



# ROLLING FORECAST

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LARYSA MELNYCHUK

STEVE MORLIDGE

RICHARD REINDERHOFF

ELENA KIRISTOVA

THORSTEINN SIGLAUGSSON

FP&A TRENDS E-BOOKS

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**Larysa Melnychuk, Founder and Managing Director of the International FP&A Board**

Larysa is an experienced FP&A practitioner who has held senior FP&A positions at Invensys plc, Ace Group, Key Bank and HSBC Bank before setting up the International FP&A Board in 2013 — a global and well-recognized FP&A best practices think-tank. Since then, she has been running the Board which has successfully expanded into 16 countries in Europe, the Middle East, Asia, Australia and North America.



**Steve Morlidge, Business Forecasting thought leader and author**

Steve Morlidge has 30 years of practical experience in designing and running performance management systems in Unilever, including three years as the lead of a global change project. He is a former chairman of the European Beyond Budgeting Round Table and now works as a management thinker, writer and speaker, drawing on his years of experience at the leading edge of performance management thought and practice.



**Richard Reinderhoff, CFO/FP&A Expert and Independent Adviser**

Richard Reinderhoff is a CFO/FP&A expert, turned advisor. He has worked for corporations from different continents, at local BU and holding level. His experience in an emerging market has developed him into a strategic finance business partner. Richard uses his strengths to develop learning management teams, improve capital allocation decision-making, and eliminate misperceptions on strategy. He is a specialist in Zero-Based Budgeting and promotor of FP&A, as the next frontier in finance business partnering.



### **Elena Kiristova, CFO Russia and CIS at Groupon**

Elena Kiristova is a CFO with over 25 years of practical experience running Finance and Operations of global corporations like GE. Her experience is mainly concentrated on emerging markets like Russia and its surrounding countries. Elena was driving and implementing cross-countries projects like integration of acquired companies, turnaround of business performance and business restructuring. Her other skills include strategic planning, zero-based budgeting, forecasting and management reporting. Elena is now running Finance and Operations of an IT company with the main focus on business performance.



### **Thorsteinn Siglaugsson, Consultant / Corporate Trainer / Manager**

An INSEAD MBA and entrepreneur Thorsteinn has over 20 years of experience in management, consulting and training. He is chairman of Ultima BV, a company specialized in developing driver-based planning and budgeting solutions. He also runs his own consultancy with a focus on improving business performance, using the Beyond Budgeting approach to planning and budgeting, and the Logical Thinking Process methodology for strategy formulation and improvement programs, both in consulting assignments and corporate training. Thorsteinn is a member of the Beyond Budgeting Roundtable and a certified expert in The Logical Thinking Process.

## What is a Rolling Forecast?

By **Larysa Melnychuk**, Managing Director at FP&A Trends Group

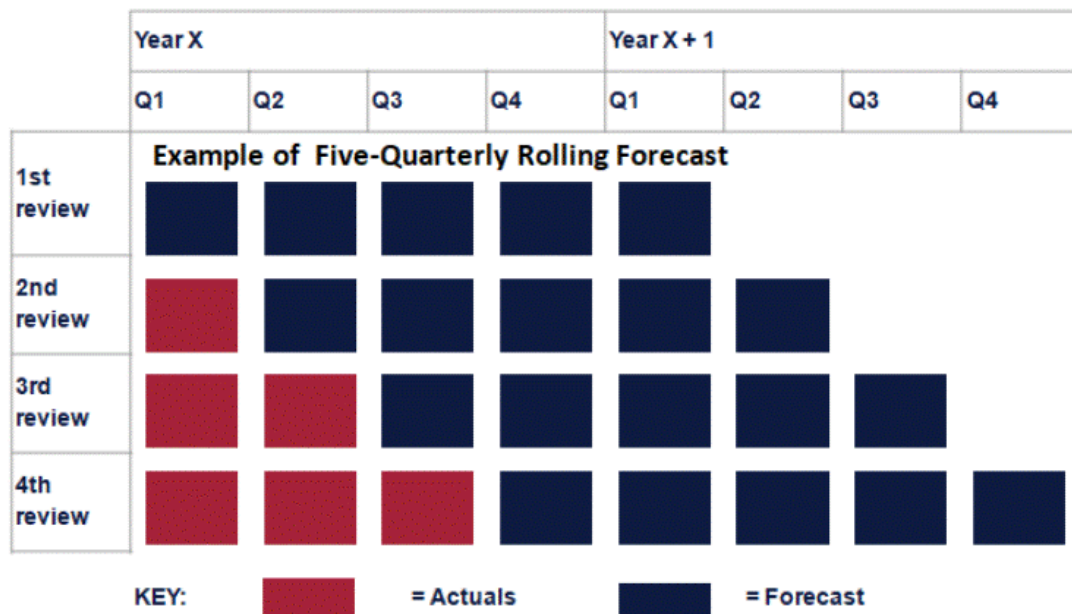
A rolling forecast can become the path that leads a company to better profitability and improved operating performance. It is a popular process in the Financial Planning and Analysis (FP&A) world. Many companies consider using it because traditional forecasting methods have a lot of limitations that a rolling forecast can help overcome.

Some limitations of the traditional forecasting process:

- It often becomes part of target evaluation. It creates many inefficiencies and political games. As a result, the forecasting process becomes ineffective and inefficient.
- It is built around the accounting year. It does not give sufficient visibility for planning the future.

Traveling the world and meeting with many senior finance people, I have observed that only around 25 percent of companies currently use a rolling forecast. However, not many of them boast about its value-adding status.

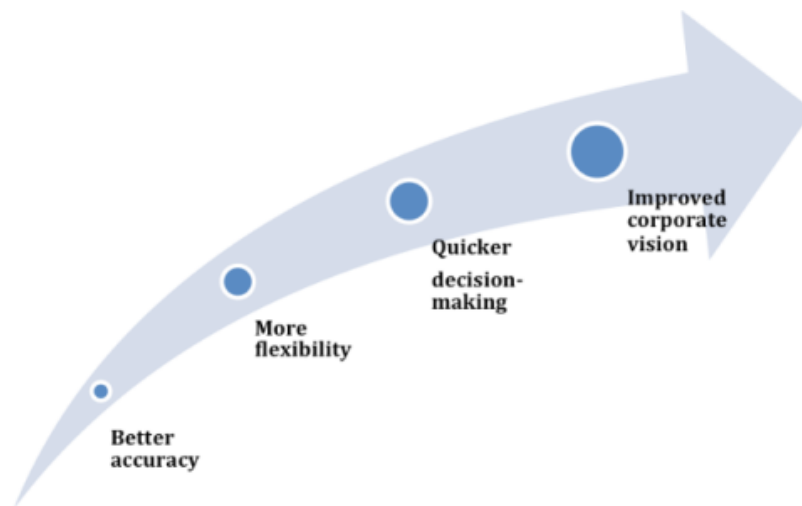
The rolling forecast means that each quarter or month, a company projects four to six quarters or twelve to eighteen months ahead. The picture below gives an example of a five quarterly rolling forecast.



Therefore, the key decision makers can see both a financial and an operational vision of the future on a rolling basis. It allows them to assess the next steps in the execution of their plan, better understand the key drivers and better judge the impact economic changes may have on the company's future performance. There are cases when rolling forecasts have replaced annual planning cycles completely

resulting in more regular business reviews looking at the future. These reviews enable managers to understand problems, challenges and trends sooner to improve their decision-making process.

Planning processes based on a rolling forecast are quick, dynamic and forward-looking. This tool



provides better results over the traditional forecasting process. Implemented correctly, a rolling forecast expands planning horizons and quickly informs decision makers about future risks and profitable outcomes.

The results of the research conducted by IBM support the conclusions listed above. According to the research, a rolling forecast provides companies with 12 percent more accuracy. They spend 50 percent less time on budget preparation and increase their profitability by 10 percent.

## Drawbacks and Challenges

Naturally there are drawbacks to using a rolling forecast. The preparation process can be costly and time-consuming, if it is not automated, since a forecast is reviewed and updated several times per year and is too complex for accountants without sufficient training. Constant forecasting throughout the year can also lead to an increase in managers' workload. Coordination of profit centres can decrease due to the lack of one common budget and lastly a performance evaluation will be more difficult to carry out.

## Why Do We Need a Rolling Forecast?

By **Steve Morlidge**, Business forecasting thought leader and author

The article was first published in [prevero Blog](#).

When I challenge people to explain what they mean when they use the term 'rolling forecasts' they usually say something like 'it involves reforecasting more frequently', which is wrong. Don't misunderstand me – forecasting more frequently is very definitely 'A good thing' but that is not what a rolling forecast is, and those proffering this definition have demonstrated that they don't really understand why they forecast in the first place.

Put simply a rolling forecast is a forecast that has a constant horizon. So, if every time you forecast you looked eighteen months out, or just six months out this would be a rolling forecast. Contrast this with forecasts to the end of the financial year made in January, March June and September. These are not rolling forecasts because their horizons are not constant, being 12, 9, 6 and 3 months respectively.

Why is this important? To answer this question, we need to go back a step.

Forecasts help you make sure that your plans are appropriate. That is to say that they will help take you from where you currently are to where you want to be. Plans are potential future decisions - decisions to commit to action and provide the necessary resources.

*The design of your rolling forecast process is an inevitable logical consequence of the decision-making architecture of your business*

What is critical is that this commitment is made at the right time.

If you commit to action too soon you are potentially vulnerable because you have lost the flexibility to respond to changes in the world. And for obvious reasons if you commit too late you are also vulnerable. So it is critically important that the visibility of the future held in the forecast's horizon is linked to your ability to respond – to the time lag between deciding to act and the results of the action being observed.

If you are the captain of an oil tanker and it takes you a mile to change course then you need to be able to 'forecast' a mile ahead, probably using radar. Any shorter forecast horizon is dangerous, any longer is unnecessary. If, on the other hand you are in a very manoeuvrable speedboat you don't need radar at all because you can see far enough ahead unaided.

So, you need a rolling forecast horizon to make sure that you are able to make the right decisions at the right time.

This is not a matter of opinion.

The design of your rolling forecast process is an inevitable logical consequence of the decision-making architecture of your business. This is well known to supply chain managers where understanding the 'cumulative lead time' for every product is critically important to making sure that you are able to maintain supply.

On the subject of timing, I said earlier that forecasting frequently was ‘A good thing’. But is this always the case? If you currently forecast on a quarterly basis, should you forecast monthly instead? Or weekly, or daily?

Those readers who have spent hours in meetings, in unproductive arguments about things like this will be pleased to know that there is a ‘right answer’ to this as well, rather than it being a simple matter of opinion.

Let’s return again to the idea of forecasts as information in support of decision-making. You need to update your forecast only when:

The piece of (forecast) information is important for the decisions that you need to take or it is likely that the information has changed materially (i.e. in a way that might change your decision) since the last time you produced the forecast.

My guess is that this will mean that you will end up forecasting some things far more frequently that you currently do, and other things far less frequently. In fact, I would wager that the only thing that you are NOT likely to do is carry on forecasting everything at the same frequency at the same level of detail as you currently do.

*Forecasts help you make sure that your plans are appropriate.*

So, the art of good forecasting requires a firm grasp of time, particularly the rate at which things change in the market place compared to how quickly you can respond. Ideally you would be able to react so quickly that forecasting would not be required at all, but for most businesses this is a pipe dream, so the ability to anticipate has to compensate for the inability to respond.



## Rolling Forecasting vs. Budgeting

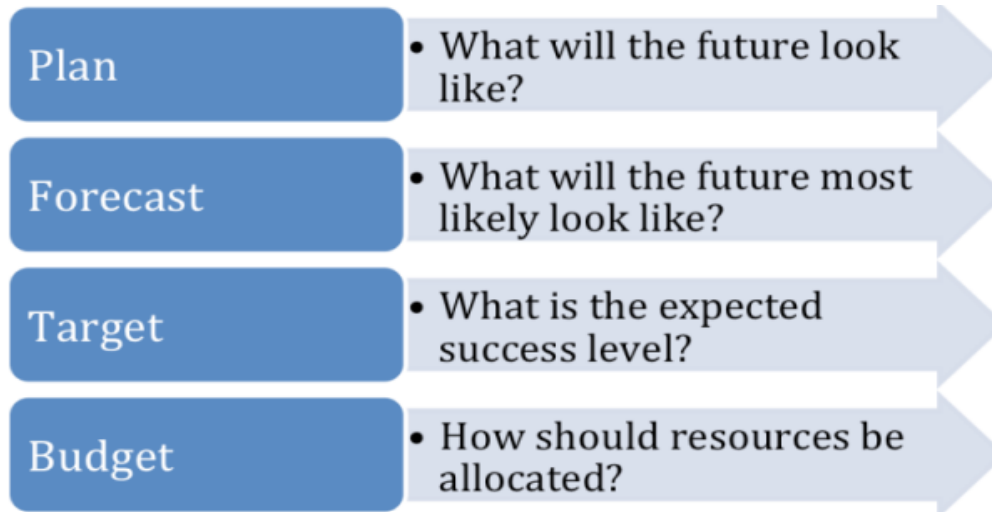
By **Larysa Melnychuk**, Managing Director at FP&A Trends Group

Many studies present rolling forecasts as the main alternative to budgets. Beyond budgeting propagators view budgets as static, cumbersome and time-consuming; creating little value for an organisation. Alternatively, rolling forecasts are said to improve the performance management process.

However, even with rolling forecasts, most companies are unlikely to eliminate the budget altogether. Budgets are often required by external agencies and financial institutions. They may also be required for target setting and performance bonuses. One approach is just to nominate one rolling forecast, which covers the required periods, to be called the budget.

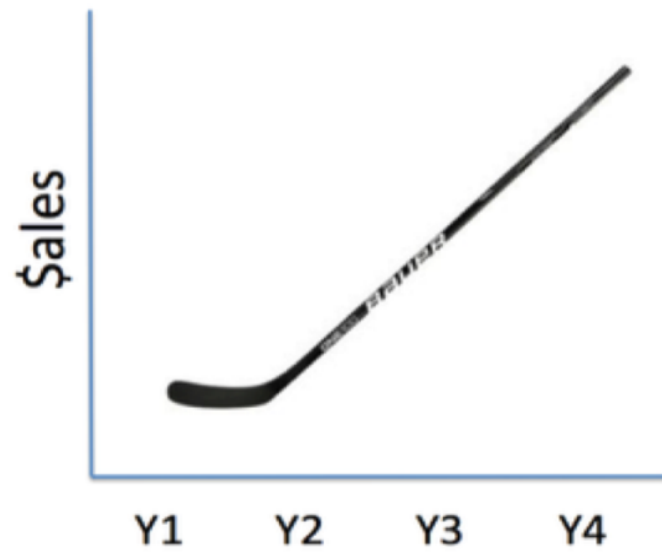
For example, the rolling 18-month forecast produced in November will include the whole of the following year, and the relevant periods could be copied to create the budget for the following year. This may be subject to additional review and approval steps but would not require the investment in time that was previously dedicated to a standalone budget process.

In many companies the terms of budgeting, forecasting and planning are used interchangeably. But it is so important to understand the difference between all of these terms.



Forecasting is a management, not a measurement tool. It should not be connected with performance evaluations nor hold any emotional attachments. However, it should only reflect what is likely to happen in the future.

Mixing forecasting with target evaluation processes often happens in organisations where the target is closely connected to the compensation. Unless this emotional bias is eliminated from the forecasting process, it is very likely your forecast revenue will resemble a “hockey stick”, as pictured below in Figure 1: The line is low at first (representing the actual results) and suddenly jumps higher (representing the forecast).



*Figure 1. Forecast revenue resembles a "hockey stick".*

A forecast helps to shape a different future, so it should be based on analytics and be independent of the target evaluation process.

## What is the Purpose of a Rolling Forecast?

By **Richard Reinderhoff**, CFO/FP&A Expert and Independent Adviser

By presenting 3 different cases, you will get an idea of the range of possibilities a rolling forecast can have for a business. Since you can do anything with the financial software of today, finding a purpose of having a rolling forecast becomes essential for success (= implementation + adding value).

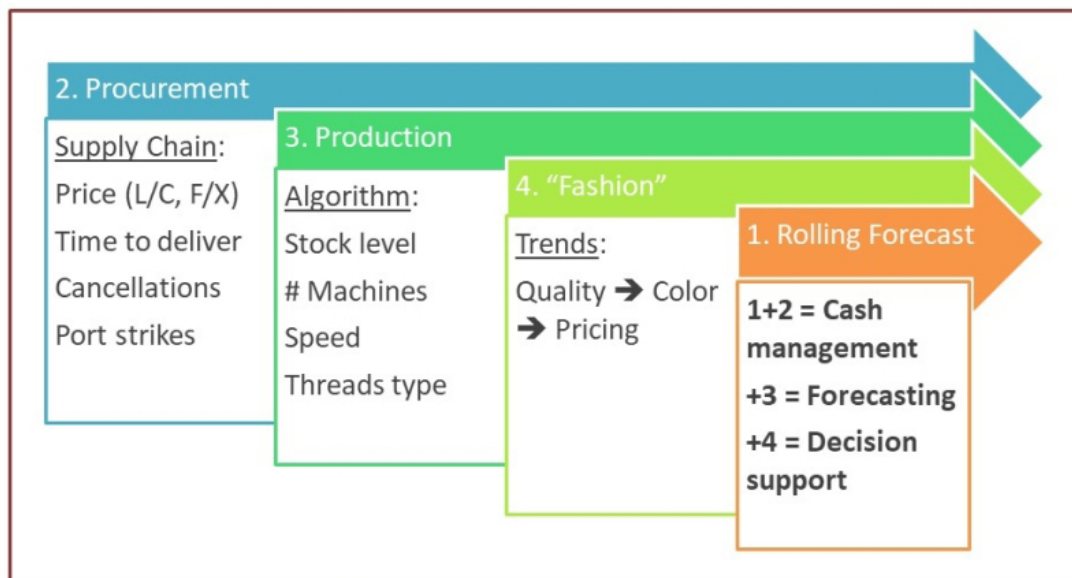
### Case 1: Supply Side – Working Capital Management



**Profile**

- *Family owned business*
- *Textile industry*
- *24/7 manufacturing*
- *International Supply Chain*
- *My role: Finance Manager*
- *Problem: No business planning, too high current ratio*

The first case is about a family business, importing raw materials from different countries around the globe and always selling everything they produced. They are a low-cost producer and competition is fierce. With a 24/7 production line, as soon as a machine stops, money is lost.



The rolling forecast was developed in 4 steps.

1. **Cash management.** The financial forecast was based on Account Receivables (AR) and Account Payables (AP), making it just a treasury tool. Not insignificant, when foreign exchange rates are volatile and inflation is 7 percent. However, working with a standard sales price and estimated sales discounts was not telling the business story.
2. **Involving the supply chain.** The finance manager started to involve procurement: lead times of 60 days, rates and dates on L/C and foreign contracts, suppliers 'cancelling' purchase orders, strikes and fiscal complexity at ports. Thorough knowledge of these operational risks improved the quality of the financial forecast, moving towards a rolling forecast.
3. **Adding the algorithm.** With the warehouse being fully stacked (a minimum inventory level of 70 percent due to unmanaged supply chain risks), an algorithm was developed to start predicting the real material usage. It was discovered that when equipment was slowed down, the quality of the material would increase. This created a business opportunity. A higher quality of output, although at a higher cost, leads to premium product and pricing. If inventory is running low, due to the supply chain problems, machines would not have to stop producing. The algorithm and sales network make it possible to reduce the minimum inventory level to roughly 25 percent. Free cash!
4. **Involving 'fashion'.** With the possibility of premium pricing, dyeing becomes a strategic 'fashion' choice. Premium products can be sold to a different segment, with a different taste in colour.

In the end, a 3-month rolling forecast was updated daily. After outsourcing the dyeing of low-cost products, money was invested in new equipment for dyeing high-quality products. The equipment was placed at one of the preferred dyeing partners. By selecting this horizontal integration, the company was able to off-set various cost disadvantages (e.g. occupation rate, environmental license and lead time).

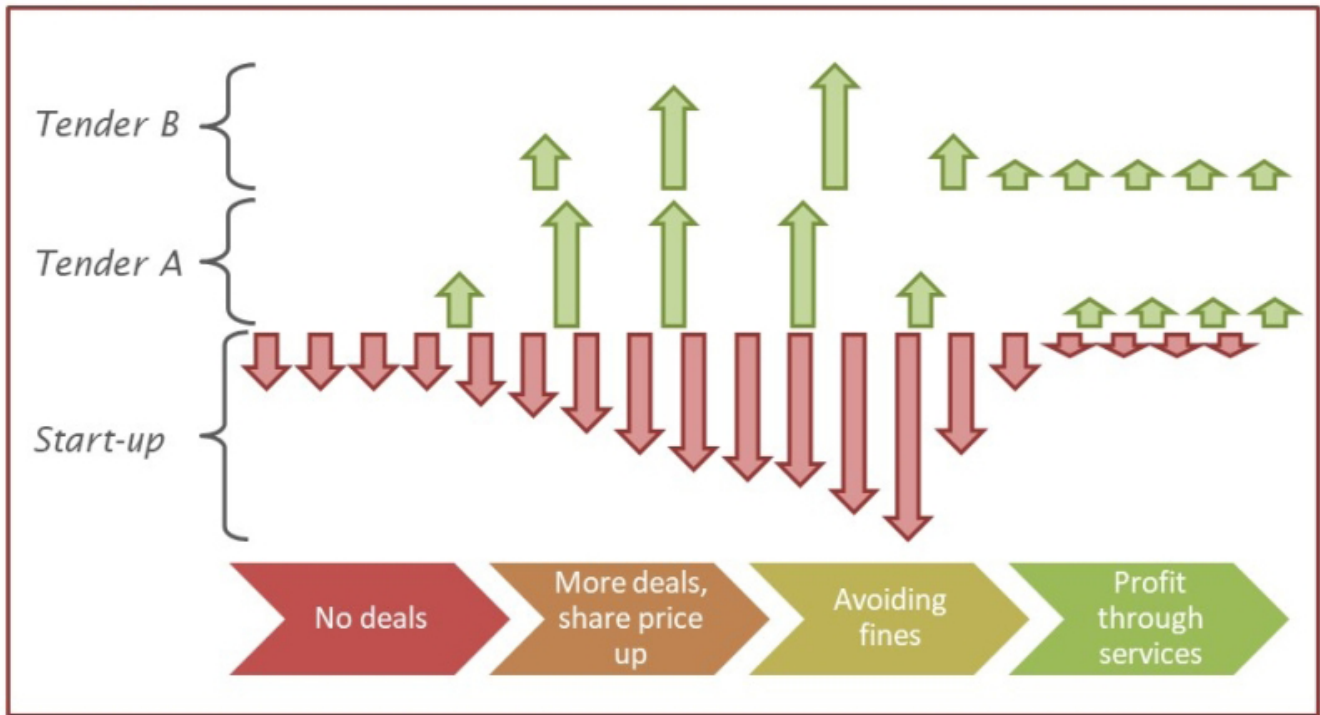
## Case 2: Start-up Funding



**Profile**

- Corporation
- Telecommunication (Backbone)
- Start-up abroad (reseller, design, installation, services)
- Public tender market
- My task: Financial Planning & Reporting
- Problem: Repetitive capitalisations, # winning bids

When the government opened the telecom market, multiple tenders were developed. A start-up was set up by a foreign corporation. They organised an engineering team to be trained in the latest hardware from the supplier, to develop backbone technology solutions, and 'helped' to develop the technical specifications of the tenders, like all competitors did. The installation was outsourced.



A start-up in a tender market has no revenues, only costs. This means either capitalisation through equity or through an (international) inter-company loan. In a turbulent political and economic environment, the latter is usually preferred. The choice becomes more important once tenders are being won.

The start-up, set up by the foreign corporation, was winning most of the tenders. The share price increased with each deal won. Cash requirements increased rapidly since payments were only made at the achievement of specific milestones. Any delay in client approval at a milestone would result in a fine. Knowing that the profit margins on each tender were low, profit to the start-up and the supplier were expected to come from post-installation services and network expansion contracts.

In the end, updating the rolling forecast for a year was easy since milestones from each of the awarded tenders' project plans could be used. When the tender market ended, the start-up was sold. This definitely secured the Internal Rate of Return (IRR) required by the corporation. Like most companies, they weren't in the business of selling products, rather selling businesses.

## Case 3: Fortune-100 – Management Support

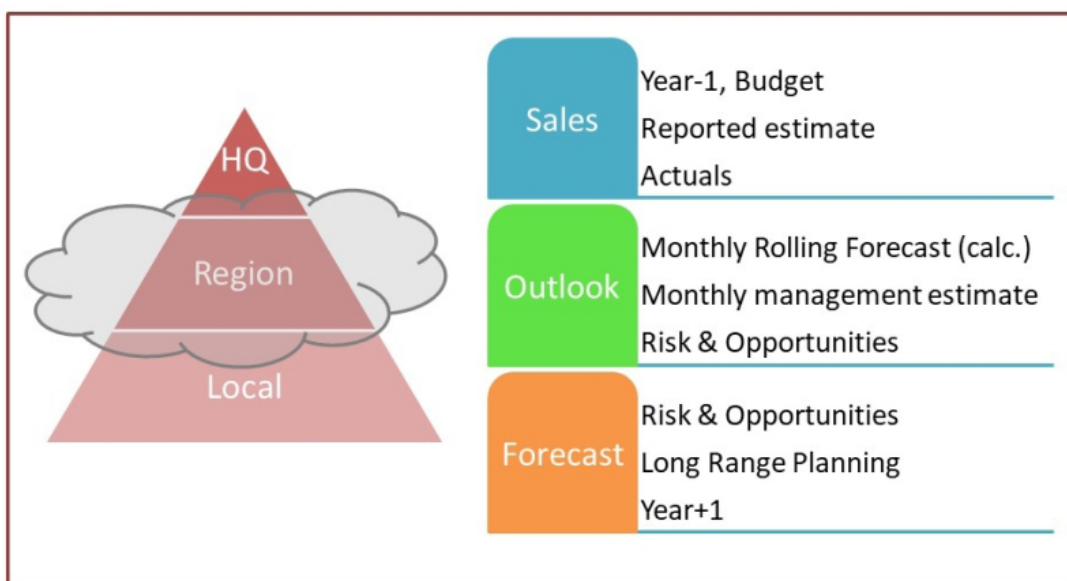


### Profile

- *Large corporation*
- *R&D and M&A Strategy*
- *Patents*
- *Stable client base, high brand loyalty*
- *My role: Finance Business Partner*
- *Problem: Failing corporate FP&A projects, SKU planning*

This corporation depended on research and development (R&D) and mergers and acquisitions (M&A). Patents secured client loyalty. Local business units were mainly marketing and sales operations, functioning as 'cash cows'. The command and control culture focused on permanent cost reductions, outsourcing or the centralisation of functions at Head Quarters (HQ). In recent years, several projects of FP&A had failed to capture and involve the local business units, due to the time and complexity required. In addition, there was no clear added value associated with spending a lot of time on detailed FP&A.

The business controller at a local business unit saw that there was an information requirement. The 'fear' of losing information between HQ and the local businesses was managed through multiple, stand-alone reports. Local marketing managers spent a lot of time on financial planning and monitoring the actual costs. This was not their job!



The solution resulted in a single report, that generated an automated stock keeping unit (SKU) plan. This was based on current product mix, automated monthly, quarterly and year-to-date P&L's, and many other items, all combined into one Excel file. However, only the first sheet was interactive. It contained, amongst others, the following:

**Sales:** Last Year, budget, quarterly reported estimates of current year, monthly actuals.

**Outlook:** Rolling forecast of current year based on an algorithm from finance; rolling forecast\* of current year based on the marketing manager's expectations; short-term risks and opportunities\* (R&O's) including potential actions, sales impacts, costs and operating profit.

- **Forecast:** Multiple-year sales forecast; next year's extended rolling forecast\* and Long-term R&Os\*, including actions, sales impacts, costs and operating profit.

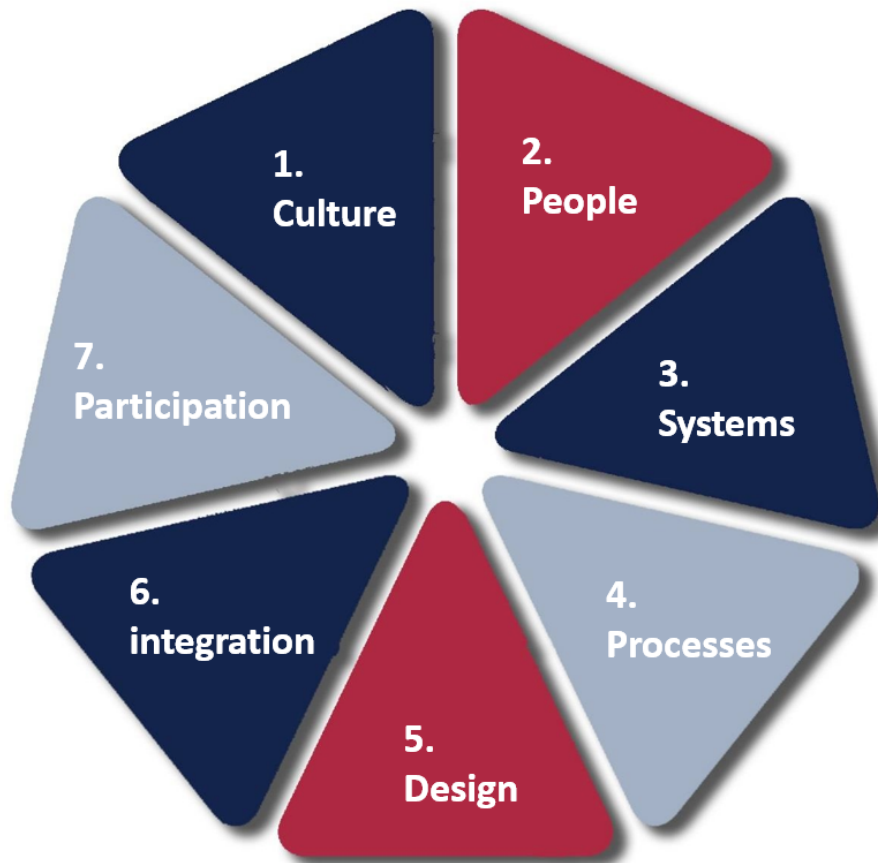
(\* ) *Discussed and adjusted monthly.*

In this scenario the rolling forecast starts as a 24-month forecast. Each month the projection would be one month less. A risk or opportunity impacting next year figures is automatically included in the rolling forecast, updating the business plan for the coming year at the same time. Transparency and no surprises!

In the end, setting up the rolling forecast and centralising the reporting through one Excel sheet proved to be the most efficient and effective solution. For each product line, the marketing manager spends only 1 or 2 hours per month on business planning and FP&A with finance. It involves an algorithm, human input, quantitative and qualitative information, backwards and forward-looking data, relevant ratios, and detailed SKU and P&L meta data.

## 7 Factors for Successful Implementation

By **Larysa Melnychuk**, Managing Director at FP&A Trends Group



What are the factors that should be taken into consideration for successful implementation and improvement of the rolling forecast process?

**1. Culture:** The starting point for a successful rolling forecast is an organisation's culture. Successful implementation requires support from top management and acceptance by key participants. All parties must understand that a rolling forecast is not a measurement, rather it is a management tool. It should not follow accounting structures.

**2. People:** The next crucial factor for a successful rolling forecast is people. Specifically talent in the FP&A team is important for working with a rolling forecast. They should be good communicators with analytical skills who can see the 'big picture' and possess the ability to build models.

**3. Models and systems:** Four out of five organisations continue to use Excel for FP&A. Attempting to produce a rolling forecast for a multimillion or multibillion dollar company in Excel is almost impossible. Models and systems are essential and should be driver-based to make it easier to plan




different scenarios and forecast quickly. Systems should be flexible and tailored to FP&A. Many companies evidently still attempt to do this in Excel, but Excel is prone to mistakes and can be one of the reasons why a rolling forecast is unsuccessful.

**4. Process:** Processes should be quick, flexible and allow for collaboration while minimising non-value adding activities. This takes time, effort and education. A company I previously worked with could not improve its processes because the operational calendar was created three years earlier. Standardisation and modern systems can help improve processes. However, it is up to FP&A to make sure these are implemented.

**5. Design:** It is important to understand the level of detail needed in a rolling forecast. It should be timely, and should allow for action. The forecast should contain the minimum amount of data to understand what drives the future. Only forecasts that are based on drivers and assumptions are actionable. We should not use conventional accounting data structures because they do not explain why and, therefore, are not actionable.

**6. Alignment:** Typically, companies have three planning processes: *Strategic planning*, where everything begins; *Business planning*, where most FP&A people are working; and *Operation planning*, which provides input to the business plan. Alignment and communication between these different planning processes are vital for a successful rolling forecast.

**7. Participation:** The forecasting process involves so many different people, both financial and non-financial. It is up to FP&A practitioners to be business partners and teach non-financial people what drivers and systems to use. There is a gap between strategy and execution at many organisations. Involving many departments in the planning process can help to overcome this problem. However, while participation is important, FP&A professionals must also ensure that the process does not become too crowded.



- ✓ *Don't do it alone: share & improve*
- ✓ *Make it 'part of the mission' or 'of value to others'*
- ✓ *It should provide you the **current** story (= Agility!)*

*Rolling Forecast: the first step towards an agile business culture*

*Source: Richard Reinderhoff, "Rolling Forecast: 3 cases towards agility"*

## How to Gain Support When Implementing a Rolling Forecast?

By **Thorsteinn Siglaugsson**, Consultant / Corporate Trainer / Manager

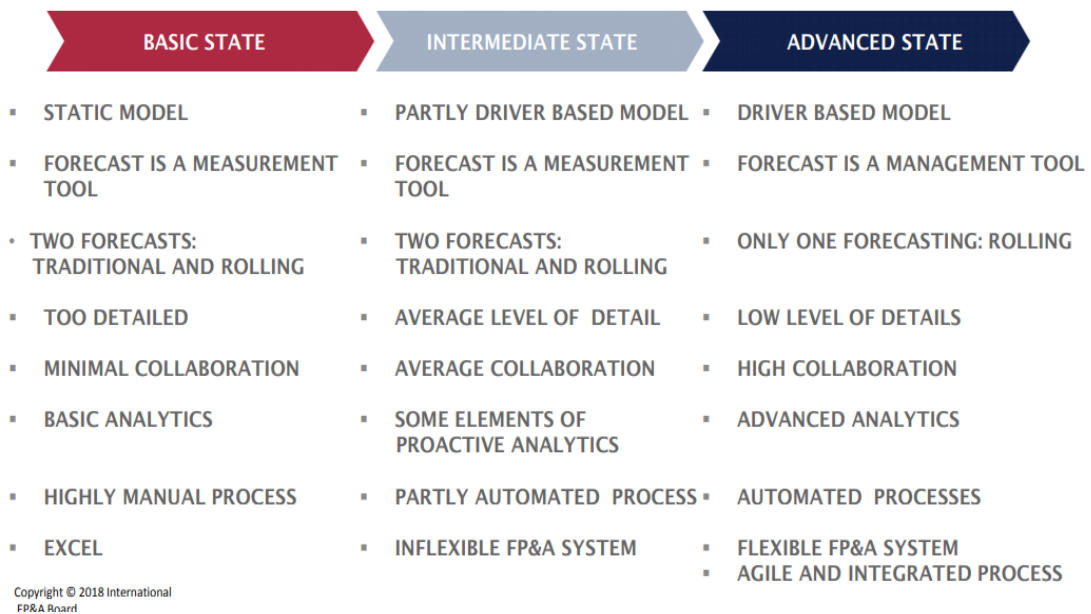
It is often middle managers who drive the implementation of rolling forecasts, simply because they normally end up with the bulk of the budgeting work and thus understand what is wrong with the traditional approach. However, in order to gain the support of senior management, the board and general staff several things must be kept in mind:

- It needs to be clear from the outset that the purpose of the budget review is to create a forum to continually seek opportunities for improvement, not to find justifications for poor performance. It is necessary to make a clear distinction between the purpose of the annual budget and the purpose of the rolling forecast.
- If traditional budgeting is still adhered to, it must be made clear that the general objectives set out in the annual budget will not change during each budget review. Instead, the goal is to ensure these objectives will be achieved.
- Key performance measures will need to be reviewed and often changed.
- At the beginning, it is important to reach consensus on the appropriate performance measures and explore carefully to what extent key business drivers can replace standard measures such as profit or margin.
- Key indicators such as turnover per hour, number of customers or number of orders may be more realistic measures of performance as they are less influenced by external factors.
- It is critical that the project management is good, with clear goals and a well-organized implementation plan.

## Three Stages of Rolling Forecast Maturity

By **Larysa Melnychuk**, Managing Director at FP&A Trends Group

What does a mature rolling forecast involve? Through collaboration and discussion, the London FP&A Board developed the following rolling forecast maturity model.



### Rolling Forecast: (i) The Basic Stage

The initial stage of a rolling forecast is characterised by static planning. Since it is not driver-based, it is also not flexible or dynamic. There are two forecasting processes, traditional and rolling. While the two forecasting processes are run simultaneously, a lot of time is spent managing them.

The level of detail in the forecasting is high. Consequently, there is no time left for the decision-making process or to adjust the direction of the company.

The level of analytics utilised is basic and descriptive. Actuals are not automatically updated in the forecasts, as Excel is the main tool used for planning and forecasting. This means the amount of non-value adding work performed by the FP&A team is very high and they have little or no time left for analytics.

If the organisation does not progress beyond this stage, the rolling forecast becomes an unnecessary burden, a waste of time and an expensive process. Statistics suggest that around one in five rolling forecasts are abandoned after the initial implementation. It is likely that the companies were not ready for the process and that their culture, people, systems and processes were ill-equipped to move on to the next stage of maturity.

## Rolling Forecast:(ii) The Intermediate Stage

By this stage, the planning model is partly driver-based and has already moved away from the ‘too detailed’ approach of the basic stage. However, static and inflexible planning systems are still partly in use. Consequently, it is not easy to generate fast-paced rolling forecasts on demand or to model different scenarios.

An average level of collaboration exists, but it is not yet well-developed due to the complexity of the process. Some elements of advanced analytics exist, but they are not fully realised at this stage.

*The intermediate stage of rolling forecast is stable but lacks efficiency and effectiveness.*

The political acumen of forecasting is still in place because the process is treated as a performance measurement tool. As a result, the emotional side of the forecasting process influences its quality. A lot of time is spent completing the forecast which leaves no lead time for decision-making or change of course.

Since two forecasting processes are being run side-by-side, significant time is wasted. FP&A professionals are overworked and demotivated, with no time for value-adding analysis.

This stage of rolling forecast is stable but lacks efficiency and effectiveness. In order to realise its full potential, organisations have to progress further into the leading stage of the process.

## Rolling Forecast: (iii) The Leading Stage

This is the rolling forecast’s most advanced level. This is the stage where the full potential of the forecast is realised, through agile and prompt planning, quick decision making and better performance management.

The main characteristics of a leading rolling forecast processes are as follows:

- It is generated through a driver-based model. The level of detail is not overly complex, allowing for quick re-forecasting, easy scenario planning and simple sensitivity analysis.
- The rolling Forecast is not used as a management tool therefore, the process is not intermingled with corporate performance measurement.
- The forecasting process is a collaborative process made possible by a modern flexible system, staff education and use of a driver-based program.
- Routine processes are automated meaning no time is wasted on unnecessary details. FP&A practitioners have time to perform analysis and concentrate on improving the planning processes.
- This advanced stage of maturity for the rolling forecast is what organisations aim for. To reach it they must be ready to completely re-think their traditional planning philosophies, be open to a change in processes and be willing to invest in their people and systems.

## Best Practices in Rolling Forecasts

By **Elena Kiristova**, CFO Russia and CIS at Groupon

Everyone wants a crystal ball to be able to look into the future. For businesses this desire, to see the future, becomes a necessity since having an idea of the future allows for better strategic decisions to be made in the present.

A rolling forecast is simply when a company each quarter or month projects forward. The length of forecast can vary, between four to six quarters or twelve to eighteen months ahead.

This allows executives and key decision makers to see both a financial and operational view of the future. It also helps them assess the next steps, understand the critical pivot points and evaluate the impact of the economy on their plan. I have seen rolling forecasts replace annual planning cycles, using a continual planning process to hold more regular business reviews that look at the future. These reviews enable managers to understand problems, challenges and trends sooner and help managers take a more proactive approach to each of them.

*To get the most out of a rolling forecast process, you need a system that can accommodate your budget, forecasts, plans, strategic requirements and measurements all at the same time.*

**A system is needed and Excel is not a system.** It is a personal productivity tool. In the next nine best practices there will be an outline of functionality and practices that will go beyond the capability of Excel spreadsheets. The challenge I have seen arises when companies start rolling forecasts in Excel and then cannot keep them adequately up to date because it is not just a single forecast. Once a baseline forecast is created, additional versions and analysis will be required, in order to:

- Understand the impact of major and minor alterations to the plan
- Run the plan with different drivers
- Use the plan as a baseline comparison against other plans
- Perform variance and sensitivity analysis

To get the most out of a rolling forecast process, you need a system that can accommodate your budget, forecasts, plans, strategic requirements and measurements all at the same time. In this scenarios, Excel would be too labour intensive, may cause errors and make reporting difficult.

It is important to understand your objectives of creating a rolling forecast. They will drive all of the other best practices related to rolling forecasts. The overall objective of planning is to

- a) create a financial view of the future so that decisions can be made; and to
- b) understand the financial impact of those decisions before you need to make them

Yet your objectives for the rolling forecast will dictate the areas of the plan that require more detail.

Here are some examples:

- If cash is tight you will want to focus on the timing of cash events e.g. policies for accounts payable and accounts receivable, cash borrowings and the company's line of credit.
- If your strategic plan calls for acquisitions you may consider building the plan with a high-level summary input of drivers that help plan for acquisitions.
- If you want to better manage finished goods inventory you may place more focus on customer and product forecasts and inventory management.

The challenge is that there is not one overriding holistic model that allows you to account for all of these factors in the first attempt of implementing a rolling forecast.

**Identify the rolling forecast duration.** The complexity with selecting the duration of a rolling is that it sounds easy until you put pen to paper and begin to implement it. There are a number of questions that need to be answered.

- Will you re-forecast every month or every quarter? Many companies re-forecast monthly.
- Will you add a new month to every forecast or just add a new quarter at the end of each quarter? Companies either add new periods quarterly or plan for a two-year time frame.
- How long should the rolling forecast be? 12 months, 15 months, 18 months? Or should you start by forecasting two years and at the end of the first year add on another year?
- What will the mechanics be of adding in actual results?

As a starting point make sure your forecasting time frames are consistent with your business cycle and business needs. If sales 15 months from now are dependent on the capital investments made today, it is important to create a rolling forecast that spans further than out 15 months. It is also important to have a minimum of quarterly views included in the rolling forecast.

*The complexity with selecting the duration of a rolling is that it sounds easy until you put pen to paper and begin to implement it.*

Therefore, do not tack on an additional month to a rolling forecast at the end of every month. Wait until the end of a quarter and then add a new quarter. Otherwise each month, forecast preparers are forced to think about a new period. I have witnessed the companies that have tried the monthly re-forecast approach. Each month one month of actuals results falls off and another month of forecast is added to the back end. There was considerable pushback by the forecast preparers.

When more accuracy is applied to the current year and the next few months, management have a better view of what changes this year will affect next year. The second scenario is adding an additional quarter at the end of each quarter and the plan may have 15 to 18 months of rolling forecast data. This has the benefit of better precision since the latter months are not as far out so more attention can be given to them. Also as quarters are added the planners are required to apply more rigor and accuracy to the plan.

**Identify the rolling forecast comparison periods.** While this sounds relatively straightforward, it becomes tricky when you consider the need for comparison columns in the reporting. It is difficult because you need to compare to multiple periods with different combinations of actual results and forecasts. When using annual plans, we compare last year actual results to a combination of current year actuals, for closed periods, and forecast for the months yet to occur. We think in terms of annual sales and annualised expenses. With rolling forecasts we need to also include the latest actual results and shift the comparison periods. To be useful, we need to be able to compare against more than just the annual view. For example, how will this year compare to last year and where will we finish this year? We need to be able to provide a 12, 15 and 18-month comparison of rolling plan to actual results. To achieve these comparisons, both actual and prior year actuals need to be able to be updated in the forecast and the comparative.

**Understand and analyse the dynamics of revenue and expenditure in your business and their related drivers.** Rolling forecasts will not work if you create them through a bottom-up forecast every quarter, they need to be driver based. This provides flexibility in the planning process and agility when you re-plan or create alternative scenarios. It also helps managers focus on what is really important. Over time, some of the drivers may need to be replaced if they are found to be an inconsistent predictor of results. Also the stronger drivers will evolve to KPIs and be used for goal setting. Over time forecasts will also start to use consistent models and model drivers.

*We think in terms of annual sales and annualised expenses. With rolling forecasts we need to be able to compare against more than just the annual view.*

As an example, sales units should drive production volumes. Price increases may drive, or be driven by, material and labour cost increases.

To help understand what drives your business you can ask these questions.

- How does this line item affect our bottom line?
- Will \$1, or another certain number, of sales affect this account?

To implement a rolling forecast successfully it is important to use drivers to eliminate detail and create a realistic expectation about the future.

### **Plan capital and strategic projects separately from the rolling forecast.**

Capital and strategic projects should be layered separately into the plan.

These projects have two unique characteristics.

- They are time independent of a typical rolling forecast. Projects can last months or years so treating them with the same duration as a forecast does not provide the complete story.
- They typically have a lot of dependencies which mean project expenditure can be moved in and out of a plan for various reasons.

Projects should be treated as separate profit centres and processes should allow for them to be



moved in and out of the rolling forecast. In addition, processes should allow time frames to be moved and the scope of the project to be adjusted.

**Start with a small select group of key department managers and plan on increasing the scope and continually improving over time.**

While conventional wisdom is to involve as many participants as possible, companies have found it easier to start with a small group that cuts across the major departments. Then gradually over time involve more executives, and levels of managers as processes are improved. Let the small group get some practice with the process. It will help flush out any issues with the process and the more practice the small group have with preparing forecasts, the better they will become. They can then provide mentorship as you add additional participants. Typically, there is a risk that if you roll something out that is not totally based on theory it could result in confusion, especially if you are doing so with a large group of individuals.

As you expand the scope of the plan and include more people, the plan will get closer to reality and be executed better.

In addition, you should plan time for bringing continual improvements into the process. Managers should take learnings on forecast accuracy by carrying out post-mortems on previous forecasts. The objective is not to punish the guilty but to better understand: how to do more accurate forecasts. For improvements to be made, it is important to understand the cause for variability and learn to reduce them through post-mortems.

Once you have completed the rolling forecast for the period, it becomes your baseline plan. From this base finance can massage drivers, adjust values, and analyse alternative scenarios. They can look at black swan events and potential significant events to create a picture of alternative futures and as a result be prepared to make decisions if any of these situations arise.

*Is it better to hit your target or gain targeted market share? Leading organisations are placing forecasting at the centre of the management process.*

This does require a great deal of flexibility in the tool being used so that “mash up” scenarios can be provided and comparisons of scenarios from different sources can be made.

**Tie your rolling forecast to your strategic plan.** Rolling forecasts, if well-prepared, form the backbone of a new and much more useful information system. It can connect all of the pieces of the organisation and give senior management a continuous picture of both the current position and the short-term outlook.

**Understand how external conditions can impact your performance.** Businesses do not operate in a vacuum. Plan on qualifying the key external drivers of your business and do not confuse rolling forecasts with the targets you receive your bonus on. Is it better to hit your target or gain targeted market share? Leading organisations are placing forecasting at the centre of the management process. It becomes an essential tool for business managers to help with decision making, rather than simply another management chore that needs to be done. They are basing targets not on fixed revenue numbers but rather percentages based on external market indicators.



Progressive organisations focus less on annual budget or long-term targets generated within the company based on internal views of sales and income. Instead, they focus on rolling views based on market conditions. For example, achieving higher market share or more cost efficiencies than the competition by benchmarking against those competitors.

**Be prepared.** As you consider implementing rolling forecasts, remember the purpose is to provide a view of the future and support better decisions. If you try to motivate behaviour through this forecast, the results and plans will be skewed and the usefulness of the solution will be compromised. Forecasts should not be used by executive management as a tool for re-assessing performance targets. This means forecasts and targets must be independent if you want to obtain both relevant action plans and reliable forecasts. Ones that allow risks and opportunities to be identified and corrective action to be taken in the best interest of the company. If you do merge the two, the term 'sandbagging' comes to mind.

Many businesses have yet to discover the full benefits of evolving their planning process to include complete and accurate rolling forecasts. With so many external factors that affect the bottom line for these businesses, **creating a rolling forecasts is a sound way of ensuring strategic decisions are made. Businesses need an accurate picture of a future in order to chart a course towards it.**

# Rolling Forecast – Case Study: A Review of Management

By **Richard Reinderhoff**, CFO/FP&A Expert and Independent Adviser

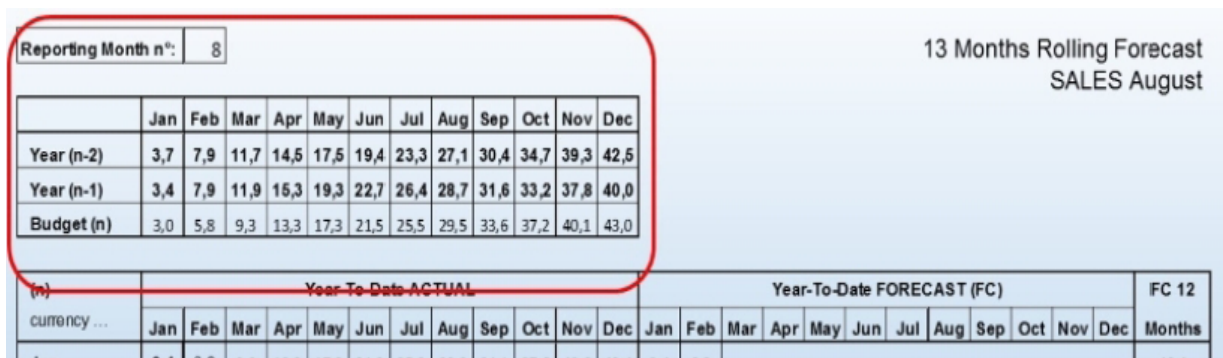
A rolling forecast is not only about seeing the future unravel, but a constant evaluation of the management team to see if they are able to adjust their operations on time. Without it, any form of strategic planning becomes useless.

Below you find a real-life case study. Step-by-step each question will be briefly discussed. It centres around a foreign business unit which was part of a large European corporation on the brink of a crisis.

## 1. What is Expected for the Year to Come?

You want the rolling forecast to have the basics. This means there should be an overview of the budget. Budget (n), where “(n)” is the actual year, next to the actuals of previous years, year (n-1) and (n-2).

In this overview, you see that the ‘year-to-date’ numbers by management are optimistic. The plan was approved with an overall sales target of 43 million, meaning that the executive team know how the management team will realise the growth scenario in the last 2 quarters of the year.



13 Months Rolling Forecast SALES August												
Reporting Month n:	8											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Year (n-2)	3,7	7,9	11,7	14,5	17,5	19,4	23,3	27,1	30,4	34,7	39,3	42,5
Year (n-1)	3,4	7,9	11,9	15,3	19,3	22,7	26,4	28,7	31,6	33,2	37,8	40,0
Budget (n)	3,0	5,8	9,3	13,3	17,3	21,5	25,5	29,5	33,6	37,2	40,1	43,0

(n)	Year-To-Date ACTUAL												Year-To-Date FORECAST (FC)												FC 12
currency ...	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Months
...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...

## 2. Will They Hit the Target?

Next, you have the ‘year-to-date actuals’ forecast. The local management team might want to see month-by-month numbers to manage the sales division. As an executive team, you don’t want to start micro-managing a local business. You hired a country manager, remember?. That’s why the budget consists of year-to-date (YTD) numbers.

The first month was better than budget, pushing the YE (December) up to 43,4 million. Yet, the following months the business turned sour. What happened?

Reporting Month n°:	8												13 Months Rolling Forecast SALES August											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec												
Year (n-2)	3,7	7,9	11,7	14,6	17,5	19,4	23,3	27,1	30,4	34,7	39,3	42,6												
Year (n-1)	3,4	7,9	11,9	15,3	19,3	22,7	26,4	28,7	31,6	33,2	37,8	40,0												
Budget (n)	3,0	5,8	9,3	13,3	17,3	21,5	25,5	29,5	33,6	37,2	40,1	43,0												

(n) currency ...	Year-To-Date ACTUAL												Year-To-Date FORECAST (FC)												FC 12 Months
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Jan	3,4	6,2	9,8	13,8	17,8	21,9	25,9	29,9	34,1	37,6	40,6	43,4	3,4	6,2											43,4
Feb	3,4	5,3	8,9	12,9	16,9	21,0	25,0	29,0	33,2	36,7	39,7	42,5	2,5	5,3	8,9										42,5
Mar	3,4	5,3	7,1	11,1	15,1	19,3	23,3	27,3	31,4	35,0	37,9	40,7	3,4	5,3	7,1	11,1									40,7
Apr	3,4	5,3	7,1	10,1	14,1	18,2	22,2	26,2	30,4	33,9	36,9	39,7	3,4	5,0	6,7	8,3	9,9								37,9

### 3. What is Management Expecting in the Short-Term?

You want to know if the management team is focused and if the quality of the forecast is adequate to be able to achieve the quarterly results.

Repeatedly, you witness the first month's forecast being over-estimated optimistically by the management team. YTD 6.2 expected in February vs YTD 5.3 realised. YTD 8.9 expected in March vs YTD 7.1 realised. YTD 11.1 expected in April vs YTD 10.1 realised. Is this just a bad quarter? What are their plans to recover lost sales? Or are they wishing things will turn out for the best?

Reporting Month n°:	8												13 Months Rolling Forecast SALES August											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec												
Year (n-2)	3,7	7,9	11,7	14,6	17,5	19,4	23,3	27,1	30,4	34,7	39,3	42,6												
Year (n-1)	3,4	7,9	11,9	15,3	19,3	22,7	26,4	28,7	31,6	33,2	37,8	40,0												
Budget (n)	3,0	5,8	9,3	13,3	17,3	21,5	25,5	29,5	33,6	37,2	40,1	43,0												

(n) currency ...	Year-To-Date ACTUAL												Year-To-Date FORECAST (FC)												FC 12 Months
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Jan	3,4	6,2	9,8	13,8	17,8	21,9	25,9	29,9	34,1	37,6	40,6	43,4	3,4	6,2											43,4
Feb	3,4	5,3	8,9	12,9	16,9	21,0	25,0	29,0	33,2	36,7	39,7	42,5	2,5	5,3	8,9										42,5
Mar	3,4	5,3	7,1	11,1	15,1	19,3	23,3	27,3	31,4	35,0	37,9	40,7	3,4	5,3	7,1	11,1									40,7
Apr	3,4	5,3	7,1	10,1	14,1	18,2	22,2	26,2	30,4	33,9	36,9	39,7	3,4	5,0	6,7	8,3	9,9								37,9
May	3,4	5,3	7,1	10,1	12,1	14,7	16,1	17,3	18,7	20,0	21,2	22,2	1,0	2,1	4,0	5,9	7,9	9,3							16,9

### 4. What is Management Expecting in the Long Term?

A strategist looks just a little bit further. With a 13-month rolling forecast you can get the next month projected twice. At the end of each month, the management team have to forecast the next month's revenues based on their order book or some kind of sales projection. In addition, the same people need to forecast the same month but 1 year in advance. Will it be 'business-as-usual' or is there a something on the horizon?

YTD February, March and April of the current year are the same as the YTD forecast for the same months of the forecasted year: 6.2, 8.9 and 11.1 million. The management team is thinking “business-as-usual”.

Reporting Month n°:	8												13 Months Rolling Forecast SALES August											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec												
Year (n-2)	3,7	7,9	11,7	14,5	17,5	19,4	23,3	27,1	30,4	34,7	39,3	42,5												
Year (n-1)	3,4	7,9	11,9	15,3	19,3	22,7	26,4	28,7	31,6	33,2	37,8	40,0												
Budget (n)	3,0	5,8	9,3	13,3	17,3	21,5	25,5	29,5	33,6	37,2	40,1	43,0												

(n) currency ...	Year-To-Date ACTUAL												Year-To-Date FORECAST (FC)												FC 12 Months
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Jan	3,4	6,2	9,8	13,8	17,8	21,9	25,9	29,9	34,1	37,6	40,6	43,4	3,4	6,2											43,4
Feb	3,4	5,3	8,9	12,9	16,9	21,0	25,0	29,0	32,2	36,7	39,7	42,5	2,5	5,3	8,9										42,5
Mar	3,4	5,3	7,1	11,1	15,1	19,3	23,3	27,3	31,4	35,0	37,9	40,7	3,4	5,3	7,1	11,1									40,7
Apr	3,4	5,3	7,1	10,1	14,1	18,2	22,2	26,2	30,4	33,9	36,9	39,7	3,4	5,0	6,7	8,3	9,9								37,9

(Note: The YTD Actual of January (3.4m) changed in the forecasted year to 2.5 million. This was a mistake yet can be explained because actual YTD sales dropped 0.9 million in February, from 6.2 to 5.3 million. This kind of planning should always occur but some executives do not want to see reality that quickly.)

## 5. How Will the Business Evolve?

Any trend should be visible by looking at the forecasted 12-month picture (FC12). It shows the management team’s expectations on the evolution of the industry and the commercial impact of operational problems. For example, items out-of-stock, product recalls or strikes. It presents the foundation for the next business plan, hence no further surprises.

Each month the business is losing a million or more in sales and the local management team is not seeing any improvement, thus not acting. This confirms that the management team is ‘wishing’ for a better future. Is the business losing market share? Or is there another crisis?

Reporting Month n°:	8												13 Months Rolling Forecast SALES August											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec												
Year (n-2)	3,7	7,9	11,7	14,5	17,5	19,4	23,3	27,1	30,4	34,7	39,3	42,5												
Year (n-1)	3,4	7,9	11,9	15,3	19,3	22,7	26,4	28,7	31,6	33,2	37,8	40,0												
Budget (n)	3,0	5,8	9,3	13,3	17,3	21,5	25,5	29,5	33,6	37,2	40,1	43,0												

(n) currency ...	Year-To-Date ACTUAL												Year-To-Date FORECAST (FC)												FC 12 Months
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Jan	3,4	6,2	9,8	13,8	17,8	21,9	25,9	29,9	34,1	37,6	40,6	43,4	3,4	6,2											43,4
Feb	3,4	5,3	8,9	12,9	16,9	21,0	25,0	29,0	32,2	36,7	39,7	42,5	2,5	5,3	8,9										42,5
Mar	3,4	5,3	7,1	11,1	15,1	19,3	23,3	27,3	31,4	35,0	37,9	40,7	3,4	5,3	7,1	11,1									40,7
Apr	3,4	5,3	7,1	10,1	14,1	18,2	22,2	26,2	30,4	33,9	36,9	39,7	3,4	5,0	6,7	8,3	9,9								37,9

## 6. If Action is Required, Can Management Do It?

The rolling forecast gives the executive team the opportunity to discuss with the management team what is happening and to decide on the best way forward. They can coach the management team through the strategic choices available and the financial decisions that need to be made.

In this case, there was another crisis and the executive team intervened. The country manager was effectively ousted and the thirty-something finance director and sales manager were put in charge. The executive team accepted the turnaround plan, written overnight by the finance director, re-forecasting December as 21.2 million, down from 39.7 million.

Reporting Month n°:	8												13 Months Rolling Forecast SALES August											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec												
Year (n-2)	3,7	7,9	11,7	14,5	17,5	19,4	23,3	27,1	30,4	34,7	39,3	42,5												
Year (n-1)	3,4	7,9	11,9	15,3	19,3	22,7	26,4	28,7	31,6	33,2	37,8	40,0												
Budget (n)	3,0	5,8	9,3	13,3	17,3	21,5	25,5	29,5	33,6	37,2	40,1	43,0												

(n) currency ...	Year-To-Date ACTUAL												Year-To-Date FORECAST (FC)												FC 12 Months
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Jan	3,4	6,2	9,8	13,8	17,8	21,9	25,9	29,9	34,1	37,6	40,6	43,4	3,4	6,2											43,4
Feb	3,4	5,3	8,9	12,9	16,9	21,0	25,0	29,0	33,2	36,7	39,7	42,5	2,5	5,3	8,9										42,5
Mar	3,4	5,3	7,1	11,1	15,1	19,2	23,3	27,3	31,4	35,0	37,9	40,7	3,4	5,3	7,1	11,1									40,7
Apr	3,4	5,3	7,1	10,1	14,1	18,2	22,2	26,2	30,4	33,9	36,9	39,7	3,4	5,0	6,7	8,3	9,9								37,9
May	3,4	5,3	7,1	10,1	12,1	14,7	16,1	17,3	18,7	20,0	21,2	1,0	2,1	4,0	5,9	7,9	9,3							16,9	

## 7. Is the Problem Being Solved?

The decisions of the executive team and the actions of the management team will appear in the rolling forecast. Again, short term predictions, year-end (December) stability and a solid long term outlook (FC12).

*The YTD monthly sales are now higher than forecasted, several months in a row. The year-end improved too. Also the FC12 in August seems more realistic (22.7 from 16.9 million). This is supported with next year's forecast being justifiably lower. This gave the executive team the option to sell the business.*



Reporting Month n°: 8

13 Months Rolling Forecast  
SALES August

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Year (n-2)	3,7	7,9	11,7	14,5	17,5	19,4	23,3	27,1	30,4	34,7	39,3	42,5
Year (n-1)	3,4	7,9	11,9	15,3	19,3	22,7	26,4	28,7	31,6	33,2	37,8	40,0
Budget (n)	3,0	5,8	9,3	13,3	17,3	21,5	25,5	29,5	33,6	37,2	40,1	43,0

(n) currency ...	Year-To-Date ACTUAL												Year-To-Date FORECAST (FC)												FC 12 Months
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Jan	3,4	6,2	9,8	13,8	17,8	21,9	25,9	29,9	34,1	37,6	40,6	43,4	3,4	6,2											43,4
Feb	3,4	5,3	8,9	12,9	16,9	21,0	25,0	29,0	33,2	36,7	39,7	42,5	2,5	5,3	8,9										42,5
Mar	3,4	5,3	7,1	11,1	15,1	19,3	23,3	27,3	31,4	35,0	37,9	40,7	3,4	5,3	7,1	11,1									40,7
Apr	3,4	5,3	7,1	10,1	14,1	18,2	22,2	26,2	30,4	33,9	36,9	39,7	3,4	5,0	6,7	8,3	9,9								37,9
May	3,4	5,3	7,1	10,1	12,1	14,7	16,1	17,3	18,7	20,0	21,2	22,2	1,0	2,1	4,0	5,9	7,9	9,3							16,9
Jun	3,4	5,3	7,1	10,1	12,1	13,5	15,7	17,5	18,8	20,1	21,3	22,2	1,5	2,7	3,9	5,9	8,0	10,1	12,3						18,8
Jul	3,4	5,3	7,1	10,1	12,1	13,5	16,0	18,2	20,4	22,7	24,1	25,3	1,8	3,4	5,0	7,3	9,3	11,4	13,6	15,9					23,0
Aug	3,4	5,3	7,1	10,1	12,1	13,5	16,0	18,4	20,3	22,5	24,0	25,2	1,8	3,4	5,0	7,3	9,3	11,4	13,6	15,9	18,1				22,7

The Rolling Forecast is submitted per month, for the following 13 months  
Actuals figures are in bold

Example: FC 12 Months, Aug  
 $22,7 = 25,2 - 18,4 + 15,9$

## Lessons Learned: Look Outside the Reporting Deck!

The local finance director foresaw the downturn. He had been looking at the local accounting numbers without all the reporting contingencies and reserves. In addition, he saw that the inventory of their worldwide suppliers was growing fast, according to Bloomberg. This indicated a general slowdown in the segment. Fuelled by 'bad' management, it was a crisis in the making. The turn-around plan focused on expanding into another segment: fewer volume sales, yet solid profits.

The questions above were the key-questions related to sales. However, you should also have a rolling forecast for the operational profit (OP). This allows the executive team to monitor what management is doing to improve operations, from cost of goods sold (COGS) to overheads. Depending on the industry, add an order book into the rolling forecast. To complete the monthly forecast executive deck, add a quarterly overview. In this way, you can have OP and sales percentages which are relevant to all publicly held companies.

Even with the best forecast at hand, always look outside the reporting deck. Each step generates different questions. Talk to the management team. Remember a rolling forecast means continually reviewing the non-actions and actions of the management team. A rolling forecast is one of the best first steps towards having an agile business culture.

## Conclusion

The rolling forecast is an important modern management process that expands planning horizons, reduces planning cycles and helps in executing organisational strategies.

Companies will realise the rolling forecast's full potential only when they are ready to change. If it is not implemented with thought it can become another non-value adding process, an expensive time-waster and offer no benefit to the organisation. It is up to each company to decide, which stage of rolling forecast it is ready to implement.



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