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Rolling Forecast Implementation: 7 Factors for Success

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Goals

- **Definitions**
- **Qualities of Good Rolling Forecast**
- **Seven Factors for successful implementation**
- **Best Practices**
- **Why sometimes it does not work?**
- **Rolling Forecast and Beyond Budgeting**
- **Conclusions**
- **Q &A**



Definitions

Target

- Where we would like to be?

Plan

- How we get there?

Forecast


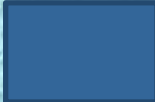
- What the future most likely look like with current assumptions?

Budget

- Allocation of funds and resources



Example of 5-Quarter Rolling Forecast

	Year X				Year X + 1			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1st review	Forecast	Forecast	Forecast	Forecast	Forecast			
2nd review	Actuals	Forecast	Forecast	Forecast	Forecast	Forecast		
3rd review	Actuals	Actuals	Forecast	Forecast	Forecast	Forecast	Forecast	
4th review	Actuals	Actuals	Actuals	Forecast	Forecast	Forecast	Forecast	Forecast

KEY:  = Actuals  = Forecast

Example of Traditional Forecast

	Year X				Year X + 1			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1st review	Forecast	Forecast	Forecast	Forecast				
2nd review	Actuals	Forecast	Forecast	Forecast				
3rd review	Actuals	Actuals	Forecast	Forecast				
4th review	Actuals	Actuals	Actuals	Forecast				

KEY:  = Actuals  = Forecast

Traditional Forecast as Driving

By Bjarte Bognes of StatoilHydro:

“ During the budgeting cycle we shine a strong light into the future.

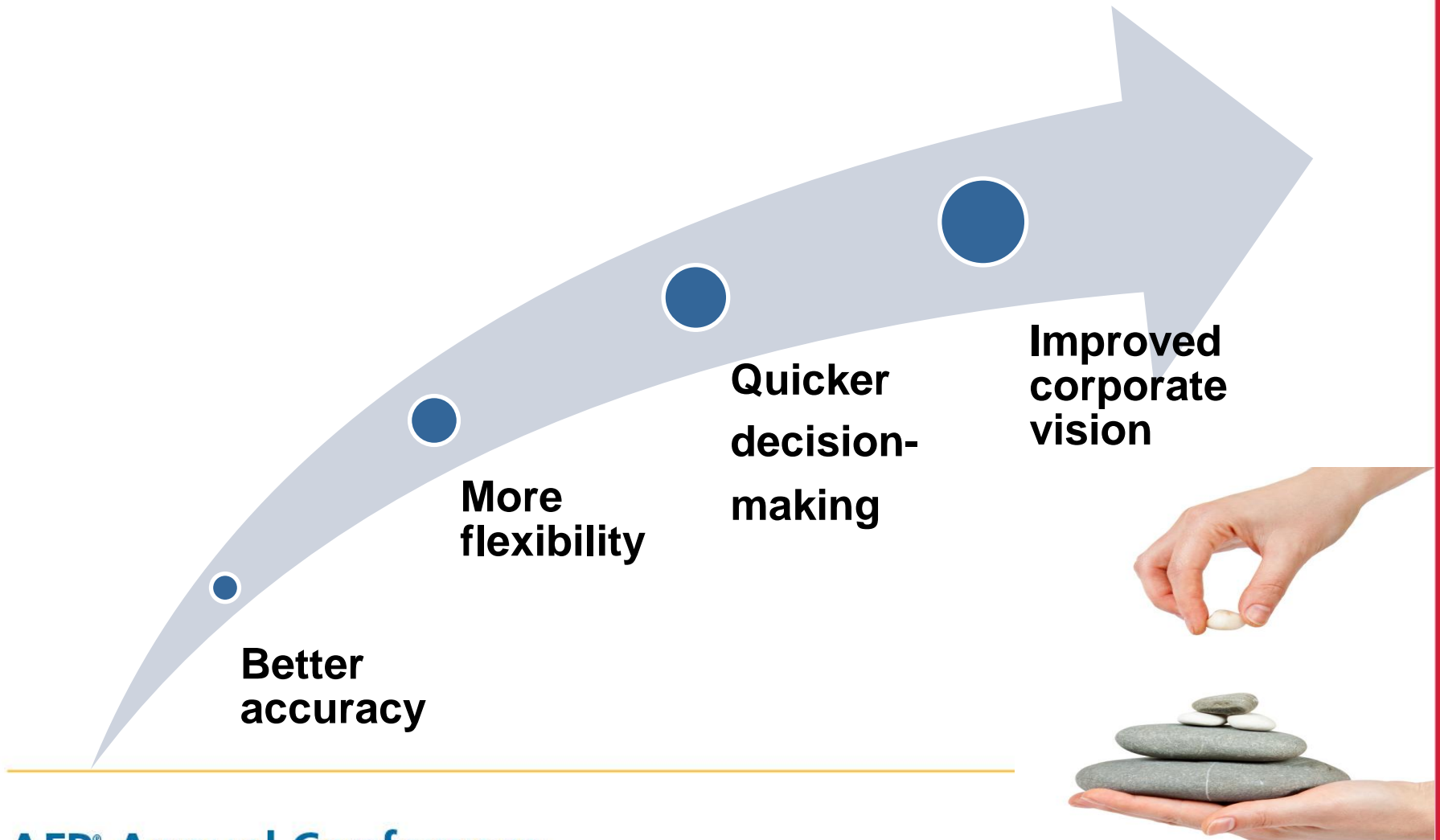
Then we turn off the high beams and start driving into the next year with low beams only.

As we drive on and the quarters pass the low beams get gradually covered in mud and become weaker and weaker.

**Is this a safe way
of driving in the dark?”**



Benefits of Rolling Forecast



Why Companies Use Rolling Forecast?

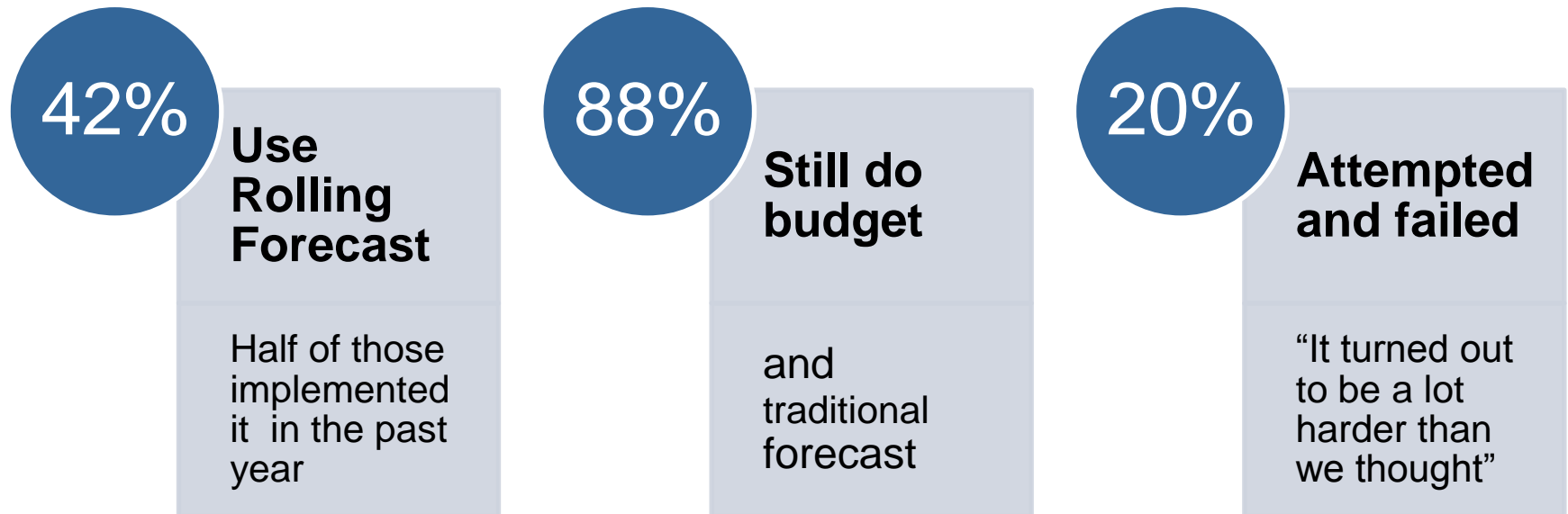
Per IBM research:

12% more forecast accuracy

50% less budget preparation time

10% more profitability

2013 EPM Channel's Rolling Forecast Survey



Features of Good Rolling Forecast

By Steve Morlidge and Steve Player

- 1) Timely
- 2) Actionable
- 3) Reliable
- 4) Aligned
- 5) Cost-effective



Rolling Forecast Implementation: 7 Factors for Success

1.
Culture

2.
Systems

3.
People

4.
Process

5.
Design

6.
Alignment

7.
Participation



Factor N 1: Business Culture



- **Support from Top Management**
- **Acceptance by Key Participants**
- **Rolling Forecast is not a measurement, but is a management tool**
- **It should not follow accounting structures**

Business Culture

The mistake number one for many companies is to underestimate the degree of cultural change required

Fritz Roemer, Hackett Group



Factor N 2: FP&A Systems



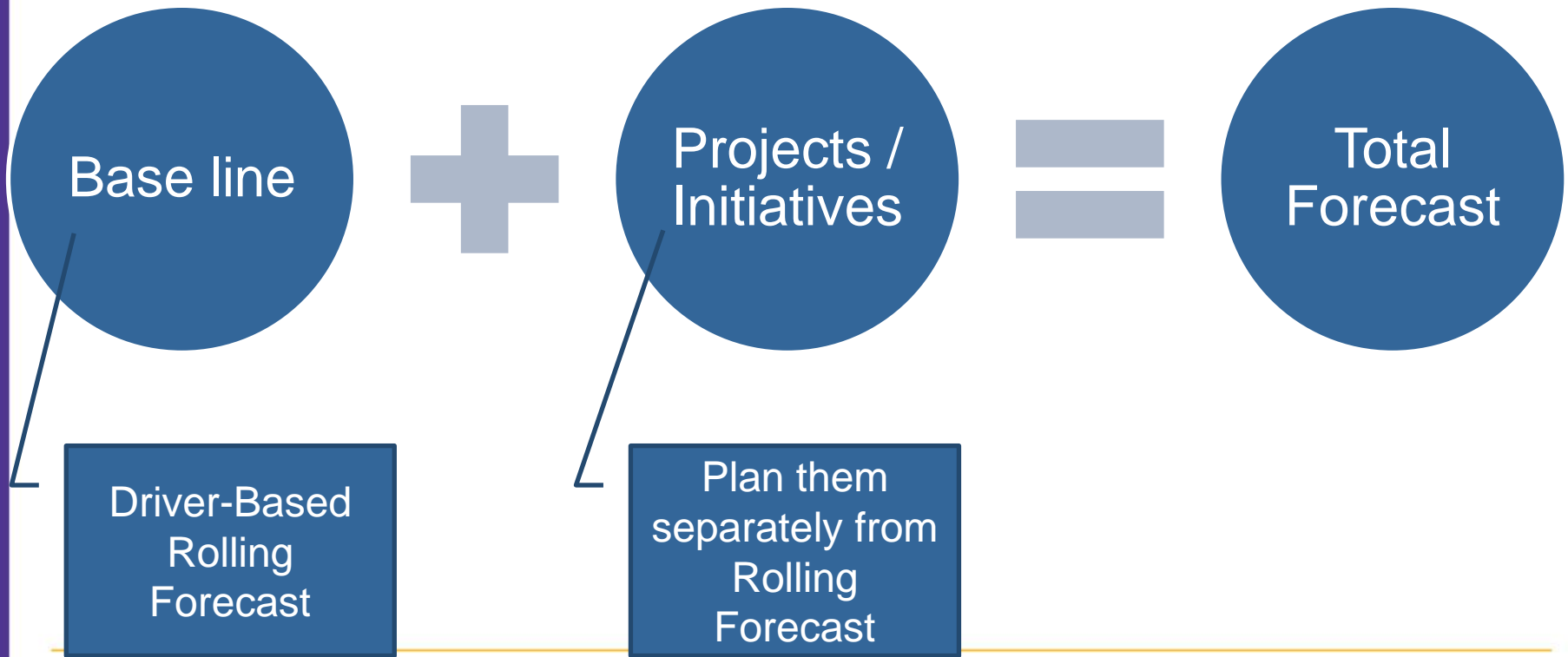
Based on Advanced Analytics

Driver-Based

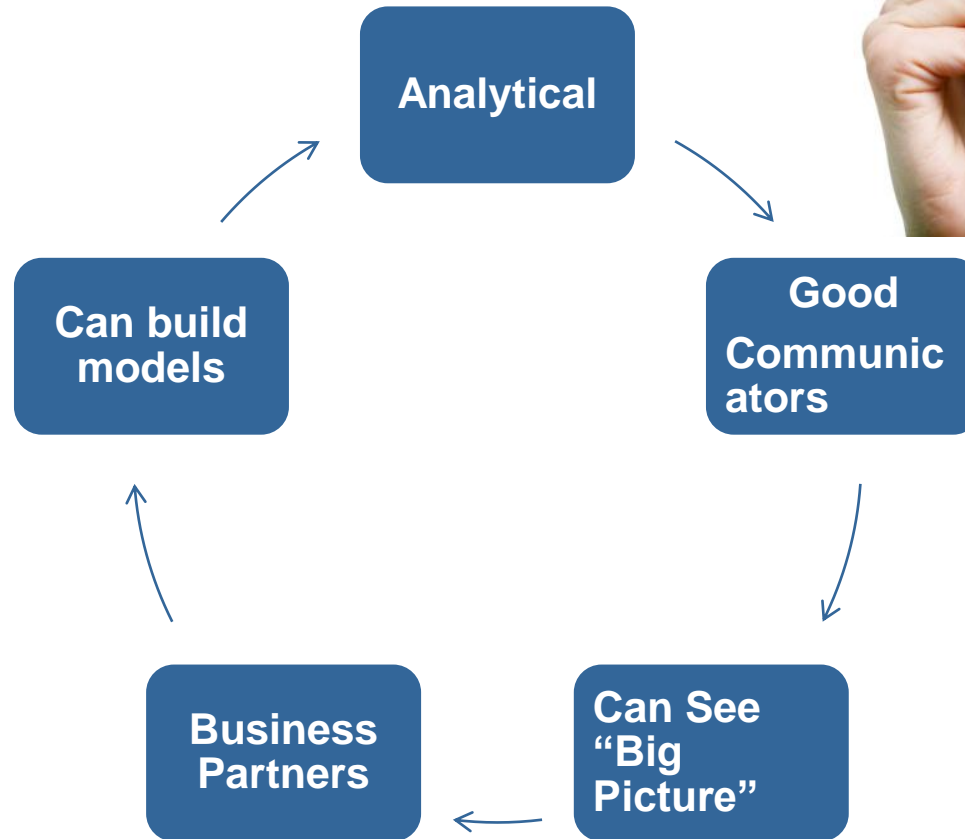
No “Black Boxes”

Automatic upload of Actuals

Model: Base Line vs. Projects



Factor N 3: FP&A People



We need a new generation of FP&A professionals!

People

By Leonardo da Vinci

“There are three classes of people:

- **Those who see**
- **Those who see when they are shown**
- **Those who do not see.”**



Factor N 4: Rolling Forecast Process

- **Quick and flexible**
- **Allow for collaboration**
- **Minimise non-value adding activities**
- **Allow for good communication**



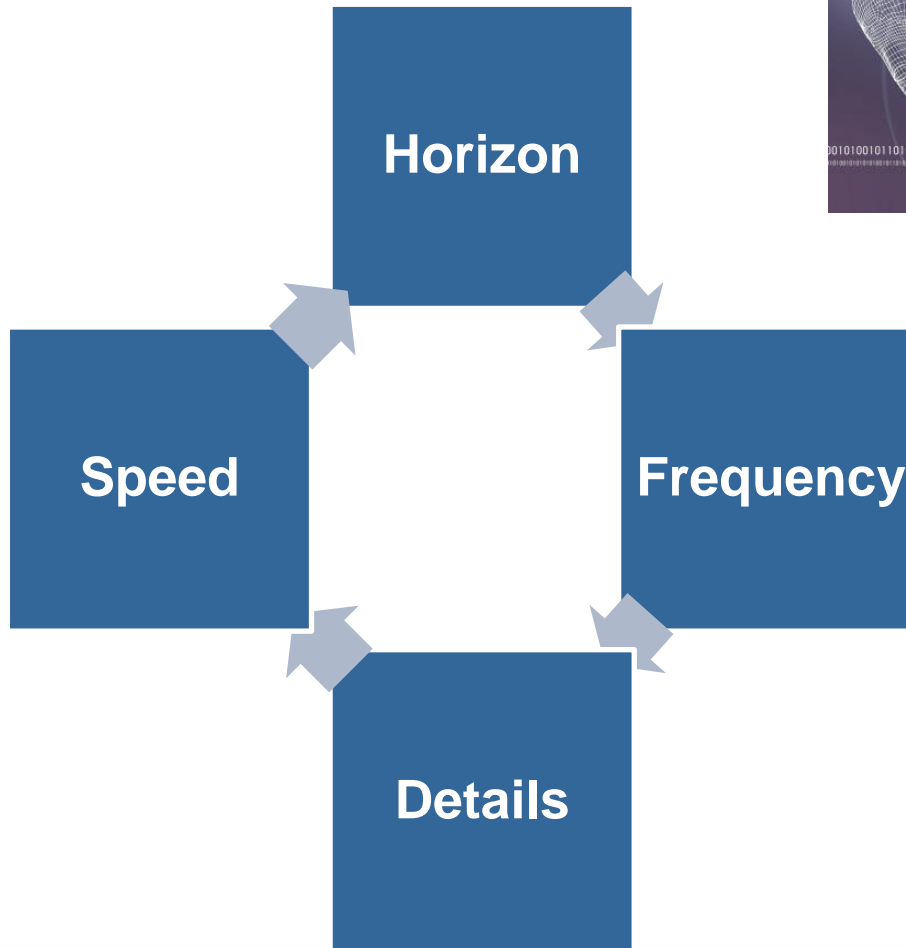
Process

Design out Judgemental and “Political” elements:

- **Where possible, BAU forecast should be automated through drivers**
- **Projects, initiatives , changes should be based on clear assumptions**
- **Ban adjustment to forecast**
- **Allocate roles and responsibilities**



Factor N 5: Design



Rolling Forecast Horizons and Frequencies

- The horizon needed is determined by decision-making lead times
- Frequency of updates is driven by the rate of change in the environment

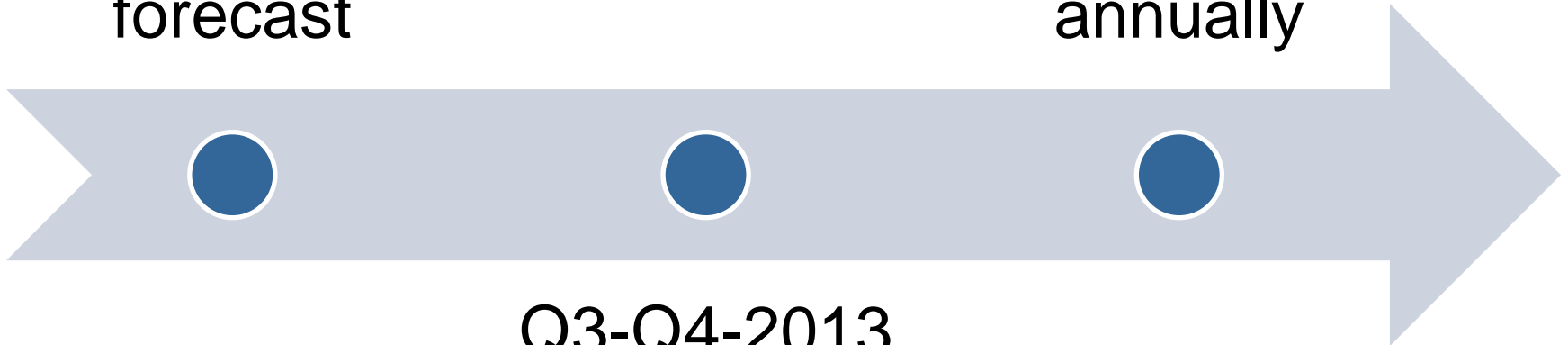
Examples:

- Airline: rolling 6 quarters, monthly
- Technology: rolling 8 quarters, quarterly
- Pharmaceutical: rolling 10 quarters, quarterly

Horizontal Detail

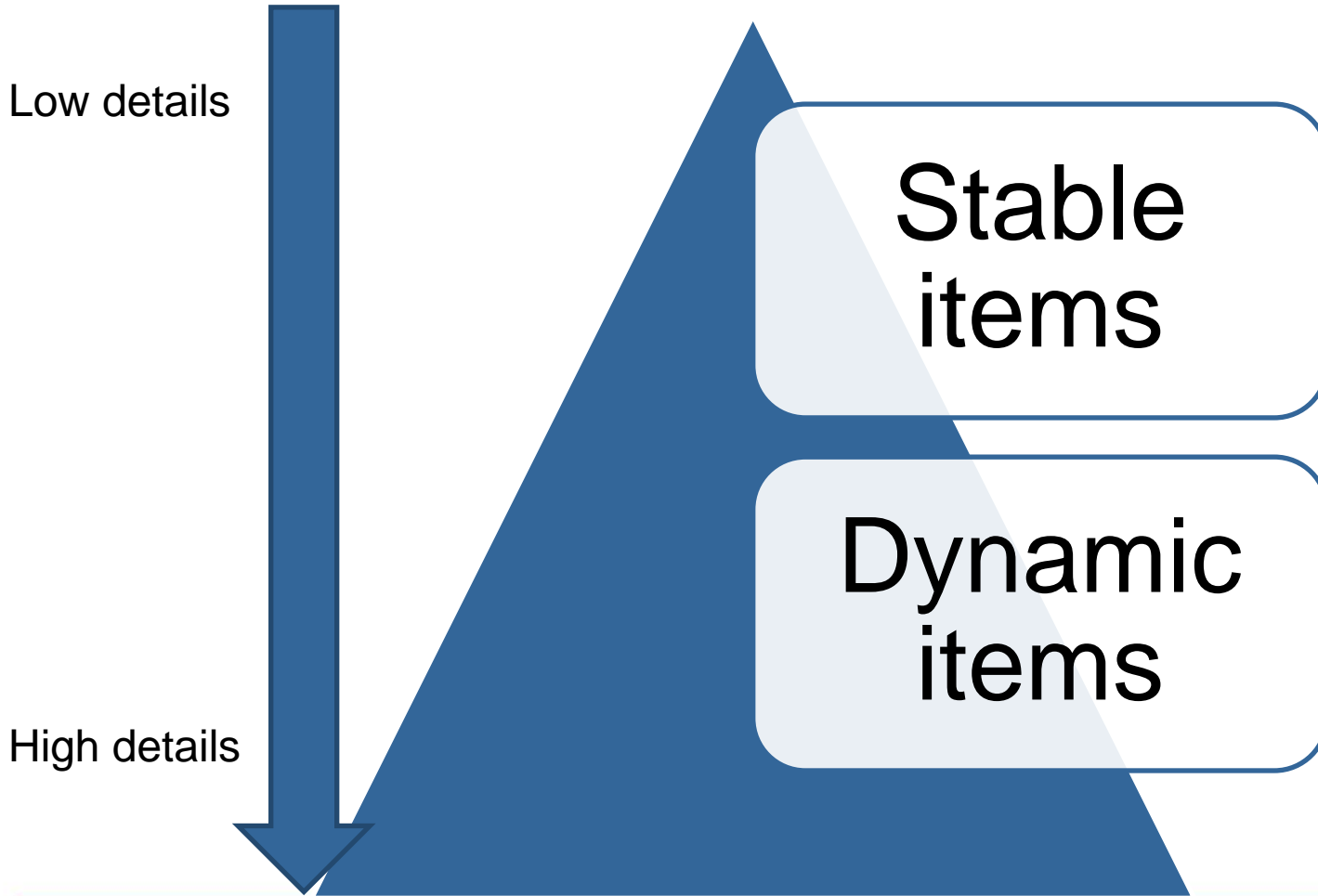
Q1-Q2-2013
Monthly
forecast

Q1-Q4-2014
Semi-
annually



Q3-Q4-2013
Quarterly
Forecast

Vertical Detail



Factor N 6: Alignment



- **70% of companies never realise their strategy because:**
- **Systems are not applicable for both bottom-up and top-down processes**
- **Communication is not good**
- **FP&A was not involved in strategy setting process**

All of this is changing with emergence of Strategic and Influential FP&A

Factor N 7: Participative Planning



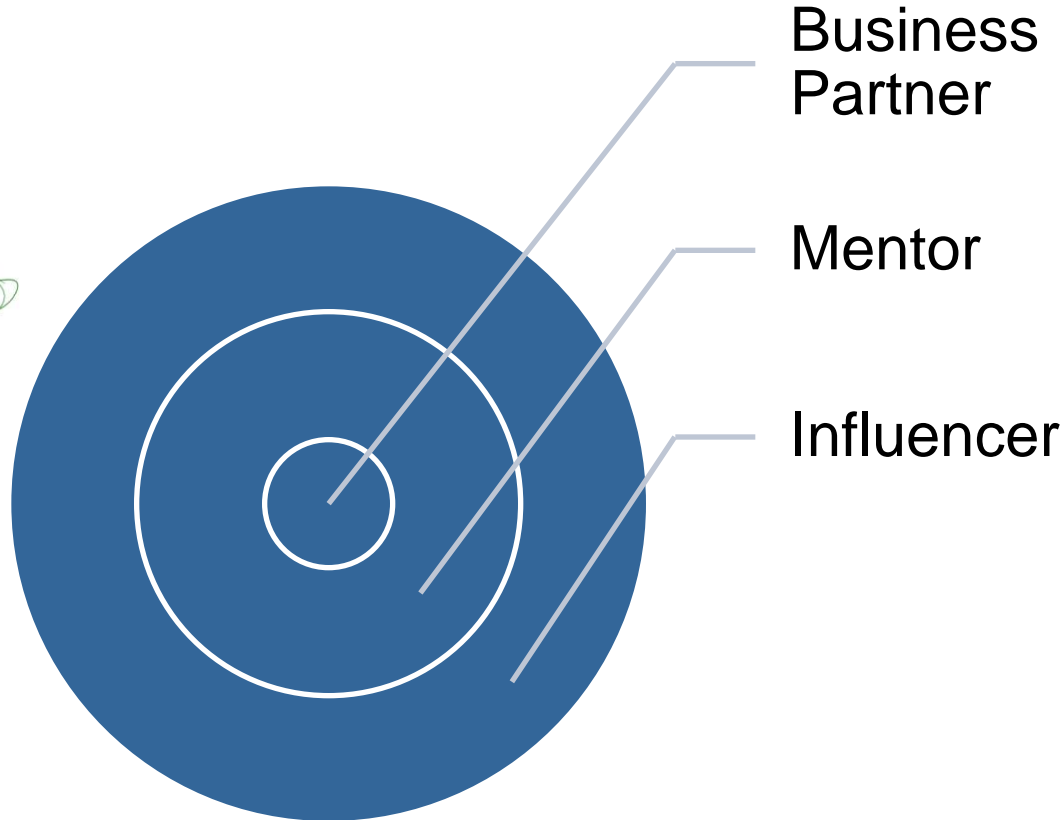
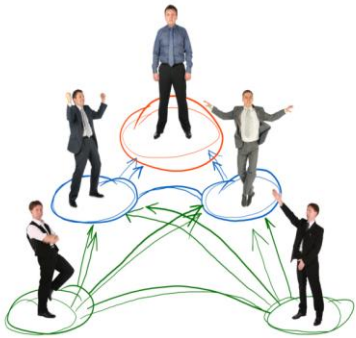
Flexible planning process should be participative

There is a gap between strategy and execution
Between top-down and bottom-up processes

Involving many people in to the planning process can
help to overcome this problem

Modern FP&A systems help to effectively manage the
participative planning process

Participative Planning: Keeping Balance



Business
Partner

Mentor

Influencer

**A forecasting process should be a collaborative cross-functional endeavour
Morlidge and Player**

Best Practices for Implementing Rolling Forecasts:

- **Focus on external and internal financial and non-financial drivers**
- **Move towards on-demand forecasting**
- **Move from fixed performance to relative improvement**
- **Move from fixed incentives to relative rewards**



Challenges



- **Initial set up is labour intensive.**
- **Resistance to change**
- **One-off implementation cost: software and support costs**
- **Training, testing, and parallels running**
- **Incentives hard to integrate**

Budget and Rolling Forecast

- **Rolling Forecast and the budget can work together**
- **Rolling Forecasts will not replace budgets in the future**



Budget and Rolling Forecast

3 Requirements for effective Rolling Forecast:

- 1. Budgeting practice should become more flexible**
- 2. Visibility beyond year end should be improved**
- 3. Culture of target negotiations need to be weakened**

Final Quote

**Forecasting should be treated as a social process
where information is shared,
diversity is recognised as a source of strength
And where logic and knowledge, not protection of
interest groups, are the criteria for decision-making**

Morlidge and Player



