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

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Introduction

A decade ago, the electronic spreadsheet was considered state-of-the-art for the budgeting process and a practical, inexpensive option for most midsize companies. However, what might have started as a simple budget model often grows into something that seems to take on a life of its own. Moreover, considering the time and effort required to turn that mass of spreadsheets into a coherent budget, a large spreadsheet model should not be considered an "inexpensive option."

With the introduction of dedicated planning tool software for all sizes of organizations, spreadsheets are not the optimal approach any longer. In this paper, I cover why implementing a quarterly rolling planning process, along with a planning tool, can give you a better annual planning process. I then introduce some fundamental practices that I call "foundation stones," that you can follow to ensure that your planning tool implementation is successful, along with a selection of forecasting techniques that will be useful to you and your organization.

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*.

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*.[1]

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.

The quarterly 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's 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. The average time spent on the four quarterly forecasts during any given year is five weeks.

Figure 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 first quarter numbers will become targets, 20 percent on the second quarter and 20 percent on the remaining four quarters.
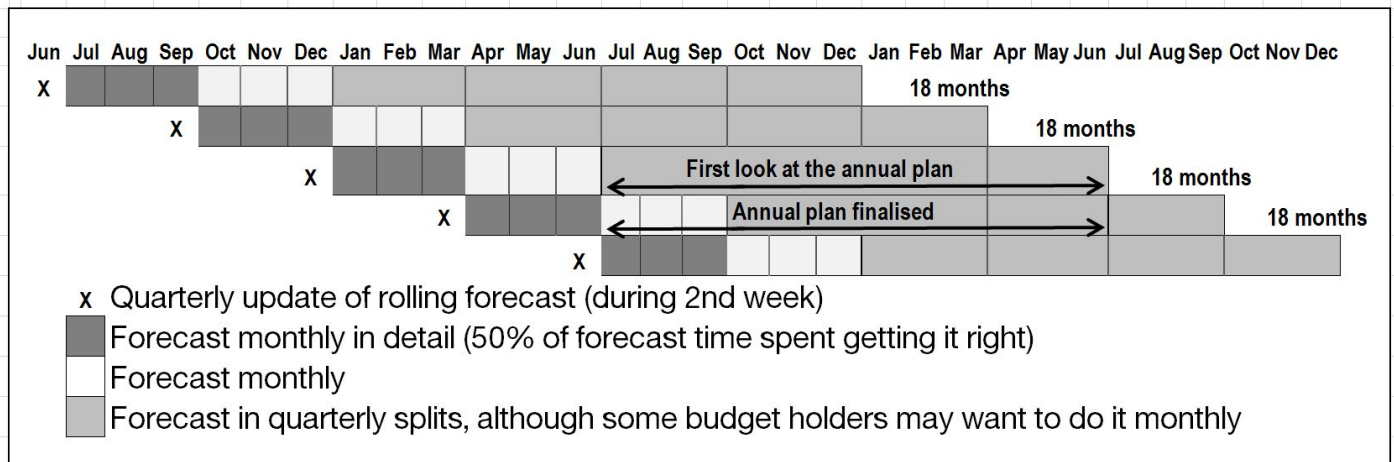

Figure 1: How the rolling forecast works for an organization with a June year-end.

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.

The foundation stones of a planning tool implementation process

Just as a house is built on a solid foundation, implementing a planning tool should be built on a firm base of "foundation stones" so the planning tool can reach its potential.

Abandoning processes that do not work

Peter Drucker frequently used the word "abandonment'." I think what he said about abandonment is one of the top ten gifts he gave 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."[2]

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."[3]

In planning, many of processes are carried out, year-in and year-out, because they were done last year. When staff question, "Why do we do this?" the manager will often answer, "There must be a reason; please do it."

All the previous "givens" associated with forecasting should 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 only to the end of the current year as if next year did not exist
- Giving budget holders an annual entitlement because they do not know what the coming 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

Using in-house resources

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 practice first on "quiet country roads" (pilot the model) before they drive on the highway (unleash the model to all budget holders).

Forecasting at category level rather than account code level

Forecasting at a detailed level does not lead to a better prediction of the future. A forecast is rarely right. Looking at detail does not help you see the future better. In fact, I would argue that 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 is 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, which managers can forecast by using 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 (Figure 2).

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

Figure 2: How a forecasting model consolidates account codes.

Some rules can help you apply this foundation stone:

- Separate 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 Figure 2 for an example of this mapping.

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 5 - 10 major customers by the major products. For example, those products that represent more than 10 percent of the annual sales to a major customer should have their own line in the model. The smaller product purchases made by the major customers are grouped into 2 - 3 lines and their forecast is automated based on the historical correlation with the major products. A key customer could have as little as 5 - 7 lines in the model. The minor customers would be treated as if they were one major customer and modelled accordingly. Figure 3 illustrates an example of such a report template.

Sales Forecast for the period ending xxxxxx

	9 months to 31/12 *	Quarter 4 Jan	Feb	Mar	Y/E Forecast	Quarter 1 Apr	May	Jun	Quarter 2 Jul- Sept	Quarter 3 Oct - Dec	Quarter 4 Jan - Mar	Y/E Annual Plan
* includes estimate for December												
Major Customers ($000s)												
Customer #1												
Key Product 1	8,900	1,000	1,200	1,400	12,500	900	700	900	2,600	2,800	3,000	10,900
Key Product 2	8,800	1,000	1,200	1,400	12,400	1,000	800	1,000	2,700	2,900	3,100	11,500
Key Product 3	3,400	400	600	800	5,200	400	200	400	900	1,100	1,300	4,300
Other products group #1												
Other products group #2												
Total Revenue	21,100	2,400	3,000	3,600	30,100	2,300	1,700	2,300	6,200	6,800	7,400	26,700
Customer #2												
Key Product 1	11,900	1,300	1,500	1,600	16,300	1,300	1,100	1,300	3,600	3,800	4,000	15,100
Key Product 2	3,500	400	600	800	5,300	400	200	400	1,000	1,200	1,400	4,600
Key Product 3	2,300	300	500	700	3,800	300	100	300	600	800	1,000	3,100
Other products group #1												
Other products group #2												
Total Revenue	17,700	2,000	2,600	3,100	25,400	2,000	1,400	2,000	5,200	5,800	6,400	22,800
Customer #3												
Key Product 1	11,900	1,100	1,300	1,500	15,800	1,100	900	1,100	2,900	3,100	3,300	12,400
Key Product 2	3,500	200	400	600	4,700	200	200	200	600	500	700	2,400
Key Product 3	2,300	100	300	500	3,200	100	100	100	300	300	300	1,200
Other products group #1												
Other products group #2												
Total Revenue	17,700	1,400	2,000	2,600	23,700	1,400	1,200	1,400	3,800	3,900	4,300	16,000
Minor Customers ($000s)												
Product 1	22,200	2,600	2,700	2,600	30,100	2,600	2,700	2,600	7,100	7,200	7,300	29,500
Product 2	8,900	1,000	1,200	1,100	12,200	1,000	1,200	1,100	3,300	3,400	3,500	13,500
Product 3	9,100	1,100	1,200	1,100	12,500	1,900	1,400	1,300	4,200	4,300	4,400	17,500
Other products group #1	9,100	1,100	600	40	10,840	800	1,400	700	3,200	3,400	2,700	12,200
Other products group #2	11,600	1,400	300	60	13,360	700	1,100	1,300	4,500	3,300	2,700	13,600
Total Revenue	60,900	7,200	6,000	4,900	79,000	7,000	7,800	7,000	22,300	21,600	20,600	86,300
Net Revenue ($000s)	117,400	13,000	13,600	14,200	158,200	12,700	12,100	12,700	37,500	38,100	38,700	151,800

Notes:

1. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

2. xxxXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX .

3. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

4. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

Figure 3: Suggested sales forecast model. This template can be downloaded from www.davidparmenter.com/ibmpapers.

A fast process (an elapsed week)

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. Figure 4 shows this seven-day process.[4]
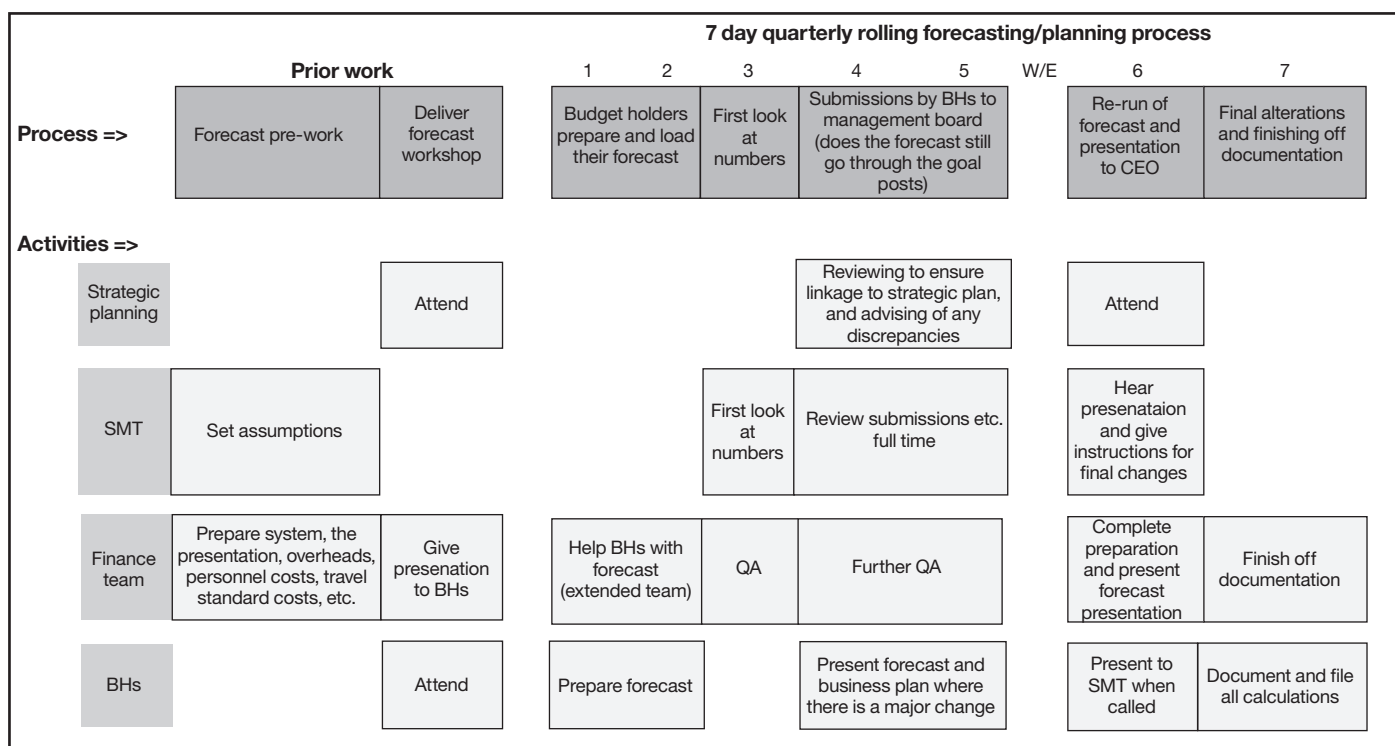
7 day quarterly rolling forecasting/planning process

	Prior work		1	2	3	4	5	W/E	6	7
Process =>	Forecast pre-work	Deliver forecast workshop	Budget holders prepare and load their forecast	First look at numbers		Submissions by BHs to management board (does the forecast still go through the goal posts)			Re-run of forecast and presentation to CEO	Final alterations and finishing off documentation
Activities =>										
Strategic planning		Attend				Reviewing to ensure linkage to strategic plan, and advising of any discrepancies			Attend	
SMT	Set assumptions				First look at numbers	Review submissions etc. full time			Hear presenataion and give instructions for final changes	
Finance team	Prepare system, the presentation, overheads, personnel costs, travel standard costs, etc.	Give presenation to BHs	Help BHs with forecast (extended team)		QA	Further QA			Complete preparation and present forecast presentation	Finish off documentation
BHs		Attend	Prepare forecast			Present forecast and business plan where there is a major change			Present to SMT when called	Document and file all calculations

Figure 4: Seven-day rolling forecast process.

Quarterly rolling forecasts can be quick because:

- Consolidation is instantaneous with a planning tool.
- The model is based on Pareto's 80/20 and the "keep it simple" (KIS) principle.
- Budget holders can enter numbers directly into the planning tool after training.
- The quarterly repetition aids efficiency.
- Because forecasting is at category level, only 12 - 15 categories are forecast by a budget holder.
- Repeat costs can be standardized for an entire year. For example, a New York to Dallas roundtrip flight is $900 and overnight in Dallas is $280.

Jeremy Hope sees no reason why the forecast process could not be done in a day in a financial services organization, where there is no physical supply chain and inventories to manage. For more complex businesses, Jeremy Hope believes that these forecasts can be done in several days.[5]

Linking to current and future strategic issues and drivers

You should avoid basing the planning tool on your existing spreadsheet forecasting model. The structure should suit the planning tool and these foundation stones rather than your previous spreadsheet's capabilities.

Therefore, your planning tool should be based on main events or key drivers so the finance team can quickly inform management of the impact should a major change occur to any of these drivers. In-depth interviews with your senior management team and some brainstorming about the corporate issues that worry your CEO can quickly identify the main drivers. In other words, consider the effect on your bottom line if:

- You contract in size by stopping the production of one line or by selling a business unit.
- You grow through acquisition.
- You lose a major customer.
- A major change to key economic indicators occurs, such as interest rates or inflation.
- A major overseas competitor sets up in your region.

If you have considered the major events that could concern senior management and have designed the model to separately identify them, you will have a planning tool that can quickly model the implications of such changes robustly.

Separating targets and realistic forecasts

Generating realistic forecasts rather than forecasts that the board or senior management wants to achieve is vital.

Dialogue with the board

You can say to the board, "Setting a stretch target is desirable, but you must accept that we might not be able to achieve this. We understand that the bonuses might well be pegged against the goal and we are not trying to lower the threshold to get the bonus. We are merely informing you of the performance gap so you can think strategically about how we are to close the gap."

The board might want a 20 percent growth in net profit, yet management might see that only 10 percent is achievable with existing capacity constraints. The board then must make strategic decisions to manage the shortfall. However, if the forecasting team reports what the board wants to hear, they are simply hiding the truth. Figure 5 shows what happens if the team reports what the board wants. Only in the final quarter does the real situation become clear: a year-end performance below expectations. In this example, the annual plan, which was prepared in March for the new year that starts in July, is forced to match the stretch target and subsequent forecasts in June, September and December to keep up this charade. In reality, the truth was always a shortfall, as the dark line in Figure 5 shows.
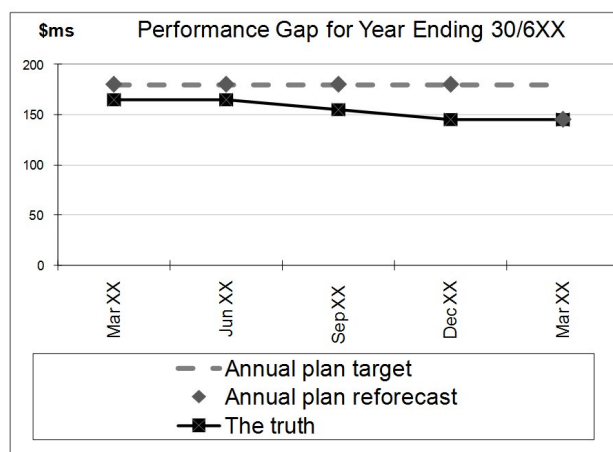

Figure 5: Hiding the performance gap.

A bottom-up process that is done quarterly

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

James Surowiecki wrote that "a large group of people are often smarter than the smartest people in them," and the term "wisdom of the crowd was born."[6] In other words, a group's aggregated answers to questions that involve quantity estimation have generally been found to be as good as, and often better than, the answer given by any of the individuals in the group. Involving a "crowd" in planning and forecasting can have a major positive impact on the process because:

- A great deal of trend information is being seen at the workplace, unsold products are piling up, products are being returned and customer comments are being recorded. Different people in your organization (and not just a few experts) have that information.
- Groups are less motivated to forecast what management wants to see.
- A small group of forecasters can only process a tiny fraction of the information available whereas a crowd can take in an almost unlimited "harvest of data."
- Experts tend to have a bias of optimism, especially if they are looking at sales from inside the company rather than from the customer perspective. A very interesting paper has been written about this called "Delusions of Success — How Optimism Undermines Executives' Decisions."[7]

The theory of the wisdom of the crowd was tested by Best Buy, a leading US consumer electronics retailer with these results:

- Gift card business revenue forecasts made by experts were 95 percent accurate and the crowd's revenue forecasts were 99.5 percent accurate.
- Holiday season sales revenue forecasts made by experts were 93 percent accurate and the crowd's revenue forecasts were 99.9% accurate.

As a result, at Best Buy, the forecasts are now prepared by asking selected "sages" in the business to provide an anonymous forecast directly into a system. They are provided with some basic trend information with the incentive of the recognition and a prize if their forecast is the nearest to the actual figure.[8]

Convincing experts to adopt collective wisdom

Resistance from "experts" is likely when you suggest using the wisdom of the crowd in place of their forecast. To convince them, you can take a page from Best Buy's book. Suggest two forecasts: theirs and one by selected sages from around your business. Ask the sages to forecast sales for the whole organization based on what they are seeing in their areas. You can tell them, "We have prepared some historic data for you and limited the forecast to some key lines and the rest is summarized in groups. Please place your forecast in the system. If your forecast turns out to be the most accurate, you will win a weekend for two at xxx resort."

Each quarter, you then disclose the experts' forecast versus actual and the crowd's forecast versus actual. I predict that the experts will want to duck for cover after a couple of forecasts highlight their inaccuracies. They will ask, even plead, "Please put our forecast in with the wisdom of the crowd."

The wisdom of the crowd has implications on the design of the planning tool. You can expect to accommodate possibly 20 versions of the revenue forecast and then average them. This, however, should not be a problem because you are not forecasting revenue by each line and by each branch.

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

To achieve a bottom-up process, all budget holders should be able to enter their data. Training and adequate support from forecasters is needed and you should have sufficient licenses to enable budget holders to enter data during the 2-3 day window for data entry.

In addition, I recommend extending the help that is offered by in-house advisors to include some outside contractors who can support more remote locations or offer them remote virtual one-on-one training with virtual meeting technologies.

Designing the planning tool with months that consist of 4 or 5 weeks

The calendar in use today can be a major hindrance in forecasting. With the weekdays and number of weekend days, in any given month, being different from the next month, forecasting and reporting can be unnecessarily compromised. Closing off the month on a weekend can make a big positive impact in all sectors.

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

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

Simply design the model so that smoothing back to the regular calendar can be removed easily.

To make progress in this area, I recommend that you contact your general ledger supplier and ask, "Who is a very sophisticated user of this general ledger and who uses 4, 4, 5 reporting months?" Arrange to visit them and see how it works for them. Ask them, "Would you go back regular calendar reporting?" Most are likely to give you a look that says, "Are you crazy?"

The better practices in quarterly rolling forecasting

Several better practices can help ensure a successful planning tool implementation.

Forecast revenues accurately

Forecasting revenue through the demand of major customers requires speaking to the right people in each major customer's organization. Many organizations collaborate with customers to get demand forecasts only to find them as error prone as the forecasts done in-house. Why? The organizations have asked the wrong people.

Sales forecast accuracy

At a workshop, a participant told me that he decided to contact his company's major customer to help with demand forecasting. Naturally, they were holding discussions with the people at company headquarters. Although this was helpful, the demand forecasts still had errors. When the participant asked the customer why the forecasts had errors, the customer said, "If you want accurate numbers, you need to speak to the procurement managers for our projects." Upon request, the customer provided the contact details of those managers. A series of meetings were then held around the country. They found that these managers could provide very accurate information and were even prepared to provide it electronically. The sales forecast accuracy increased sevenfold because of the focus on getting the demand right.

When delving into the future demand patterns of your major customers, ask them, "Who should we speak to in order to get a better understanding of your likely demand for our products in the next three months and subsequent five quarters?"

Forecast personnel costs accurately

In service organizations, payroll represents about 60 percent of total costs. Getting it right is important.

Accurate forecasting of employment costs requires correct salaries and wages. This is done by each manager, who reviews a prepared schedule of current staff with the salary field populated by personnel from the most recent payroll records.

Budget holders put in a leaving date if known, their likely salary review with start date and any possible bonus. For new staff, budget holders enter starting salary and their likely start date. No one needs to show managers the monthly and quarterly figures. The model can get it right. They simply have to get the best estimate of who will be working that year and the likely salary. Figure 6 shows an example of personnel cost forecasts.

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)	

Figure 6: Forecasting payroll at every team level.

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 because you will have an idea about what total costs are permissible, and you can deduce the temporary, contract and interns costs (Figure 7). 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.

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**

Figure 7: Forecasting employment costs (the helicopter way).

Enable monthly phasing for only the next 6 months

You only need to forecast categories in monthly time frames for the next two quarters. After everyone has agreed on the first quarter forecasts, these become the targets and should be loaded into the reporting tool. Quarterly data is perfectly adequate for forecasting 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. Figure 8 is an example of a quarterly forecast with phasing for only six months.

Summary of Forecast Profit & Loss for the period ending xxxxxx

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

Key Income Streams

Actual — Forecast

Rev 1 - Actual · Rev 1 - Forecast · Rev 2 - Actual · Rev 2 - Forecast · Rev 3 - Actual · Rev 3 - Forecast

Key Expenditure Lines

Actual — Forecast

Cost 1 - Actual · Cost 1 - Forecast · Cost 2 - Actual · Cost 2 - Forecast · Cost 3 - Actual · Cost 3 - Forecast

Areas to Note:

1. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

2. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

3.xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

4. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

Figure 8: A budget holder's quarterly forecast. This template can be downloaded from www.davidparmenter.com/ibmpapers.

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 (Figure 9) 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.

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	Cost is calculated based on
Nov xx	QRP project	Houston	Seattle	Yes	2	2	1,400	standard flight, accommodation
Nov xx	QRP project	Houston	Boston	Yes	3	2	1,700	and overnight allowance costs.

Figure 9: Travel and accommodation calculator in a planning tool.

Conclusion

An in-house team with appropriate support from a planning tool provider can implement the tool and get it right the first time. The benefits of this implementation will reverberate for years to come. The finance team will have put in a legacy system.

The impact on the annual planning process is profound. Over time, you will see quarterly rolling planning replace annual planning. The "foundation stones" I have shared in this paper are critical to the success of quarterly rolling planning. Build your house (planning tool) without these foundation stones, and cracks (shortcomings) are likely to appear sooner rather than later.

I wish you well on your journey. You will have left a legacy far greater than the one I left as a corporate accountant. I value contact with readers and look forward to hearing about your success.

Suggested next steps

- Understand with clarity why you need quarterly rolling forecasting rather than a better annual planning process.
- Make sure you fully understand the foundation stones featured in this paper. If you send me an email, I can send you some other foundation stones worthy of consideration.
- Begin selling the changes. Read my other IBM paper "Why you need a planning tool and how to sell the concept to the senior management team."
- Read Jeremy Hope's "Reinventing the CFO."
- Make gradual changes to your annual planning process so that the leap to quarterly rolling planning will not be so great.

About the author

David Parmenter is an international presenter who is known for his thought-provoking and lively keynote addresses and workshops, which have led to substantial change in many organizations. Mr. Parmenter has worked for Ernst & Young; BP Oil, Ltd; Arthur Andersen; and Price Waterhouse. He is a fellow of the Institute of Chartered Accountants in England and Wales. He is the author of four books published by John Wiley & Sons, Inc., and has written more than 50 articles for accounting and management journals. Mr. Parmenter has won two "article of merit" awards from the International Federation of Accountants. He can be reached at parmenter@waymark.co.nz; website: www.DavidParmenter.Com. Phone:+64 4 499 0007

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