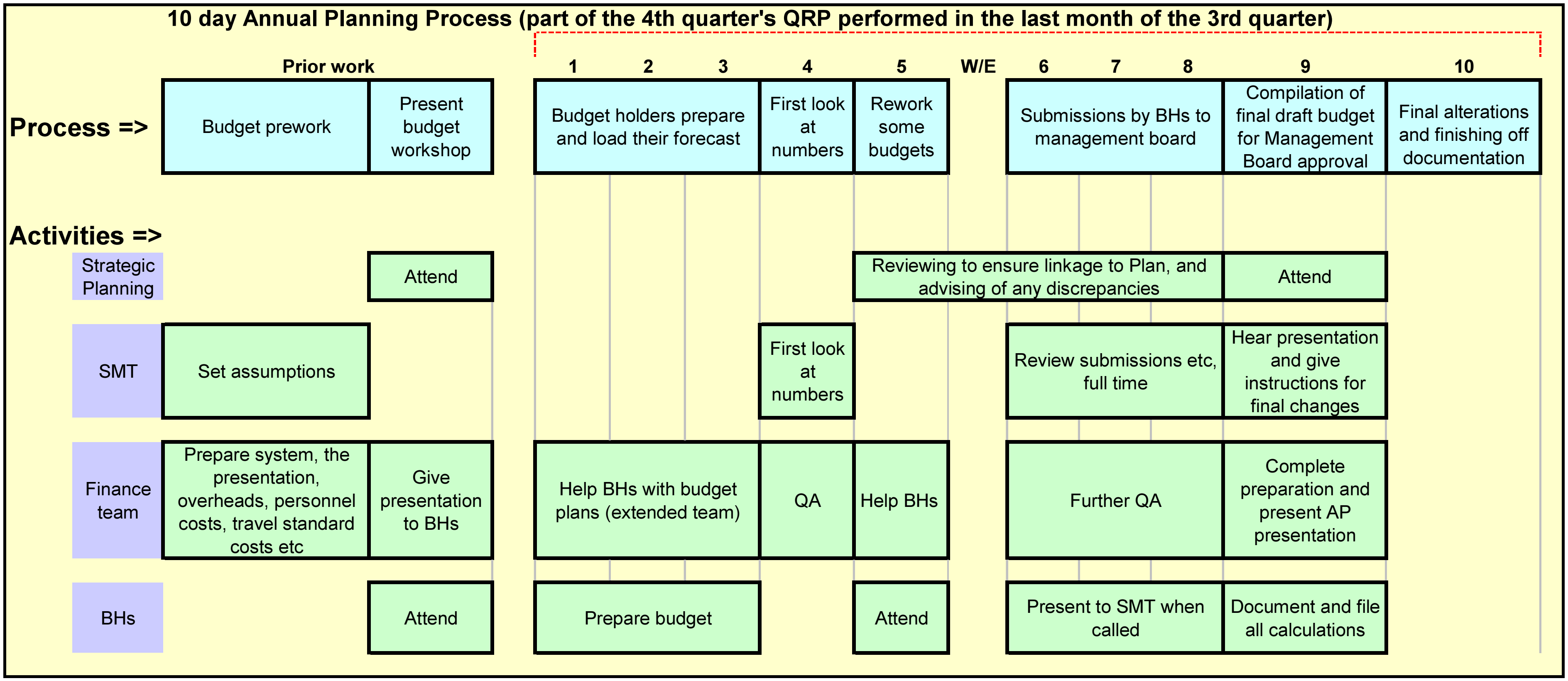


Exhibit 16.5 Timetable for a Fourth Quarter Update That Also Generates the Annual Plan



Built In a Planning Tool – Not In a Spreadsheet

As stated in Chapter 4, which covers the technologies you must have before you upgrade the G/L, I stated that there is no place for a spreadsheet in forecasting, budgeting and in any other core financial routine.

Acquiring a planning tool is the first main step forward, and one that needs to be pursued, not only for the organization's future, but also for the finance team members' future careers.

It has never been a better or easier time to do this. Planning tools are more affordable, many are cloud based, and can work with any general ledger. I consider it unprofessional for qualified staff to be working with spreadsheets over 100 rows. If not convinced please reread the first section of Chapter 4.

Design the Planning Tool with Four and Five Week Months

As discussed in Chapter 6 the calendar we use today is a major hindrance to reporting and forecasting. With the weekdays and number of weekend days, in any given month, being different to the next month it is no wonder forecasting and reporting is unnecessarily compromised.

Forecasting models should be designed with months that consist of four or five weeks e.g. based on a "4, 4, 5 quarter"; that is, two four-week months and one five-week month are in each quarter, regardless of whether the monthly reporting has moved over to this regime. Calculating and forecasting the following items then becomes easier:

- Revenues. For retail, you either have four or five complete weekends (the high revenue days).
- Payroll. You either have four weeks of salary or five weeks of salary.
- Power, telecommunications and property related costs. These can be automated and be much more accurate than a monthly allocation.
- Monthly targets. You can simply adjust back based on calendar or working days.

In any given year between three and five months every year will end on a weekend, and finance teams often find that the month-end processes are smoother for these months. Why not close-off on the last or nearest Friday/Saturday of every month like many U.S. companies do? The benefits of this include precise four or five week months, which make comparisons more meaningful, and there is less impact on the working week as the systems are rolled over at the weekend.

Closing off at the weekend can be done for all sectors; some will require more liaison than others. It would also make a big difference in the public and not-for-profit sectors.

You need to choose is it to be the last Saturday or the nearest Saturday, last Sunday or nearest Sunday to month end etc.. The last Saturday can have you closing six days before month-end, whereas the preferred option of nearest Saturday will only be a maximum of two working days out. See Exhibit 16.6 for a table.

Dates for a Friday close (nearest to calendar month-end) *					A/P close	A/R close	FA close	Stock close
	2015		2016					
	No. of weeks		No. of weeks					
May	4	Friday, May 29, 2015	4	Friday, May 27, 2016	Noon Fri	5 P.M. Fri	Noon Fri	5 P.M. Fri
June	4	Friday, June 26, 2015	4	Friday, June 24, 2016	"-"	"-"	"-"	"-"
July	5	Friday, July 31, 2015	5	Friday, July 29, 2016	"-"	"-"	"-"	"-"
August	4	Friday, August 28, 2015	4	Friday, August 26, 2016	"-"	"-"	"-"	"-"
September	4	Friday, September 25, 2015	5 *	Friday, September 30, 2016	"-"	"-"	"-"	"-"

Exhibit 16.6 Closing Month-End on the Same Day Each Month

Invest in a Comprehensive Blueprint

From a recent case study I have learnt how imperative it is to invest time in developing a robust blueprint that sets out the direction and the requirements.

In order to achieve this you will need a series of lock-up workshops involving senior management, the organization's IT system experts, the staff involved in demand and production planning, the accountants and a facilitator who has a broad experience in designing successful models in planning tools.

In the Ballance Nutrients Case study featured in Chapter 4, they had six weeks of workshops and this process led to a very successful implementation. So, if you decide to short circuit this process you have been warned.

Efficient Forecasting and Planning Processes

There are a number of better practices in QRF, and these are set out next.

Linkage to Chapter 9 (A Lean Annual Planning Process)

If you have implemented the practices set out in Chapter 9, you are already part of the way to implementing the better practices for QRP. The following practices need to be adopted and have been covered in Chapter 9:

- Forecasting demand by major customers by major products

- Required pre-work
- Accurately forecasting personnel costs
- Automate the calculation for categories where trend data is the best predictor
- Provide automated calculations for travel and accommodation
- Have trend graphs for every category forecasted
- Expand your team, as budget holders will need one - to - one support
- Holding a briefing workshop for all Budget Holders

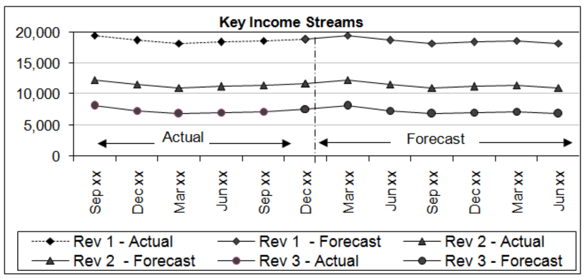
Have One Page Summary for Each Budget Holder

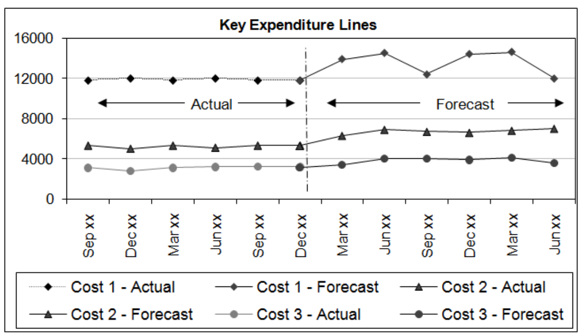
Design a simple one page summary for the forecast of each budget holder and business. The consolidated summary will also be similar. See Exhibit 16.7 for a summary forecast update which would be prepared each quarter.

Features: Rolling quarterly forecast showing year end position and the remaining five quarters of the 18 months forecast. Whilst Q2 is forecast monthly it may be shown as a quarterly number. The expenditure graph looks at the main three expenditure lines and expenditure lines and highlights where BHs are playing the old game of locking in slack. The revenue graph highlights the reasonableness of the sales teams' projections. Also included is a management overview which rounds the year end number to something more realistic.

Summary of Forecast Profit & Loss for the period ending xxxxxx

	9 months to 31/12 *	Quarter 1 Jan	Feb	Mar	Y/E forecast	Quarter 2 Apr	May	Jun	Quarter 3 Jul- Sept	Quarter 4 Oct - Dec	Quarter 5 Jan - Mar	Quarter 6 Apr - Jun
* includes estimate for December												
INCOME												
Income 1	56,500	6,300	6,500	6,700	76,000	6,300	6,100	6,300	18,200	18,400	18,600	18,200
Income 2	35,200	3,900	4,100	4,300	47,500	3,900	3,700	3,900	11,000	11,200	11,400	11,000
Income 3	22,700	2,500	2,700	2,900	30,800	2,500	2,300	2,500	6,800	7,000	7,200	6,800
Total Revenue	114,400	12,700	13,300	13,900	154,300	12,700	12,100	12,700	36,000	36,600	37,200	36,000
EXPENDITURE												
Cost category 1	35,400	4,600	4,700	4,600	49,300	4,800	4,900	4,800	12,400	14,400	14,600	12,000
Cost category 2	15,900	2,000	2,100	2,200	22,200	2,200	2,300	2,400	6,700	6,600	6,800	7,000
Cost category 3	9,500	1,100	1,200	1,100	12,900	1,300	1,400	1,300	4,000	3,900	4,100	3,600
Cost category 4	5,700	600	500	600	7,400	800	700	800	2,300	1,800	2,000	2,100
Cost category 5	4,300	500	600	500	5,900	700	800	700	2,200	2,100	2,300	1,800
Cost category 6	4,100	500	400	500	5,500	700	600	700	2,000	1,500	1,700	1,800
Other operational costs	8,100	900	1,000	900	10,900	1,100	1,200	1,100	3,400	3,300	3,500	3,000
Total Expenditure	83,000	10,200	10,500	10,400	114,100	11,600	11,900	11,800	33,000	33,600	35,000	31,300
Management overview					-200							
Net Profit	$31,400	$2,500	$2,800	$3,500	$40,000	$1,100	$200	$900	$3,000	$3,000	$2,200	$4,700





Areas to Note:

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2. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

3.xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

4. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

Exhibit 16.7 Quarterly Updated Forecast on One A3 (US Fanfold) Page

Recognize that Quarterly Rolling Forecasts Involve All Budget Holders

Most forecasting models built in Excel tend to have restricted consultation with budget holders and are carried out by staff members at headquarters who are remote from the workforce. This is done for practical reasons; it would be a disaster to unleash the Excel model once a quarter, as it takes weeks to get completed even once a year. These forecasts do not have any buy - in from budget holders, cannot be used to create meaningful targets for the months in the next quarter, and are often a skewed view of the future business operations, simply reiterating the misconceptions that head office management wishes to believe.

Having all budget holders involved requires an investment in training and good coordination. The benefits include buy - in to the numbers, a forecast that more closely resembles reality, and a positive learning curve, as budget holders get better at a repetitive task.

Beware of the Dangers of Scenario Planning

When I worked for BP Oil, we would spend a lot of time trying to pigeonhole a series of events into what we called a high - case, medium - case, and low - case scenario. Each scenario had many different variables. The chance of a high case coming off in the way we had forecast it was nil. The permutations would make a statistician dizzy. I believe it is better to focus on the key drivers and bring to management's attention the impact of:

- Losing a major customer (e.g., ABC Limited)
- Exchange rate (e.g., for every cent the US$ appreciates against the euro it means this to the bottom line)
- Having to halt production in a product that may be subjected to an intense price war, and so forth

Quarterly Rolling Forecast Is a Quarterly Process

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 to change 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 oscillation of your year - end numbers.

For those organizations that are in a dynamic environment, you do not need to get all budget holders to participate in a monthly reforecast; you may be able to limit this monthly reforecast work to sales and production, with the major reforecast still being quarterly.

Implementing a Quarterly Rolling Forecasting and Planning Process

The foundations stones already mentioned and the processes that you need to adopt, set out next need to be understood, developed, and implemented. Due to space constraints I have briefly outlined the key processes. For further information, see the white paper " How to Implement Quarterly Rolling Forecasting and Quarterly Rolling Planning — and Get It Right First Time " on www.davidparmenter.com .

Overcoming the Barriers

Before you can make much progress, you need to understand the likely barriers and surmount them all. Here is a list, by no means complete, of some suggestions on how to overcome the common barriers accountants face in implementing QRF.

Barriers	Actions
Lack of budget holder skills	• Find those staff who thrive with new technology and train them first. • Set up the new forecasting regime in three units, a quarter ahead, to iron out the bugs and to promote the efficiencies • Train all significant budget holders including one-to-one training. • Set up from the outset a quarterly follow-up training course (as you should be using the model for forecasting)
Stop and start annual planning syndrome	• Big sell to management (historic evidence incl. costs, better practices, benefits to them). • Get commitment for a quick bottom-up forecasts. • Work closely with the executive assistants regarding calendar 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 their 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. • Provide incentives for prompt forecast returns (e.g. movie vouchers) • Provide daily progress report to CEO of the late names. • If still using Excel, have all returns go to the CEOs office first.

Lack of management ownership	• Take SMT to some better practice forecasting sites. • Deliver more interesting information from the forecast process (e.g. trend graphs, key performance indicators). • Market better practice stories constantly. • Ensure budget holders are directly involved in the forecasting process (i.e.. not delegating tasks).
Lack of faith in the reliability of the forecast	• Establish in-depth QA procedures. • Have reliable working papers. • Provide reasonability checks. • Audit the forecast application prior to use. • Migrate away from Excel to a planning tool.
Lack of understanding of the planning tool application	• Have forecasting/budget models reviewed and audited prior to use. • More than one person involved in design of the QRF. • Keep to Pareto's 80/20 (e.g. personnel costs should have much more detail). • Key drivers should be easily identifiable.
Lack of linkage to strategic decisions	• Brainstorm with SMT members regarding their likely scenarios. • Ensure you can accommodate key drivers in the model design.
Competency of the forecasting team	• Select for: self-starter, innovator, excellent communicator, finisher, big picture thinker, team player, demonstrated that they are prepared to put long hours in when required. • Broad experience of organization. • Experience with problem solving, interviewing, process reengineering, forecasting. • Appoint an external facilitator to mentor the team.

Hold a Focus Group Workshop

As explained in the section The Power of the Focus Group in Chapter2, a focus group needs to be formed as part of the selling change process. We need the oracles in the business units to discuss what the forecasting regime default future looks like and agree that they do not want it. The focus group workshop on rolling forecasting and planning is important for a number of reasons:

- There are many pitfalls in such a project, and we need to ensure that all likely objections are aired in the focus group workshop.
- We need to reengineer the forecasting process using Post - It Notes, as discussed in Chapter 10.

- The foundation stones for rolling forecasting and planning need to be understood, agreed and put in place early on in the project.
- A green light from the focus group will help sell this concept to the SMT.
- The focus group will give valuable input as to how the implementation should best be done to maximize its impact.

EXHIBIT 16.8 Agenda and Instructions for a One - Day Focus Group Workshop

Date and Time: ___________

Location: _____________

Suggested attendees: Budget committee, selection of business unit heads, all management accountants, and a selection of budget holders involved in forecasting.

Learning Outcomes:

Attendees after this workshop will be able to:

• Discuss and explain to management why _________ should adopt QRP

• Use better practices to streamline current forecasting bottlenecks

• Describe better practice forecasting and planning routines

• Recall all agreements made at the workshop

Pre work: Teams to document forecasting procedures on Post-it Notes. One procedure per Post-it. Each team to have a different colour Post-it Notes.

Requirements: event secretary, lap tops x2, data show, whiteboards x2

8.30 A.M.	Welcome by CFO, a summary of progress to date at _______, an outline of the issues and establishing the outcome for the workshop.
8.40 A.M.	Setting the scene - why smart organizations are not involved in the annual planning cycle—a review of better practices among public and private sector organizations. Topics covered include: • Why annual planning is flawed and the rise of the Beyond Budgeting movement • Why quarterly rolling planning can and should work at _________ • Benefits of QRP to the Board, SMT, finance team, and budget holders • Better practice stories • Current performance gap between ______ and better practice • Foundation stones of quarterly rolling forecasting and planning

	• Some of the foundation stones that are already in place at ________ • Some better practice features within ______'s forecasting process • How the annual plan drops out of the bottom-up quarterly rolling forecasting regime • Impact of assigning funds on a quarter-by-quarter basis • Impact on monthly reporting • How each subsequent forecast works • Involvement of SMT in a forecasting process This session would be attended by a wider audience. After the questions and answers, these people would leave.
9.40 A.M.	**Workshop 1: Analyzing the Current Pitfalls of _______'s Forecasting.** Separate teams look at the key pitfalls and how they can be overcome.
10.15 A.M.	Morning break.
10.30 A.M.	**Workshop 2: Mechanics of Rolling Forecasting.** Workshop where separate teams look at the key components: • Who should be involved in a bottom-up forecasting process? • Potential pitfalls? • Reporting needs • When can it be implemented? • Training requirements • What cost categories should be forecast? (higher than the general ledger account code level) • Project structure
11.00 A.M.	**Workshop** 3: **Workshop on "Post-it" Re-engineering of the Annual Planning Process.** During the workshop we analyze the bottlenecks of the forecasting process. In this workshop we use Post-its Notes to schedule the steps (e.g., yellow-budget holder activities, red-forecasting team activities, blue-SMT activities during the forecast).
12.15 P.M.	Lunch at venue.
12.45 P.M.	Feedback from work groups on both workshops and action plan agreed (Document deadline date and who is responsible). Individuals will be encouraged to take responsibility for implementing the steps.
1.15 P.M.	Workgroups are assigned to prepare a slide or two on a specified issue. They can also raise any issues they still have. The two individuals selected to summarise findings are allowed to roam around the group discussions.
1.45 P.M.	Each work group presents their slide(s) and discussion held as what to accept or delete.
2.30 P.M.	A selected team of two people are asked to present the initial thoughts of the whole focus group (up to ten slides) to an invited audience covering the changes the focus group would like to implement and

	when. **Suggested audience: all those who attended the setting the scene morning session**
3.00 P.M.	Wrap up of workshop

Post - it Reengineering Forecasting Procedures

If you have not already Post - it reengineered the annual planning process, set out in Chapter 9, you will need to do it now; otherwise the four quarterly rolling forecast updates will take you all year.

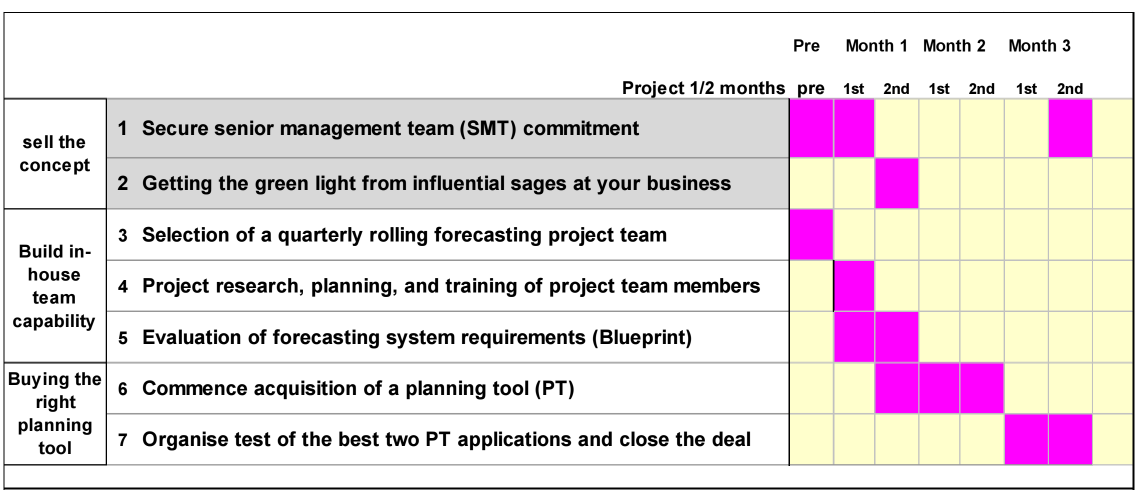
To understand what is required, you will need to refer to the Post - it reengineering section in Chapter 10. The only difference is:

- The time scale is week − 2, week − 1 (last week before annual planning), week + 1 (first week after year - end), week + 2 instead of day − 2, day − 1, and so on.
- There will be different attendees to the workshop (e.g., forecasting team; budget holders, marketing team, SMT etc).

Implementation Road Map

The implementation plan shown in Exhibit 16.9 should help those about to start an implementation. One key feature is the time frame. A rolling forecast implementation is a five - to six - month process, including the acquisition of an appropriate planning tool.

EXHIBIT 16.9 Timeline for Implementing a QRF Process Example



		Project 1/2 months	pre	Month 1 1st	Month 1 2nd	Month 2 1st	Month 2 2nd	Month 3 1st	Month 3 2nd	Month 4 1st	Month 4 2nd
Build and test model	8	Training of in-house designated experts on the new application		Sell concept, build in-house team, planning tool acquisition							
	9	Build new model using in-house teams with external advice									
	10	Pilot planning tool on two business units									
Rollout use	11	Roadshow of new rolling forecast process									
	12	Roll out training of PT (using in-house experts)									
	13	Complete QA processes on the forecasting model in the PT									
	14	Commence first quarterly rolling plan run									
	15	Review process and ascertain lessons learnt									

See the PDF toolkit for a checklist on implementing a QRF. This checklist should be treated as an evolving tool and thus be tailored to better suit your needs. Using a checklist will help ensure that while you are juggling the balls, you do not drop the ones that matter.

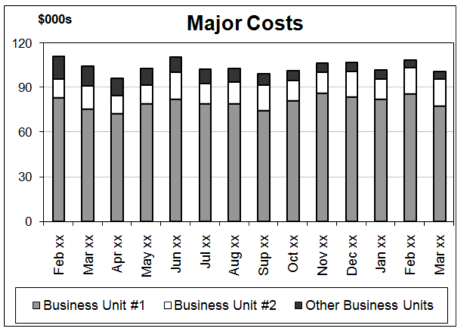
Impact on Reporting

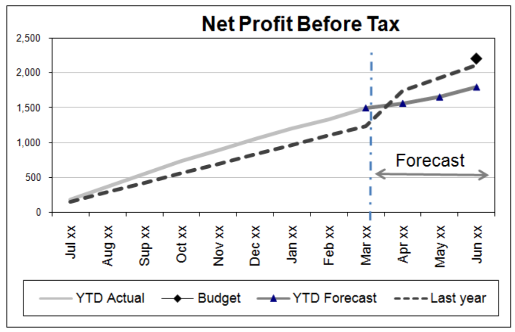
As already mentioned, a major mistake in all annual planning cycles has been the monthly apportionment of the plan. Leading to reporting against a monthly budget that was set, in some cases, over 15 months before the period being reviewed. If you report against more recent targets derived from the quarterly rolling forecasting process it changes the report layout as shown in Exhibit 16.10.

The report format in Exhibit 16.10 compares last month's actual against the most recent forecast. The year to date (YTD) actual is no longer compared against a YTD budget. Instead, YTD progress is evaluated alongside progress against the year - end forecast and the accompanying trend graphs. Trend analysis now becomes much more the focus. The forecast year - end numbers are now more prominent and moved to where the YTD numbers traditionally are placed. Commentary is much more targeted, as there is no place for the explain-it-all-away "timing difference" comment as the forecast is updated quarterly.

Operating Statement for the Period Ending 31 March 20XX

Month $000s					Full Year $000s				YTD (75% of year)	
Actual	Forecast	Variance			Forecast	Annual Plan	Variance		Actual	% of Forecast
				Revenue						
92	150	(58)	✗	Revenue #1	1,200	1,600	(400)	✗	991	83%
95	90	5		Revenue #2	980	1,100	(120)	✗	753	77%
85	80	5		Revenue #3	860	900	(40)		675	78%
75	60	15	✓	Other Revenue	750	700	50	⇔	567	76%
347	380	(33)	⇔	**Total Revenue**	3,790	4,300	(510)	✗	2,986	79%
				Expenses						
87	80	(7)		Business Unit #1	930	900	(30)		656	71%
21	25	4		Business Unit #2	210	230	20		156	74%
24	15	(9)		Business Unit #3	240	180	(60)	✗	195	81%
5	10	5		Business Unit #4	60	120	60	✓	46	77%
28	30	2		Business Unit #5	300	350	50	✓	214	71%
20	30	10	✓	Other Business Units	260	320	60	✓	208	80%
185	190	5		**Total Expenses**	2,000	2,100	100	⇔	1,475	74%
162	190	(28)	✗	**Surplus/(Deficit)**	1,790	2,200	(410)	✗	1,511	84%





Highlights:
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4. Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxx xxxxxxx xxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Exhibit 16.10. Reporting With a Rolling Forecast Target

PDF Download

To assist the finance team on the journey templates and checklists have been provided. The reader can access, free of charge, a PDF of the suggested worksheets, checklists and templates from www.davidparmenter.com/winningCFO3rdedition.

The PDF download for this chapter includes:

- Prospective project team members checklist
- Implementing QRF regime checklist
- Performing a quarterly rolling forecast checklist
- The "planner tool supplier" evaluation checklist

Notes

[i] David Parmenter, "*How To Implement Quarterly Rolling Forecasting And Quarterly Rolling Planning– And Get It Right First Time*" www.davidparmenter.com, 2015.

[ii] *Rolling Forecasts Enable Accuracy and Agile Business Planning* , Aberdeen Group, 2013

[iii] Jeremy Hope and Robin Fraser, *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap* (Boston: Harvard Business Press, 2003).

[iv] Jack & Suzy Welch, *Winning,* HarperCollins 2009

[v] To understand Peter Drucker's work read Elizabeth Haas Edersheim *The definitive Drucker: Challenges For Tomorrow's Executives - Final Advice From the Father of Modern Management* (McGraw-Hill 2006)

[vi] Jeremy Hope *Reinventing the CFO: How Financial Managers Can Transform Their Roles and Add Greater Value*, Harvard Business School Press, 2006