How to implement a forecasting and planning tool– and get it right first time

by David Parmenter

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Introduction

Spreadsheets have no place in forecasting, budgeting and many other core financial routines. Spreadsheets were not designed for many of the tasks they are currently used to accomplish. In fact, I often remark in jest at workshops that many people, if they worked at NASA, would try to use Microsoft Excel for the US space program, and many would believe that it would be appropriate to do so. A spreadsheet is a great tool for creating static graphs for a report or designing and testing a reporting template. It is not and never should have been a building block for your company's planning systems. The high level of errors in spreadsheets is the main reason why. A major accounting firm pointed out that there is a 90 percent chance of a logic error for every 150 rows in an Excel workbook.[i]

Why the need for a planning tool (PT)

A decade ago, the electronic spreadsheet was still state-of-the-art for the budgeting process and the only practical option for most midsize companies. However, what might have started as a simple budget model often grew into a spreadsheet that soon got out of control. Moreover, considering the time and effort required to turn that mass of spreadsheets into a coherent budget, they should not have been considered "inexpensive." With the introduction of dedicated planning tool software for all sizes of organizations, spreadsheets are not the optimal approach any longer. Here is an interesting quote:

> *"Nevertheless, because of inherent design limitations, spreadsheets are inappropriate whenever more than a few people have to share data, when the data must be synchronized between all users, or whenever employees have to execute processes consistently in a collaborative fashion." Ventana Research*

1.1. Rule of 100

I believe you can build a forecasting model in a spreadsheet application and can keep it within 100 rows without much risk. Pass this threshold and you expose yourself, your finance team and the organization. Forecasting requires a robust tool, not a spreadsheet that was built by an innovative accountant and that, now, no one can understand. I always ask in workshops, "Who has a massive spreadsheet written by someone else that you have to pray before you use it?" You can see the pain in the instant response. Most people know that the person who built the spreadsheet certainly was not trained in operational systems design. The workbook will be a collage of evolving logic that only the originator has a chance to understand.

Often, the main hurdle is the finance team's reluctance to divorce itself from the spreadsheet program. It has been a long and comfortable marriage, albeit one that has limited the finance team's performance.

1.2. Career limiting

Acquiring a planning tool is the major step forward, and one that needs to be pursued, not only for your organization's future, but also for the future careers of the finance team. Soon, a career prerequisite is likely to be planning tool experience, and, conversely, being a spreadsheet guru is likely to be career limiting. To those readers who believe a spreadsheet is still appropriate, I say to them, why not build your general ledger in a spreadsheet program and while you are at it, all your operations systems?

Try explaining to the CEO that only one person knows how these systems work and he or she left four years ago. You might as well clear your desk now.

1.3. What a planning tool looks like

Planning tools look very much like Excel except they do not have the drawbacks inherent in a spreadsheet. Appendix 1 shows examples of some of the screens you might expect to find from the available planning tools.

1.4. Common problems with spreadsheets

Senior management is often blissfully unaware of the risks they take every time they rely on information from large spreadsheets.

Some common problems with spreadsheets are:

- *Broken links or formulas*: An individual may add or eliminate a row or column so when a group of spreadsheets are rolled up, the master spreadsheet is taking the wrong number from the one that was modified.
- *Consolidation errors*: **I say to attendees that Excel is one of the few applications that can make a grown person cry.** Often, a spreadsheet will lock up or show a screen full of "REF", "REF" "REF" errors, because it was not designed to be a tool for handling a rollup of dozens of different worksheets.
- *Input of the wrong numbers*: Entering the wrong number can happen in any process, but spreadsheet-based systems often require re-keying of information, which can produce data inconsistencies. A spreadsheet might use a look-up table that may be out of date or an entry might have been inadvertently or mistakenly overwritten.
- *Incorrect formula*: A subtotal might omit one or more rows, columns or both. An individual might overwrite a formula because they believe theirs is more accurate. Or, someone might use an outdated spreadsheet. Or, allocation models might not allocate 100 percent of the costs. Allocation methods might be inconsistent.
- *No proper version control*: Using an outdated version of a spreadsheet is very common
- *Lack of robustness*: Confidence in the number a spreadsheet forecast churns out is not assured. Many times you cannot check all the formulas because they can be found in any cell of the spreadsheet.
- *Inability to accommodate changes to assumptions quickly*: What would you do if the CEO asks "If we stopped production of computer printers what would be the financial impact? I need the answer at the close of play today". Your spreadsheets are not able to provide that quick answer.
- *Design is by accounting staff who are not programmers*: Most accounting staff have not been trained in system documentation, quality assurance, which you might expect from a designer of a core company system.
- *Lack of corporate office control:* Many people in a business can use spreadsheets to create their own forecasts at a ridiculous level of detail. This can lead, as a friend once said to me, "To the march of a million spreadsheets."

New CFO finds an error

A financial controller came to me with a great tale. He had just completed the annual budget that his team had been working on for many weeks long into the night and on weekends. Proudly, one Friday afternoon, he walked into the office of the recently appointed CFO and announced the first cut of the annual plan. The CFO spent five minutes looking at the plan and after quickly

calculating some numbers said, "This annual plan is wrong; the numbers do not make sense."

The financial controller was taken aback, because he had made a special effort to conduct quality assurance on the numbers, and he had done comparisons to last year's plan, along with a few other things. He had wanted to make the best impression.

The CFO called him over to look at his brief calculation, "Pat, we know the planned sales have been signed off already, gross profit margin historically has been around x percent, overheads are roughly $XX, and thus, I am expecting a number around $XX- $YY." The financial controller could only agree.

That weekend, the team poured over the spreadsheet, which was enormous and included the consolidation of many worksheets from many sources. Late on Sunday, they experienced a "eureka" moment. An error was found and rushed to the financial controller. As they processed the correction, they looked with disbelief because the new number was within the outline the CFO had suggested. "We have a pretty smart CFO; let's see how long this error has been around. Please look at the last two year's annual plan models," Pat requested.

As Pat recalled to me, with a wry smile, the error had been in the plans for the previous two years and had gone completely undetected.

1.5. Many studies support the move to a planning tool

These deficiencies can be seen from the comments below, which came from a CFO.com survey of finance executives at nearly 300 midsize companies.

"We have a pretty complex spreadsheet process — the file from hell, we call it —that only one person in finance can effectively use."

"We hit the month of May and realized there was no way we would make our forecast and we had to cut our sales plan back almost 10 percent. I spent a week without sleep trying to forecast the impact. Unfortunately, our spreadsheet-based systems were inadequate to provide this analysis. We spent the next six months trying to drive the changes down to managers."

"I want to get away from spreadsheets and push the data to more people than just finance or senior management so they can make more informed decisions. I also want to take the resources out of maintaining the spreadsheet-based model and put them into thinking about the business itself."

"It takes so long before the spreadsheet is complete that the result just doesn't mean a whole lot. I want a rolling four-quarter forecast, consolidations, and the what if scenarios that I can review — spreadsheets always come up short."

2. A better annual plan or a quarterly rolling process

A planning tool should be designed for a rolling planning process that can generate an annual plan, for as long as it is needed. In fact, I believe that annual planning, as businesses use it today, is one of the greatest mistakes companies have made since 1494, the year Pacioli wrote about double-entry bookkeeping in *Summa de arithmetica, geometria, proportioni et proportionalità.*

2.1. Why annual planning is not advisable

Although a planning tool can be used to improve an existing annual planning process, implementing a planning tool is an ideal opportunity to replace annual planning with a quarterly rolling planning process. The first writers to put annual planning to the sword were Jeremy Hope and Robin Fraser in their classic book *Beyond Budgeting.*[ii]

The reason the annual planning process should be replaced is because it:

- Takes too long
- Costs too much
- Does not focus on performance drivers
- Does not link to strategic outcomes or "critical success factors"
- Leads to dysfunctional behavior, building silos and barriers to success
- Undermines monthly reporting (monthly budgets are poor targets)
- Is not designed for a dynamic company in a rapidly changing environment
- Is an anti-lean process.

Smart organizations do not have an annual planning process anymore. Instead, they use quarterly rolling planning. This move influences the structure of the planning tool model.

2.2. The quarterly rolling planning process

In a quarterly forecasting process, management determines the likely revenue and expenditures 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 thus updates the annual forecast but gives a view of the next financial year. Each quarter forecast is never a cold start because management has reviewed the forthcoming quarter a number of times.

Provided you have appropriate forecasting software, management can do their forecasts very quickly; one airline even does this in three days. The average time spent on the four quarterly forecasts during any given year is five weeks.

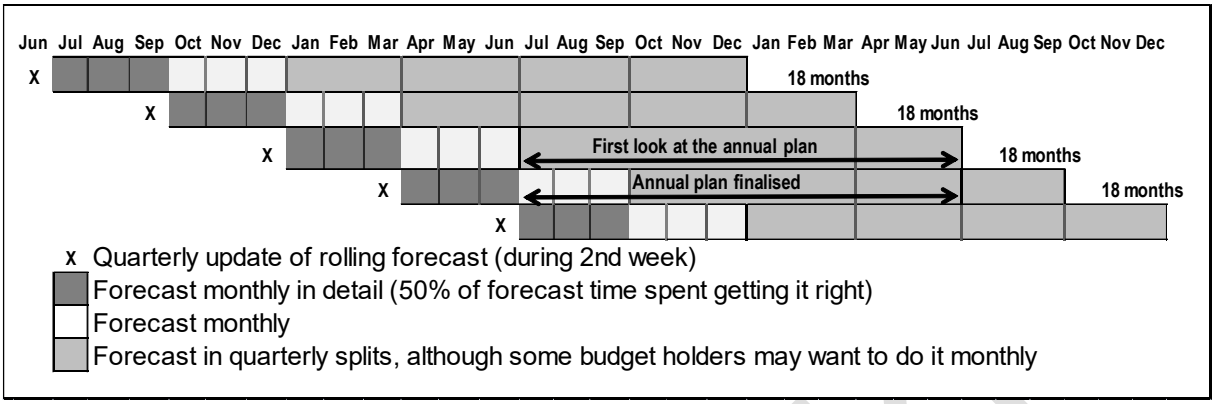
Most organisations can use the cycle set out below if their year-end falls on a calendar quarter end. Some organisations may wish to stagger the cycle say May, August, November, and February. I will now explain how each forecast works using a June year-end organisation.

2.3. The quarterly process (based on a June year-end)

Exhibit 2.1 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, which is forecast monthly, and this forecast should be reasonably right. Budget holders will be re-forecasting this period next quarter. The mid shaded zone is only forecast in quarterly breaks, and budget holders are told not to spend too much time second guessing these

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

Exhibit 2.1: How the rolling forecast works for an organization with a June year-end



December update

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. They obtain approval to spend January to March numbers subject to their forecast becoming part of the annual plan. 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.

March update

In the second week of March, 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 that they will not be getting an annual lump sum funding for their annual plan. The number they supply is for guidance only.

June update

In the second week of June budget holders are now required to forecast the first six months of next year monthly on to December, and then in quarterly numbers for the remaining four quarters. 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 forecasting tool called "e.g. June 14 forecast." This update process should only take one elapsed week. We can, if useful for management reforecast the June numbers so we give management a heads up on the year-end which is a fortnight away.

September update

We reforecast the next six months in monthly numbers, and quarterly to March six quarters on. Budget holders obtain approval to spend October to December numbers. This is stored in a new field in the planning tool called "e.g. September 14 forecast". This update process should only take one elapsed week.

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

3. The foundation stones of a planning tool implementation process

The foundations stones of a planning tool (PT) implementation process include:

1. Abandoning processes that do not work
2. Ownership of project is in-house (the model being built in-house by a well trained team, supported by staff from the planning tool)
3. Forecasting at category level rather than account code level
4. Fast light touch (reforecasts able to be carried out quickly, within a week)
5. Using a planning tool
6. Linking to current and future strategic issues and drivers
7. Separating targets and realistic forecasts
8. A bottom-up process that is performed quarterly
9. Designing the planning tool with months of 4 or 5 weeks

3.1. Abandoning processes that do not work

Management guru Peter Drucker frequently used the word 'abandonment'. I think what he said about abandonment was one of the top ten gifts he gave to the world. He said

> *"The first step in a growth policy is not to decide where and how to grow. It is to decide what to abandon. In order to grow, a business must have a systematic policy to get rid of the outgrown, the obsolete, and the unproductive."*[iii]

He frequently said that abandonment is the key to innovation. He also put it another way: "Don't tell me what you're doing, tell me what you've stopped doing."

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; please do it".

All the previous givens with regards forecasting need now to be challenged and all the inefficient processes thrown out including:

- Forecasting in a spreadsheet
- Forecasting in detail, at account code level and to the dollar
- Forecasting to the current year-end as if next year did not exist
- Giving budget holders an annual entitlement because they do not know what the next year really holds, nor does anyone in Finance
- Setting monthly targets from the annual plan because this is best done just before the quarter starts
- Forcing the annual plan to be the same number that the Board want to see - we have just lied!
- Allowing the annual planning process to take three months when it can be done in two weeks. Both will be wrong, so you may as well be wrong quickly!
- Preparing annual plan instructions as nobody reads them and if they say they have don't believe them.

3.2. Ownership of project is in-house

The project team should design the model themselves. Planning tool consultants can serve as advisors and trainers and make sure you are headed in the right direction. Planning tools are relatively simple to use if in-house resources have in-depth training.

If the model is built by consultants, not only will the project cost more money, but you will also have the added risk of bringing in someone who might not fully understand your business. Consultants are also likely to try to build you a better annual planning model, which is the very thing you do not want.

The in-house team has a better chance of designing a model that fits your industry and your organization's decision-making processes. They also have the added advantage of your organization's confidence, something that is often missing with outside consultants.

A planning tool project is much like learning to drive a car. The team will need a series of lessons and the opportunity to practise first on "quiet country roads" (pilot the model) before they drive on the highway (unleash the model to all budget holders).

3.3. Forecasting at category level rather than account code level

Forecasting at category level rather than account code level. A forecast is rarely right. Looking at detail does not help you see the future better. In fact, I would argue it screens you from the obvious.

Counting the trees in a forest

Imagine that you have been asked to count the trees in a state forest that consists of 100 square miles of trees. You have two choices, the detailed way and the "helicopter" way.

For the **detailed way,** you could set up 10 teams of seven people. Each team is assigned 10 square miles and is given satellite navigation equipment, a different color of spray paint, safety gear, camping equipment and provisions for three weeks or so. The teams update their count each night on a spreadsheet. At the end, the counts are consolidated, and some data is left out because the counters in some teams forgot to load all their spreadsheets into the workbook. The final count, therefore, is wrong, although no one knows that.

For the **helicopter way,** satellite imaging is used to select five sample areas that are 1/1000 of the forest. The staff are assigned to five bigger teams, and each counts their area in a day. The count of the five areas is averaged and then multiplied by 1000. The answer is wrong. But it was wrong quickly and is still a good approximation. For forecasting, the helicopter way is usually the better option unless you are forecasting payroll where managers can forecast by their staffs' actual salaries.

Precision is paramount when building a bridge; every small detail needs to be right. However, a forecast should concentrate on the key drivers and large numbers.

Following this logic, setting targets at account code level is not necessary. Think about it. 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. Therefore, you can apply Pareto's 80/20 rule and establish a category heading that includes a number of general ledger codes (Exhibit 3.1).

Exhibit 3.1: How a forecasting model consolidates account codes

Forecasting at Account Code Level		Forecasting at Category Level	
Stationery	4,556		
Uniforms	3,325		
Cleaning	1,245		
Miscellaneous	7,654	Consumables	22,000
Consumables	2,367		
Tea & Coffee	2,134		
Kitchen Utensils	145		
	21,426		22,000

Some rules can help you apply this foundation stone:

- Separate out a forecasting line in the model if an account is over 10 percent of total expenditures or revenue. For example, show a separate expenditure line if the expenditure category is over 10 percent of total expenditures. If an account code is under 10 percent, amalgamate it with others until you get it over 10 percent. Thus a category will have a number of account codes in it. This rule applies at budget holder and consolidated forecasting levels.
- Limit the categories to which budget holders must forecast to no more than 12.
- Select the categories that can be automated, and provide these numbers.
- Map the general ledger account codes to these categories. A planning tool can easily cope with this issue without the need for a revisit of the chart of accounts; see Exhibit 3.1 for an example of this mapping.

"It is better to be nearly right than precisely wrong" Porter (1978)

When forecasting revenue, it is important to remember the story of counting the trees. The wrong way is to set up a schedule of every product and get each branch to fill out the details. I have seen one example where the branch had to forecast the units, sales price and discounts for 200 products over 12 months.

Instead, forecast the top five to ten major customers by the major products e.g., those products that represent over 10 percent of the annual sales to the major customer have their own line in the model. The smaller product purchases made by the major customers are grouped into two to three lines and their forecast is automated based on the historical correlation with the major products. A key customer could have as little as five to seven lines in the model. The minor customers would be treated as if they were one major customer and modelled accordingly. See Appendix 2 for a template report.

3.4. Fast light touch

Quarterly rolling forecasts should occur within an elapsed period of five working days, with the exception of the fourth-quarter forecast, which creates the annual plan and has an extra week for additional negotiations and quality assurance. Exhibit 3.2 shows this seven day process and Exhibit 3.3 shows the two week annual planning process timeframe. Quarterly rolling forecasts can be quick because:

6. Implementation steps in detail

Whilst all implementations will be unique, just like a fingerprint, they should have many common features. This section provides the reader with the background to each of the recommended steps.

This 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.

6.1. Secure senior management team (SMT) commitment

The SMT has to be committed to the rolling forecast methodology and understand why the new regime needs to be a "fast light touch" process, involve budget holders, and be based on around an appropriate planning tool. One of the key contributions the SMT make is to help the project team understand the key drivers of the business. These drivers will tie back to strategic decisions the SMT may need to make in the future e.g. whether to stop production of a particular product line etc. It is also important that the SMT understand the impact that QRFs should have on the planning process, making it easier, quicker and more realistic.

As a minimum I suggest a half-day workshop, where the entire executive team meets to receive presentations by external experts. After this meeting the SMT will be in a position to either commit to it, or put it back simmering on the company's slow cooker.

By commitment I mean the SMT will need to set aside time to give feedback on suggested drivers, visit QRF sites, and approve the investment proposal to acquire the chosen planning software, all in a tight time-frame.

The CEO needs to locate an external facilitator, who will work with the SMT to scope the project, facilitate SMT commitment, help select the in-house QRP team, and support the team in their journey of learning, discovery, and achievement. The facilitator needs to be experienced with QRP concepts, issues and be given time to familiarize themselves with the concepts of this paper.

The project team will need a facilitator who will act as a mentor ensuring that they maintain a "helicopter view" of the project, avoiding getting lost in detail. Do not design a rolling forecast system based around the previous dysfunctional Excel model, and being a safety net in case the software provider's consultants start leading the project team "up the garden path".

The facilitators role on a project such as this should be somewhere between 10-15 working days, in other words, they should not become part of the project team.

Exhibit 6.1: the possible steps in an implementation programme of planning tool for an organisation over 500 FTE

	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	Month 5 1st	Month 5 2nd	Month 6 1st	Month 6 2nd	Month 7 1st	Month 7 2nd	Month 8 1st	Month 8 2nd
1	Secure senior management team (SMT) commitment																	
2	Selection of a project team																	
3	Project research, planning, and training of project team members																	
4	Evaluation of forecasting system requirements																	
5	Focus group meeting																	
6	Commence acquisition of planning application																	
7	Organise test of the best two PT applications. Close deal.																	
8	Training of in-house designated experts on the new application																	
9	Build new model using in-house teams with external advice																	
10	Pilot planning application on two areas																	
11	Roadshow of new rolling forecast application																	
12	Roll out training of planning application (using in-house experts)																	
13	Complete QA processes on Model																	
14	Commence first QRP run																	
15	Review process and ascertain lessons learnt																	

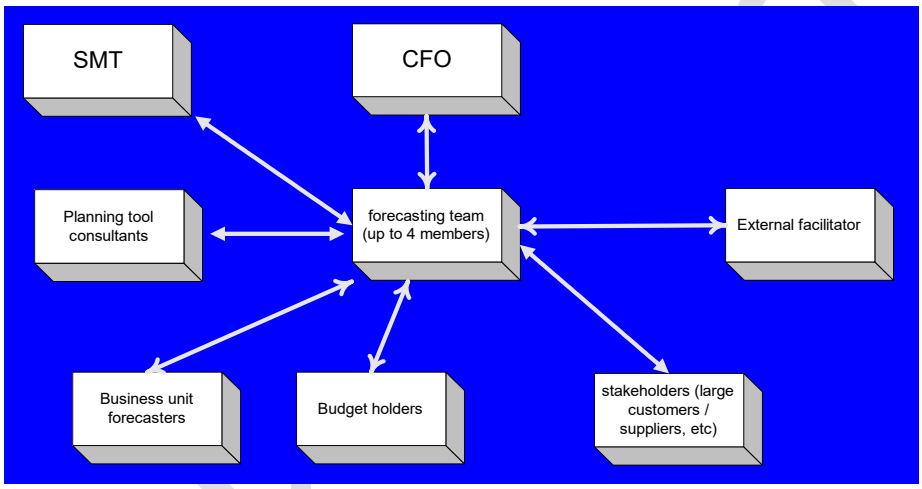
The QRF implementation checklist, see Appendix 4, is an evolving tool, and should be a useful checklist helping ensure that while you are juggling the balls you do not drop the ones that matter. I have also included a checklist for managing the reforecast process each quarter, see Appendix 5.

6.2. Selection of a project team

It is important to select a small team to work on this project. The project team will be supported by business co-ordinators, see Exhibit 6.2. These co-ordinators need to be knowledgeable about their business units (BU) operation and be available to give feedback about their BU to the project team.

I recommend a team of between three to four staff for the rolling forecast team. It is important that you ensure the team has the appropriate mix of skills including: they are self-starters, innovative, good at presenting, finishers, in-depth organisational and sector knowledge, experienced in using the general ledger, advanced communication skills and the ability to bring others on board. It is unlikely that you would get all the skills covered with just two staff. See Appendix 3 for a suggested project team selection checklist.

Exhibit 6.2: the forecasting team relationships



The project team members will need to be committed at least half of their time on this project. The team will need one member who is an "oracle" on the business. It is also best to ensure that the team is free of a well-meaning SMT member, who, whilst enthusiastic will be forever cancelling meetings. The SMT involvement should be left to an advisory capacity.

The project team should avoid a rocket scientist in both the team itself and in the PT consultant who is advising them.

I have concluded that many of the extreme examples of Excel models have been designed by accountants and planners who always wanted to be a rocket scientist. They create monster models, which only they could possibly understand, ending up with a living nightmare accounting staff. Their model include any of the following: weeks or months of work on the model each time it is used, poor version control, consolidation headaches, low level confidence in the resulting numbers and emails and phone calls to the model builder who may well have left the company, need I go on!

6.3. Project research, planning, and training of project team members

Every organisation will need to work out the best quarterly cycle. When establishing your quarterly pattern to best fit the organisation you need to take into account:

- Your year end (it is useful to have an update forecast the month before the new financial year starts e.g. for a June year end June, September, December, March – for a May year end May, August, November, February)

Exhibit 4.1 Forecasting payroll at every team level

Employee Name	Position Grade	Department	Current Annual Salary	Override Salary	Start Month	End Month
Jump, John	Junior Sales	Sales team 1	35,000	40,000 (Promotion due in June)	June	
Host, Chris	Senior Sales	Sales team 1	70,000			
Big, Terry	Senior Sales	Sales team 1	68,000			August (Expected leaving date)
A.N.Other (unknown at present)	Senior Sales	Sales team 1	70,000		August (Expected start date)	

After you have the correct salaries and wages, you can model any employment taxes paid by your organization. Then forecast the total likely employment costs as you will have an idea about what total costs are permissible and you can then deduce the temporary, contract and interns costs (Exhibit 4.2). Exact numbers for these costs are not possible, no matter how much time is spent on them. In fact, the amount flexes all the time: if recruiting costs related to contract workers are late, these costs go up and the salaries and wages total is lower and vice-versa.

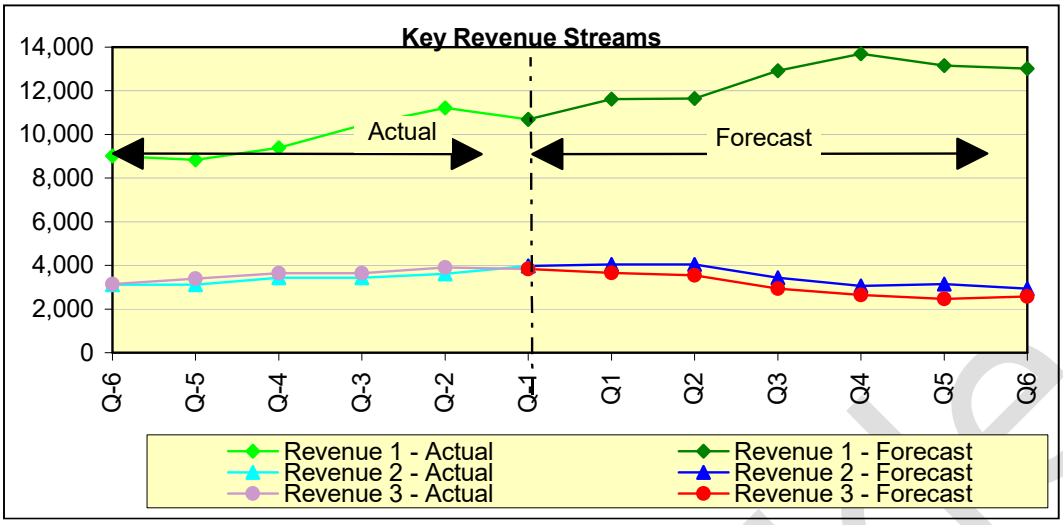
Exhibit 4.2: Forecasting employment costs (the helicopter way)

Salaries and Wages	**25,567,678**	**Salaries and Wages**	**27,400,000**	**Budget Holder calculates salaries and wages to the nearest $100k**
Taxes	**2,488,888**	**Taxes**	**2,900,000**	**Taxes are automatically calculated by model**
Temporary Staff	**2,456,532**			
Contract Workers	**2,342,345**	**Other Employment Costs**	**4,200,000**	**This number is the balancing item**
Students	**234,567**			
	33,090,010	**Employment Costs**	**34,500,000**	**Budget Holder estimates costs to the nearest $0.5m**

4.3. Trend graphs for every forecasted category

Better quality forecasting can be achieved through comparison of the actuals trend and the forecast trend. There is no place to hide funding when a budget holder is accountable for the past and future trends. The graph, shown in Exhibit 4.3, if made available for all of the categories budget holders' are required to forecast, will increase forecast accuracy. Budget holders will want to ensure their forecasts make sense against the historic trend. See Appendix 2, for a template of the quarterly update of the one page report.

Exhibit 4.3: Revenue trend graph



4.4. Enable monthly phasing for only the next 6 months

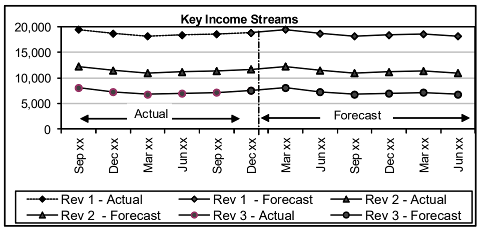
You only need to forecast categories in monthly time frames for the next two quarters. Once the first quarter forecasts are agreed, these become the targets and are to be loaded into the reporting tool. Quarterly data is perfectly adequate for forecasting the quarters three, four, five and six.

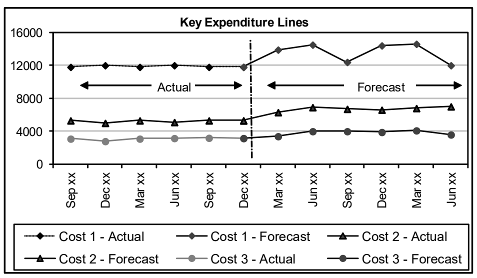
Forecasting monthly time frames for quarter two is useful, because it is good preparation for setting targets in three months time, when quarter two becomes quarter one. Exhibit 4.4 is an example of a quarterly forecast with phasing for only six months.

Exhibit 4.4: A budget holder's quarterly forecast

Summary of Forecast Profit & Loss for the period ending xxxxxx

		Quarter 1				Quarter 2			Quarter 3	Quarter 4	Quarter 5	Quarter 6
* includes estimate for December	9 months to 31/12 *	Jan	Feb	Mar	Y/E forecast	Apr	May	Jun	Jul- Sept	Oct - Dec	Jan - Mar	Apr - Jun
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:

1. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
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4.5. Automate and standardize travel and accommodation costs

When budget holders calculate travel and accommodation costs, they can spend hours searching the web for special deals. They then use these deals for their annual plan. I recommend that you set up a simple calculator (Exhibit 4.5), with standard costs so all staff have to do is state the date, object of trip, select a from and to, roundtrip or one-way and number of staff, such as "three people going from Sydney to Brisbane for two nights on a roundtrip."

The model then uses standard estimates to automatically calculate the airfares, accommodation, transfers, overnight allowances and other costs. For example you might schedule the top ten routes with standard pricing and have an eleventh flight called "Flights-other" and set a $300 return airfare. Although the forecast won't be exactly right, it is likely to be approximately right because it is based on an average calculated from the last three months of actuals.

Exhibit 4.5: Travel and accommodation calculator in a planning tool

Month of trip	Object of trip	From	To	Return trip	Nights	Number of staff travelling	Cost
Oct xx	QRP project	Houston	Toronto	Yes	2	2	2,500
Nov xx	QRP project	Houston	Seattle	Yes	2	2	1,400
Nov xx	QRP project	Houston	Boston	Yes	3	2	1,700

for part of each the workshops and the wisdom from the oracles was channeled, by an expert facilitator, into a successful blueprint for the project.

No project will ever succeed without a guiding coalition of oracles behind it. In "The Three Laws Of Performance" Zaffron and Logan point out that when you present the "burning platform" you are aiming for an overwhelming "Hell No" response upon asking the question "Do you want this future?" The oracles want the alternative future which you have also articulated.

3. **Develop a vision and strategy**— In order for the journey to be seen and resources made available, we must master future-based language that is compelling and motivational. Zaffron and Logan signify the importance of language (the second law) and that it is crucial that you talk using a future-based language (the third law).
4. **Communicate the change vision** — Kotter emphasized that it's not likely that you will under-communicate a little bit; you will probably under-communicate a lot, by a factor of 10 to 100 times. This will undermine your initiative, no matter how well planned. During a project, the project leader needs to obtain permission from the CEO to gate crash any gathering in the organisation and have a ten minute slot to outline the project and progress to date. One sure fire way to failure is to believe that staff will read your project newsletters and emails.
5. **Empower broad-based action**— Early on the need for change and the right to change must be handed over to teams within the organisation. Zaffron and Logan concur with this view. Once the invented future is set in the minds of the organisation's staff, the staff will march towards this future. All the great writers have emphasized that some chaos is good so let teams embrace the project in their own way.
6. **Generate quick wins**— Obvious to us all but frequently missed. Always remember that senior management are, on occasion, inflicted by attention deficit disorder. Progress in a methodical and introverted way at your peril. We need easy wins, celebrated extrovertly, and we need to ensure we set up the CEO to score the easy goals.
7. **Consolidate gains and produce more change** — This is the fly-wheel affect so well put by Jim Collins in his books "Built to last" and "Good to Great". When the staff are working in unison the fly wheel of change will turn quicker and quicker. This was very evident in the case study where they had six weeks of coalition building workshops.
8. **Anchor new approaches in the culture**— Make heroes of the change agents, make sure their values are embedded in the corporate values and now ensure we weed out those in management who have not embraced the change and who, over time, will be dowsing the fire at night when nobody is looking.

There are two sales to make. Selling the PT and moving away from the annual planning process. Before we look at these let us first see that we have to learn to sell differently.

5.2. Selling by emotional drivers

Nothing was ever sold by logic, sales are made through the use of emotional drivers e.g. remember your last car purchase. Many finance team initiatives fail because we attempt to change the culture through selling by logic and issuing commands. It does not work. This project needs a public relations (PR) machine behind it. No presentation, email, memo, paper should go out unless it has been

vetted with the help of a PR expert. All your presentations should be tailored to suit the different audiences' emotional drivers and these should be road tested in front of the PR expert.

I believe you could contract this service in for less than four days of fees for the whole project. You will never regret it.

To understand selling by emotional drivers let us look at how a second-hand car salesperson sells cars using emotional drivers.

Selling by emotional drivers: how a car sale is made

Three customers over the same day arrive to look at the "car of the week" that has been featured in the local paper. The sales person does not sell the cars by logic (price, features, car reviews), instead they tailor their approach to the buyer's emotional drivers.

The first person is a young information technology guru, from the Y generation, with latest designer gear, baggy trousers part way down exposing a designer label on his boxer shorts. The salesperson first ascertains that this young professional has enough resources and with some probing finds out that they are a highly paid Google employee. They are looking for signs of the emotional drivers of this potential buyer, looking for clues, such as clothing, the car that the person arrived in and more.

The sales pitch could be targeted around the performance and handling of the car and the prowess of the young professional's driving skills. The opening line could be, "Have you had any experience driving powerful cars around a track?" "Great, you will need to have the skills of a racing driver to handle the 280 BHP, the twin turbo, and the phenomenal cornering." SOLD.

The second person could be me, with my grey hair visible. The salesperson would say, "This car is the safest car on this car lot, it has a five-star rating for safety, eight air bags, enough power to get you out of trouble, unbelievable braking when you have to avoid the idiots on the road, and a cornering capability that will keep you on your side of the roads no matter how you come into the corner." SOLD.

The third person, with Italian designer clothing and leather briefcase, such as a SAP consultant, is asked to sit in the car. The focus is on the luxury. "This car has won many awards for its design. See the quality of the leather finish. It is Italian leather similar to your immaculate briefcase. You will notice that everything is in the right place." "If you don't mind me saying Pat, you look a million dollars in your outfit and I can assure you that every time you drive this car you will feel like a million dollars!" SOLD.

How would accountants sell the car? I often joke to accountants that we would be so busy, buried in a monster spreadsheet, that on sighting a customer we would slump our shoulders in a resigned way thinking, "This is the last thing I need".

Walking up to the customer, they would remember that they needed to smile and appear welcoming. However, the frowns on their forehead would give the game away. We would point out to the customer "As you know this car has been reduced by another $5,000 and it is full of features as you would expect in this top of the line car. I have listed all the features on the window and have printed Jeremy Clarkson's review - his only five star rating this year." Handing over the

keys we would say "Make yourself comfortable, start the car and if you are still interested come over and see in my office and I will take you out for a test drive."

I can assure you that selling by logic **seldom** works and is the prime reason why many initiatives put forward by the finance team fail.

5.3. Selling the move to QRP

There is a list of some of the emotional drivers that might be applicable to your organisation. The annual planning (AP) process:

- "Leads to meaningless month-end reports e.g. "it is a timing difference"
- Involves many evenings / weekends away from family and friends producing the AP numbers which are out of date as soon as the year starts
- Leads to dysfunctional BHs behaviour and encourages the building of silos
- Is a very costly as it takes over 4 months to complete e.g. estimate on the high side as costs motivate Boards
- Smart organisations do not have an annual planning process anymore as it is not appropriate for a dynamic company in a rapidly changing environment
- Creates disagreements and division between the Board and SMT – there is less chance for disagreement when seeking funding on a rolling quarterly basis

The benefits of quarterly rolling forecasts to a budget holder include:

- accountable against recently set targets (during monthly reporting)
- funding flexibility within the year
- annual plan falls out of second go at the numbers, so it can be quicker
- annual plan is a condensed 2 week period
- regular cycle means forecasting gets better
- budget holders encouraged to look longer term

The benefits of quarterly rolling forecasts to management include:

- an adaptive performance management process, 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 makes the monthly budget setting process redundant as progress is monitored against a rolling forecast
- radically improves monthly reporting - you now report against a meaningful target
- ability for management team to move funds thus aiding more efficient allocation of funds

The project team needs to focus on the marketing of this new concept as much as it does on the training. Budget holders will need to understand how this process is going to help them manage their business. A quarterly planning cycle will help them focus more on the future, and ensure that the annual planning "cold start" and lengthy process is a thing of the past.

7. Some "planning tool" forecasting case studies

7.1. Implementation of TM1 by Ballance Agri-Nuturients Ltd

I first came across Ballance many years ago when I was running a benchmarking service for accounting functions. They were already hungry for data comparisons and showing leadership in a number of areas. So it came of no surprise when I recently heard about their planning tool implementation. I consider it one of the best I have come across and a case study for others to replicate.

Background to Ballance

Ballance is a farmer-owned co-operative with 700 employees and more than 18,000 shareholders, who in 2013 were paid $61million in rebates. Ballance is one of New Zealand's 'Top 50' businesses, controlling assets of $568 million and in 2013 company turnover was $878 million (in a drought impacted year).

Ballance has been moving from commodities "processing chemicals" to delivering best results with agri nutrients. This requires greater conversion of data into information and open sharing of information with shareholders. The recently developed Agri-Hub software is an example. The Shareholder has their farm mapped in detail by satellite. The system also captures a range of data, recorded on-farm and from external sources – from pasture covers to effluent irrigation patterns. Thus giving shareholders greater data about their lands performance.

Ballance also has one of the New Zealand's largest SAP software implementations, including SAP applications for business intelligence (BI), supply chain management, finance, and process integration. Ballance instigated online ordering 24/7. Allowing clients to view all prior purchases and then order in farm hours rather than in business hours.

Ballance's Finance Team

The Finance team in Ballance knew they had to move on from their excel forecasting model not only was it unable to deliver the decision based information required it had, like an architect's house, become a monstrosity with many additions over its 15 year life. The excel model had grown to 254 separate workbooks that had to be manually consolidated in a five hour nerve racking consolidation. Staff dreaded the possible appearance of the "ref", "ref", "ref" across their screens.

They needed a tool that could help their dynamic organization focus on the future opportunities and threats.

They also need to migrate away from the annual planning process where budgets were prepared between 3 to 15 months prior to that period starting. Each month the Ballance team was tied in the circle of chasing their tail to explain why a guess so long ago was wrong.

Scoping the needs and planning tool selection

As an organisation with a "thinking approach" to management Ballance set about assessing which planning tools could deliver their requirements. They used a

consultancy firm to ascertain that were two options for them, the planning tool linked to their GL provider and a tier one standalone planning product.

They hired a planning tool developer to be a facilitator during the blueprint design making it clear that the blueprint must be capable of "going to market" and be implemented by another planning tool provider. In fact they lost out albeit they were paid for all their facilitation work.

Tool selection and implementation process

sell concept	1	Secure senior management team (SMT) commitment outlining purpose of solution and benefits both financial and non financial
	2	Gaining approval for capital expenditure request (CER) for preparation of blueprint for RFP process
Build in-house team capability	3	Socialise with key business players to; • Identify the business requirements for Financial Forecasting • Identify the outputs that the process will generate • Identify the decisions that will be made from the forecasts generated • Identify the data required to provide that information • Selection of a project team • Establish a steering committee – needs to include project sponsor and business owner for solution and meet regularly at least monthly
	4	Conduct workshops with facilitator to scope business requirements; • Start with the business requirements; need to be clearly defined • Establish the data requirements and sources of data • Establish the technical requirements and interfaces • Establish the outputs and reporting requirements
	5	Develop the framework of a comprehensive blueprint – needs to be of such detail to enable a developer to build
Buying the right planning tool	6	Use the blueprint as the basis of an RFP process • Clearly lay out expected outcomes • Select recipients of RFP and outlines the terms • Go through selection process
	7	Organise test of the best two PT applications. • Having selected developers complete the blueprint with their solution • Gain demonstration of solution • Negotiate the pricing terms • Close deal subject to Board approval • Gain Board approval for capital spend supported by comprehensive business case
Build and test model	8	Establish Project build team • Ensure dedicated business resource appointed to team • Conduct initial training to ensure familiarisation with solution toolset

15. Appendix 5: Performing a quarterly rolling forecast - checklist

This checklist is designed to ensure you cover all the bases each time you run a forecast.

Performing a quarterly rolling forecast - checklist	Is it covered?
Perform pre-work for the new rolling forecast	
1. Automate any additional expense categories you can e.g. where trend analysis is as good or better than a budget holder's estimate	☐ Yes ☐ No
2. Update standard costings for travel, accommodation, transfers and daily allowances to all common destinations	☐ Yes ☐ No
3. Introduce continuous improvements based on BH feedback on prior QRFs	☐ Yes ☐ No
4. Complete payroll details and pre-populated all budget holders schedules with their staff and current salaries	☐ Yes ☐ No
5. Issue QRF timetable and presentation details on the intranet	☐ Yes ☐ No
6. Obtain up to date demand forecasts from key customers where possible	☐ Yes ☐ No
7. Set key assumptions and materiality levels before the forecast round	☐ Yes ☐ No
8. Prepare presentation for budget holder's workshop (slides and handouts)	☐ Yes ☐ No
9. Organise the recording of the workshop as a live webcast for all remote attendees	☐ Yes ☐ No
10. CEO invitation to attend quarterly rolling presentation sent stating permission is to be sought from CEO if not attending workshop	☐ Yes ☐ No
11. Deliver presentation explaining to all budget holders how it is going to be done, assumptions, lessons from last run etc	☐ Yes ☐ No
12. Organise additional support to the forecasting team so that one-to one support can be provided to all BHs (using local accounting firms for isolated offices - their staff would attend the webcast)	☐ Yes ☐ No
13. Provide briefing to new forecasting team support staff from local accounting firms (if used)	☐ Yes ☐ No
14. Establish schedule of who is to provide who with one-to-one support during the forecast.	☐ Yes ☐ No
15. Update revenue and expenditure trend graphs, where necessary.	☐ Yes ☐ No
16. Have limited budget holder's forecast requirements to no more than twelve cost category lines	☐ Yes ☐ No
17. Process any changes highlighted from last forecast and audit the formulas forecast in the forecasting application	☐ Yes ☐ No
18. Remind forecasting committee (CEO, two GMs and CFO) of their responsibilities	☐ Yes ☐ No
Support budget holders during forecast preparation	
19. Provide more one-to-one support	☐ Yes ☐ No
20. Provide a daily progress report to CEO of budget holders who are running late – a 'shame and name' report	☐ Yes ☐ No