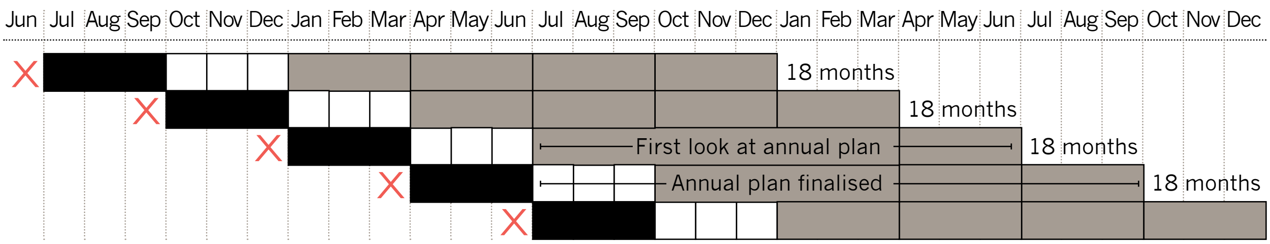
Time to get rolling

They take far too long, cost too much and lack dynamism, so why not ditch your annual plan and embrace quarterly rolling forecasting, suggests **David Parmenter**

HOW THE ROLLING FORECAST WORKS FOR AN ORGANISATION WITH A JUNE YEAR-END



Quarterly update of rolling forecast (during 2nd week)
Forecast monthly in detail (60% of available time)
Forecast monthly (20% of available time)
Forecast in quarterly spells (20% of available time)

We all know that our annual plan will be wrong as soon as the ink is dried, so let's get it wrong quicker, albeit more closer to the truth.

The first writers to put annual planning to the sword were Jeremy Hope and Robin Fraser in their classic book *Beyond budgeting*. The reasons why the annual planning process should be replaced are because it:

* takes too long
* costs too much
* leads to dysfunctional behaviour (padding out of budgets as you know there will be cutbacks)
* undermines monthly reporting
* is not designed for a dynamic organisation.

Quarterly rolling forecasts

In this process management determines the likely revenue and expenditure for the next 18 months. The focus is on what is happening in the forthcoming quarter, but with an eye to the bigger picture six quarters out. The quarterly forecast is used to:

* fund budget holders, on a quarterly rolling basis, once their forecast has been approved
* set the monthly budgets for month-end reporting (set only one quarter ahead)
* update annual forecast
* give a view of the next financial year.

The recommended elapsed time spent on the four quarterly forecasts during any given year is no more than five weeks. It is quick because each quarter's forecast is never a cold start and a planning tool is used.

The diagram above shows how the quarterly rolling process works for a June year-end. The dark-shaded zone is the forecast for the next quarter and the most important part to get right. The unshaded zone is the second quarter, which is also forecast monthly. The mid-shaded zone is only forecast in quarterly breaks.

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

Second week of December

This is when budget holders forecast to the end of the year, with monthly numbers, and the remaining period in quarterly breaks. The funding and reporting targets are set for the January to March numbers. At the same time, they 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 planning tool.

Second week of March

This is when budget holders re-forecast to year-end and the first quarter of next year with monthly numbers, and 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 they will not be getting an annual lump sum funding for their annual plan. The numbers they supply are for guidance only. ■

NEXT STEPS

1. Become a disciple of Jeremy Hope, the thought leader for corporate accountants.
2. Prepare your elevator speech about the woes of annual planning (see earlier article).
3. Send me an email (**parmenter@waymark.co.nz**) and I will send you a draft sales pitch to eradicate annual planning.

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