

# Rolling Forecasts in Turbulent Times

Mark Rolfe FCCA, Leader, European FPM

Mike Jeffery, Senior Solution Specialist



## Agenda for today



## Uncertainty – The New Normal Velocity and Volatility



***“~60% of Finance organizations believe that they have to make major changes to respond [to growing industry/sector pressures]...”***

**2010 IBM CFO Study**

***“The “New Normal” has become the “Now Normal”***

**The Hackett Group, January 2012**

## Hackett Group - 2012 Key Issues Agenda: The “New Normal” Has Become the “Now Normal”

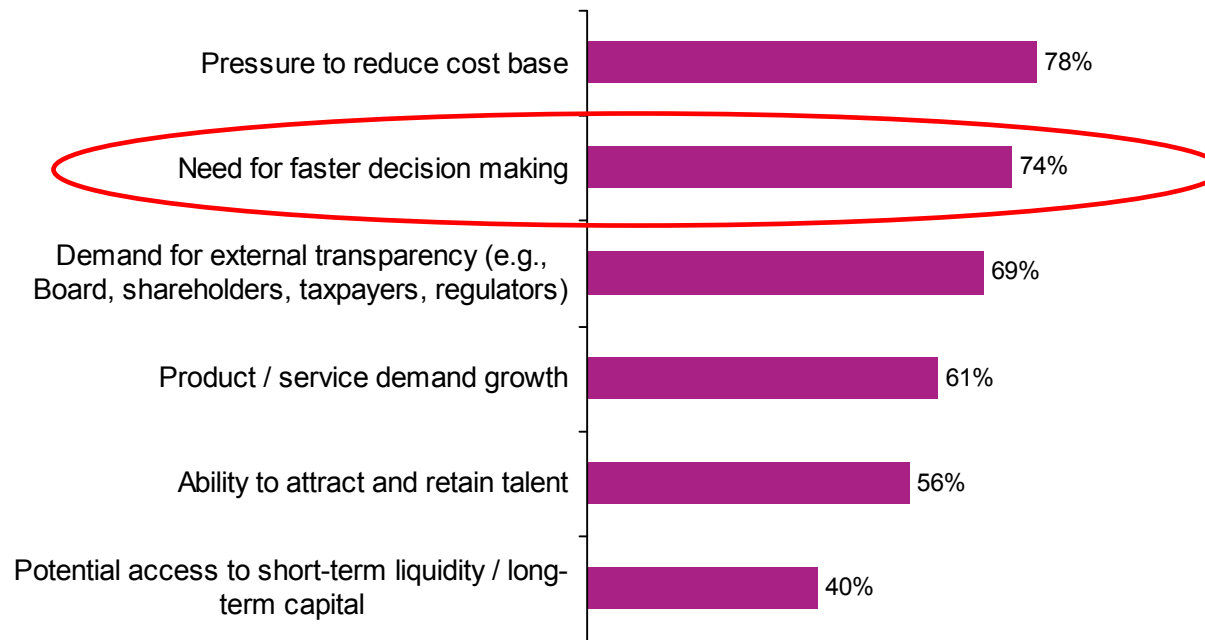
Intersection of four megatrends:

- Reduction of geographic barriers to doing business: Globalization
- Integration of technologies and information streams
- Rising impact of politics and government
- Increased speed of change and level of volatility in market reactions

The way most businesses are operating today signals that they have begun to internalize the implications of these issues. They are changing their business models, with heavy emphasis on retooling their talent and technology to sustain both revenue and profit growth.

# CFOs believe that industry / sector pressures will increase challenges and opportunities over the next three years

## Industry / Sector Changes Over the Next Three Years



**As a result of these factors, ~60% of Finance organizations believe that they have to make major changes to respond.**

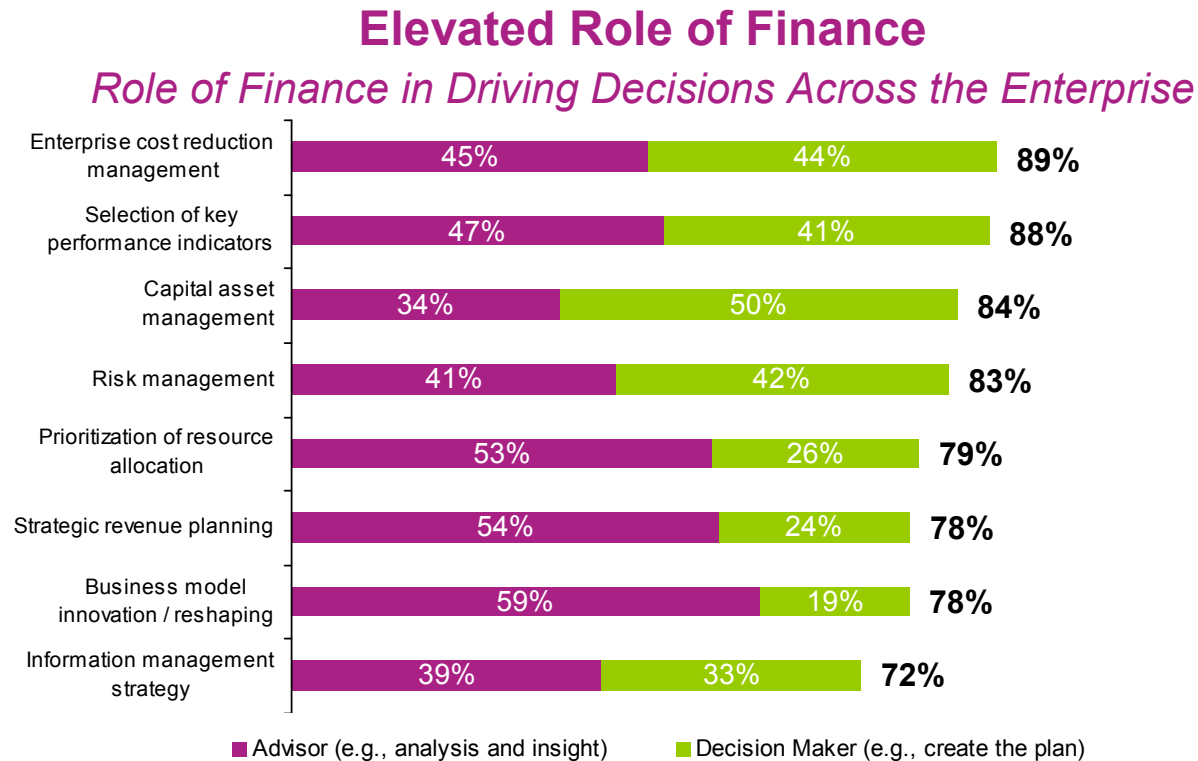
N = 1,844 to 1,905

Note: Executives asked: In the next 3 years, how will the following conditions change in your industry / sector? Excludes participants that select "Don't know"

Note: Defined as enterprises selecting [5] Increase considerably and [4] on a 5-point scale where [5] Increase considerably and [1] Decrease considerably

Source: IBM Institute for Business Value, The Global CFO Study 2010

# CFOs are taking a more prominent role in enterprise decision making



Over 70% of CFOs believe they have an advisory or decision making role on the enterprise agenda.

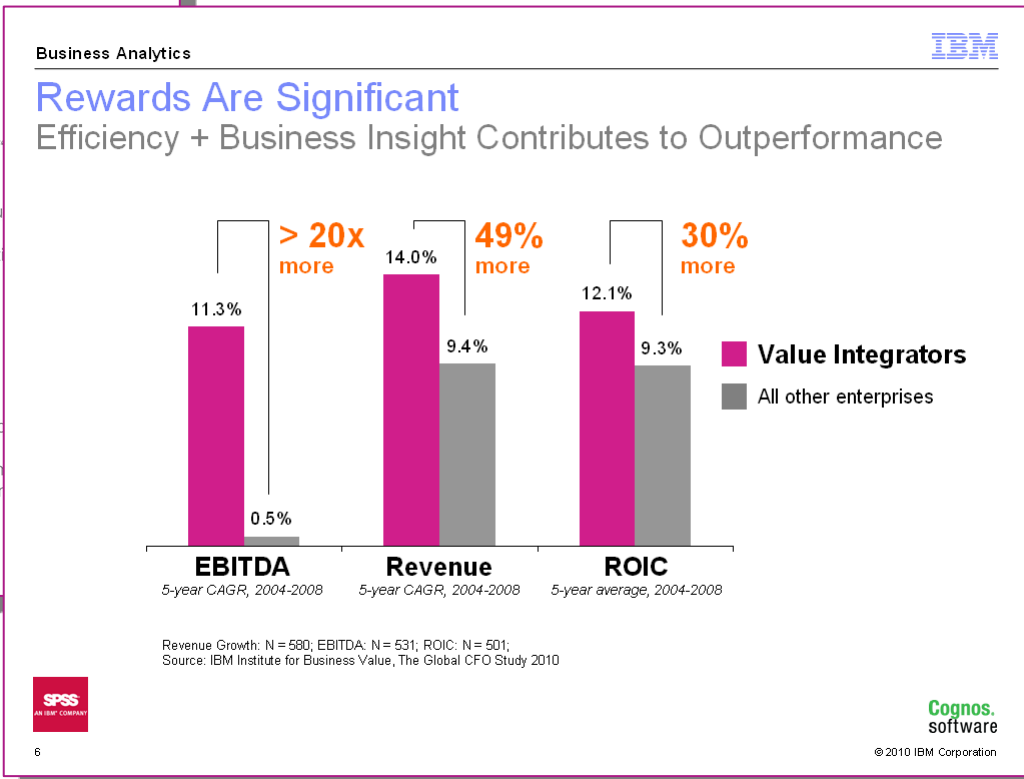
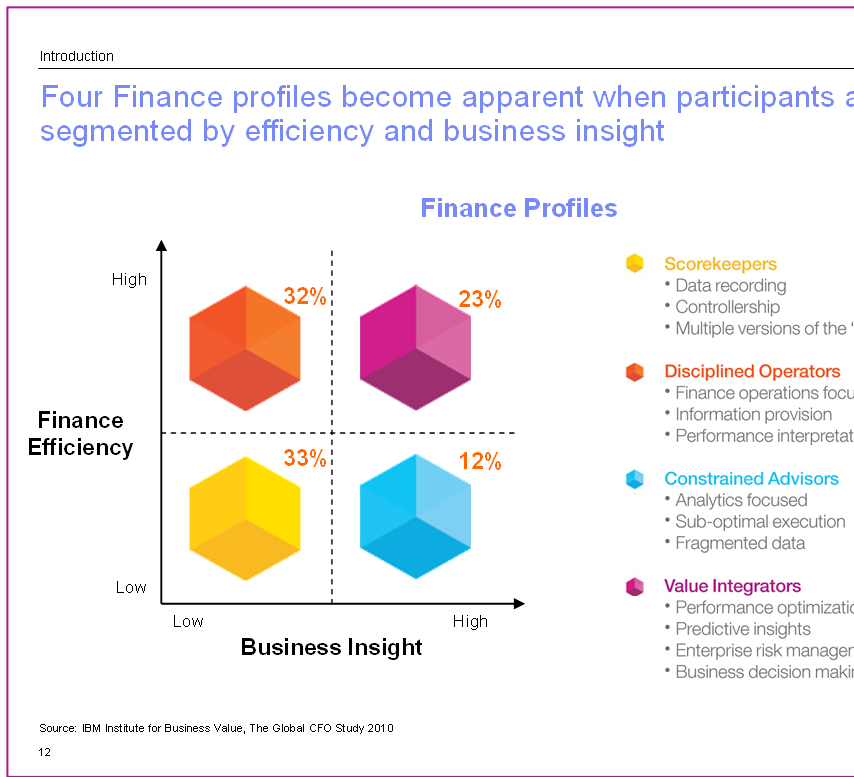
N = 1,881

Note: Executives asked: What role is Finance playing in driving decisions across the enterprise? (Select only one per area)

Note: Respondent choices included No Role, Informer, Advisor and Decision Maker

Source: IBM Institute for Business Value, The Global CFO Study 2010

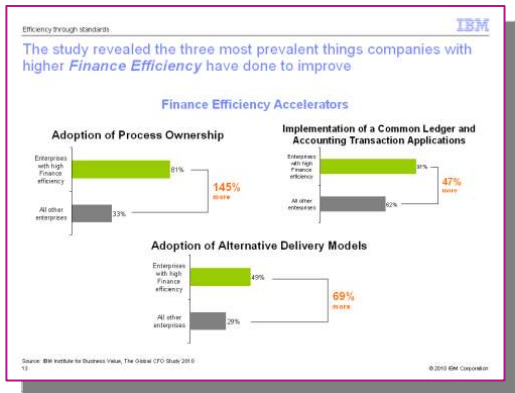
# Those that invest in Finance Efficiency and Business Insight outperform - we call them *Value Integrators*



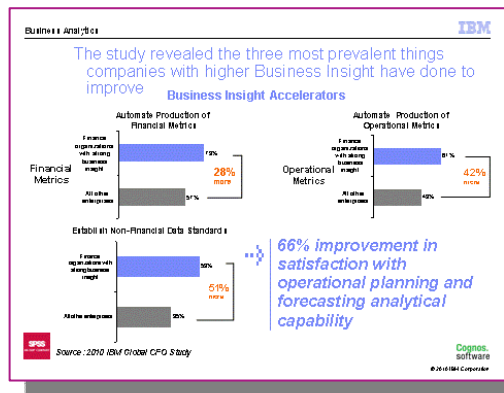
Source: 2010 IBM Global CFO study

# Follow the Value Integrators

## Drive data and process standards



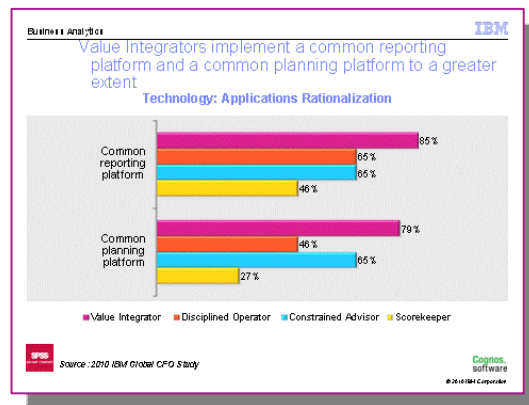
## Automate production of metrics



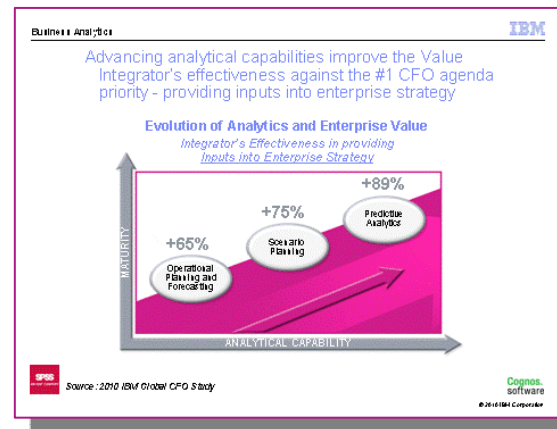
## Manage Risk



## Drive common planning and corporate and management reporting



## Advance analytics



Source: 2010 IBM Global CFO study



**Forecasting has never  
been a more critical  
process.....**



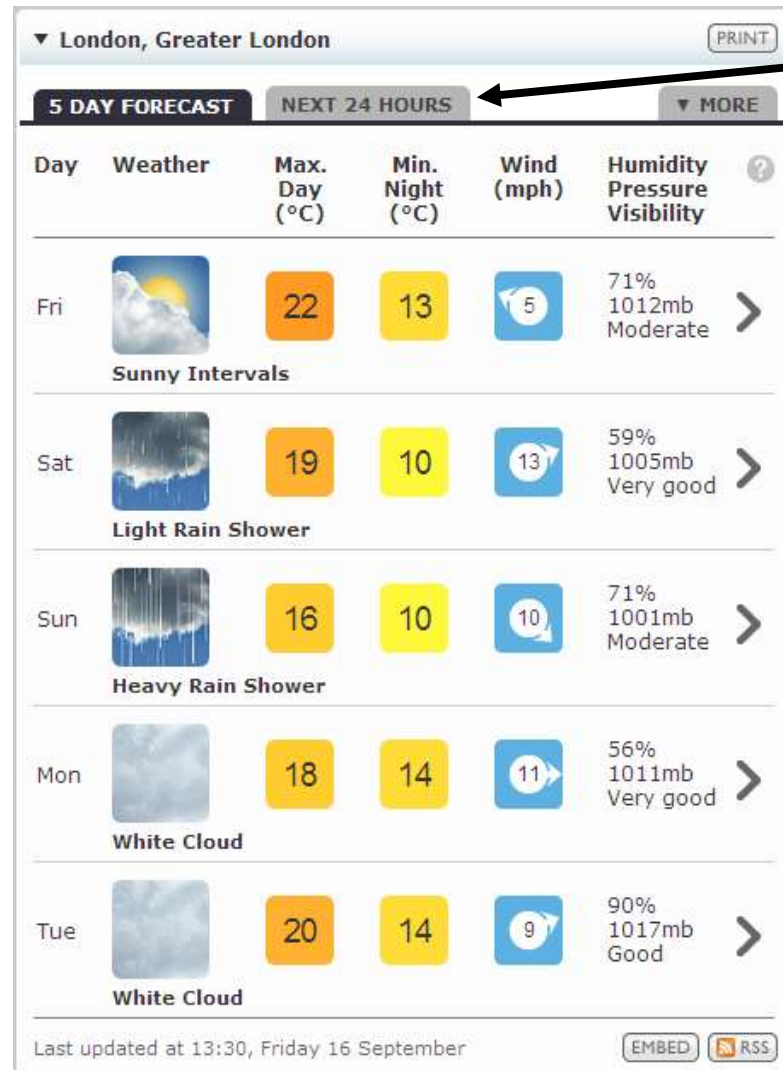


Forecasts describe what the future  
will most likely look like

Plans/ Budgets detail how you  
think the future should look

Fact-based

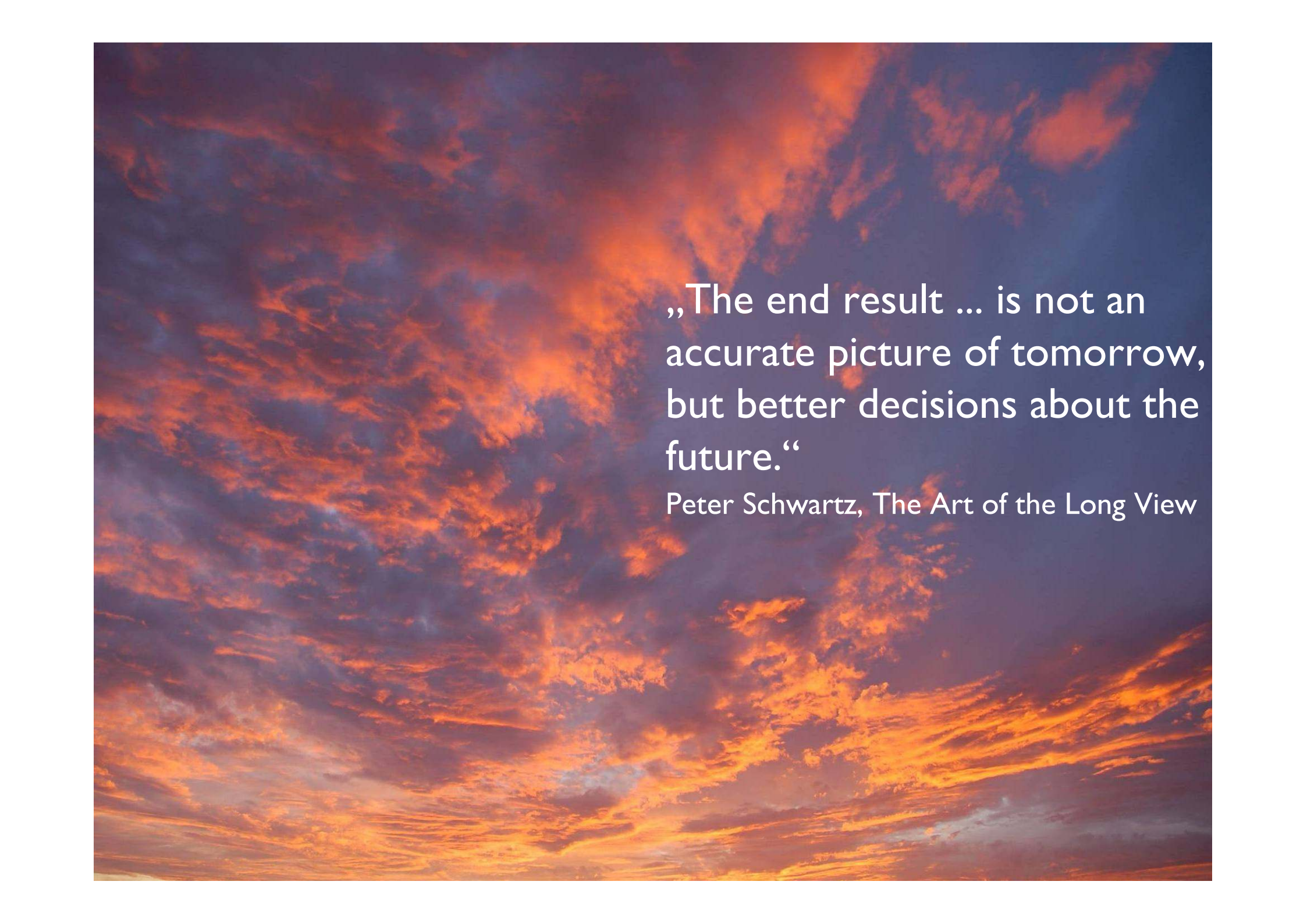
Focused on  
Risks &  
Opportunities



Greater detail available for near-term

Forward Looking

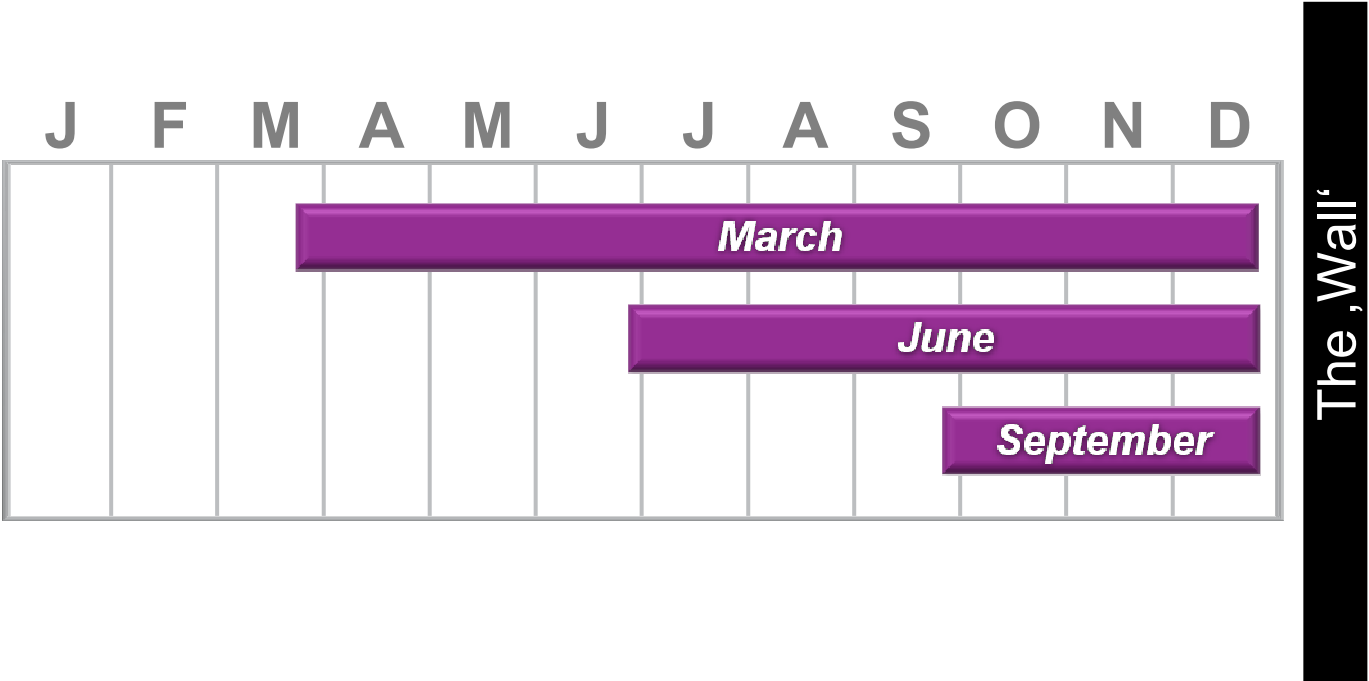
Flexible



„The end result ... is not an accurate picture of tomorrow, but better decisions about the future.“

Peter Schwartz, *The Art of the Long View*

# The traditional approach...



# The traditional template?

	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL	YTD Actuals Variance	YTD Act Var %	Total Variance	Total Var %
	Actuals	Actuals	Actuals	Actuals	Actuals	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast					
Revenue	143.00	150.00	176.00	166.00	200.00	180.00	181.00	190.00	200.00	200.00	210.00	260.00	2256.00	-65.00	-7%	256.00	13%
COS	92.95	97.00	114.00	108.00	131.00	117.00	117.00	125.00	131.00	132.00	140.00	180.00	1484.95	-957.05	-64%	84.95	6%
Margin	50.05	53.00	62.00	58.00	69.00	63.00	64.00	65.00	69.00	68.00	70.00	80.00	771.05	-22.95	-7%	71.05	10%
Margin %	35.00%	35.33%	35.23%	34.94%	34.50%	35.00%	35.36%	34.21%	34.50%	34.00%	33.33%	30.77%	34.35%	0%		-0.65%	
Salaries	19.00	19.00	19.00	19.00	19.00	19.00	19.00	22.00	22.00	22.00	22.00	22.00	243.00	-1.00	-1%	-3.00	-1%
Bonus	1.43	1.50	1.76	1.66	2.00	1.80	1.81	1.90	2.00	2.00	2.10	2.60	22.56	-2.35	-39%	2.56	13%
Benefits	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.22	0.22	0.22	0.22	0.22	2.43	1.35	59%	-0.07	-3%
Insurance	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	1.80	0.00	0%	-0.10	-5%
Rent	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90	34.80	0.00	0%	-1.20	-3%
.....																	
.....																	
.....																	
Utilities	3.00	2.00	2.50	1.58	1.00	1.00	1.20	1.40	1.59	2.00	2.50	3.00	22.77	0.92	8%	-1.23	-5%
Office Supplies	0.11	0.20	0.16	0.20	0.07	0.37	0.14	0.42	0.49	0.34	0.38	0.43	3.30	0.07	9%	1.00	43%
Travel - Air	7.15	7.50	8.80	9.00	15.00	9.00	9.05	9.50	10.00	10.00	10.50	13.00	118.50	-17.45	-58%	13.50	13%
Travel - Hotels	1.43	1.50	1.76	1.66	2.00	1.80	1.81	1.90	2.00	2.00	2.10	2.60	22.56	-3.35	-67%	-7.44	-25%
Travel - Car	0.72	0.75	0.88	0.83	1.00	0.90	0.91	0.95	1.00	1.00	1.05	1.30	11.28	-2.68	-178%	6.28	126%
Travel - Train	1.30	1.00	1.50	1.00	1.20	1.00	1.00	3.00	2.00	2.00	2.00	3.00	20.00	-1.50	-33%	9.00	82%
Gifts & Misc	0.50	0.00	0.00	0.50	0.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00	6.00	0.00	0%	-1.00	-14%
Maintenance & Repair	0.35	0.14	0.06	0.43	0.30	0.36	0.31	0.42	0.03	0.41	0.09	0.13	3.04	0.02	1%	0.04	1%
Marketing	2.00	0.00	8.00	9.00	4.00	7.00	8.00	4.00	5.00	2.00	9.00	1.00	59.00	-3.00	-15%	5.00	9%
Net Income	9.83	16.17	14.35	9.90	20.18	17.53	17.53	16.24	14.62	20.98	15.01	27.66	200.01	15.43	28%	0.01	0%

## Opportunities in Forecasting

What are some of your biggest challenges?

How objective are the forecasts?

What is the reputation of the forecast process in your company?

What would you like to improve?

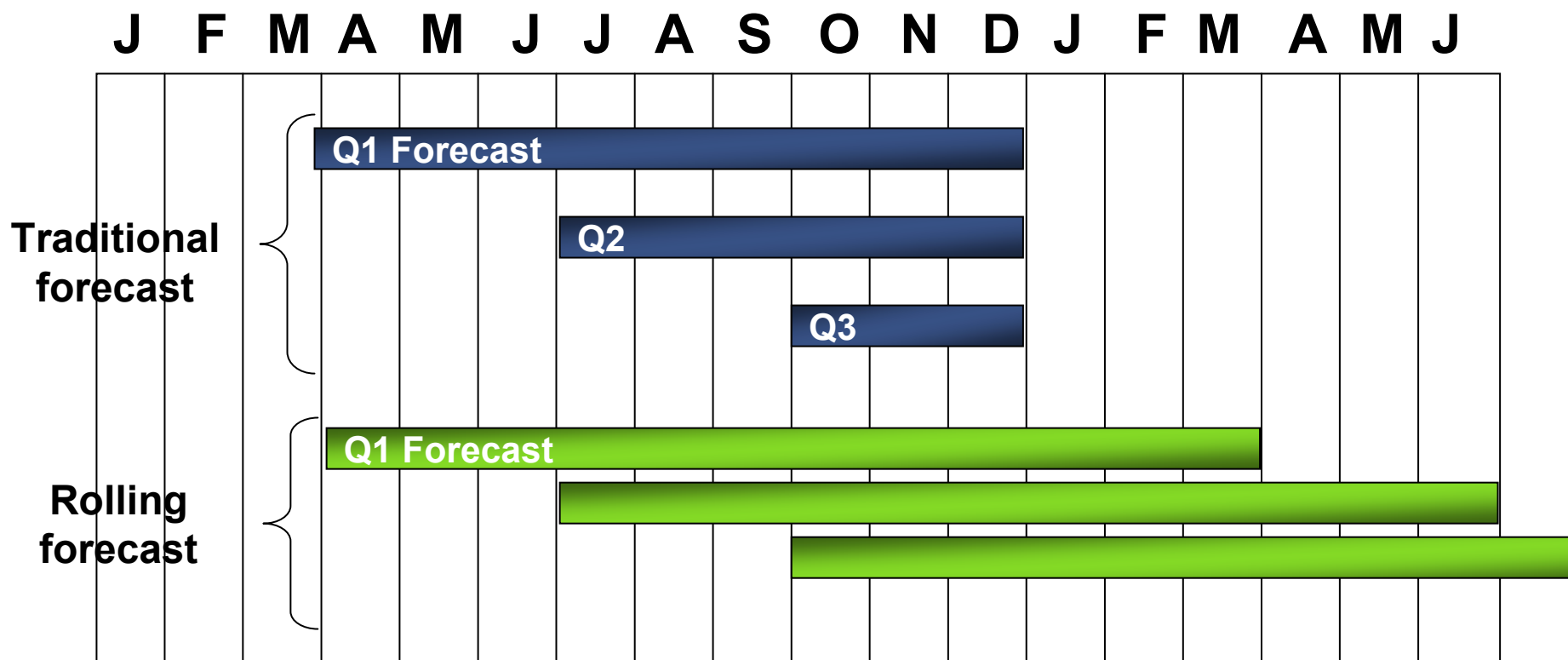
How quickly can you change/ update?

## Agenda for today





# What is a Rolling forecast



## Some key points:

Consistent time horizon

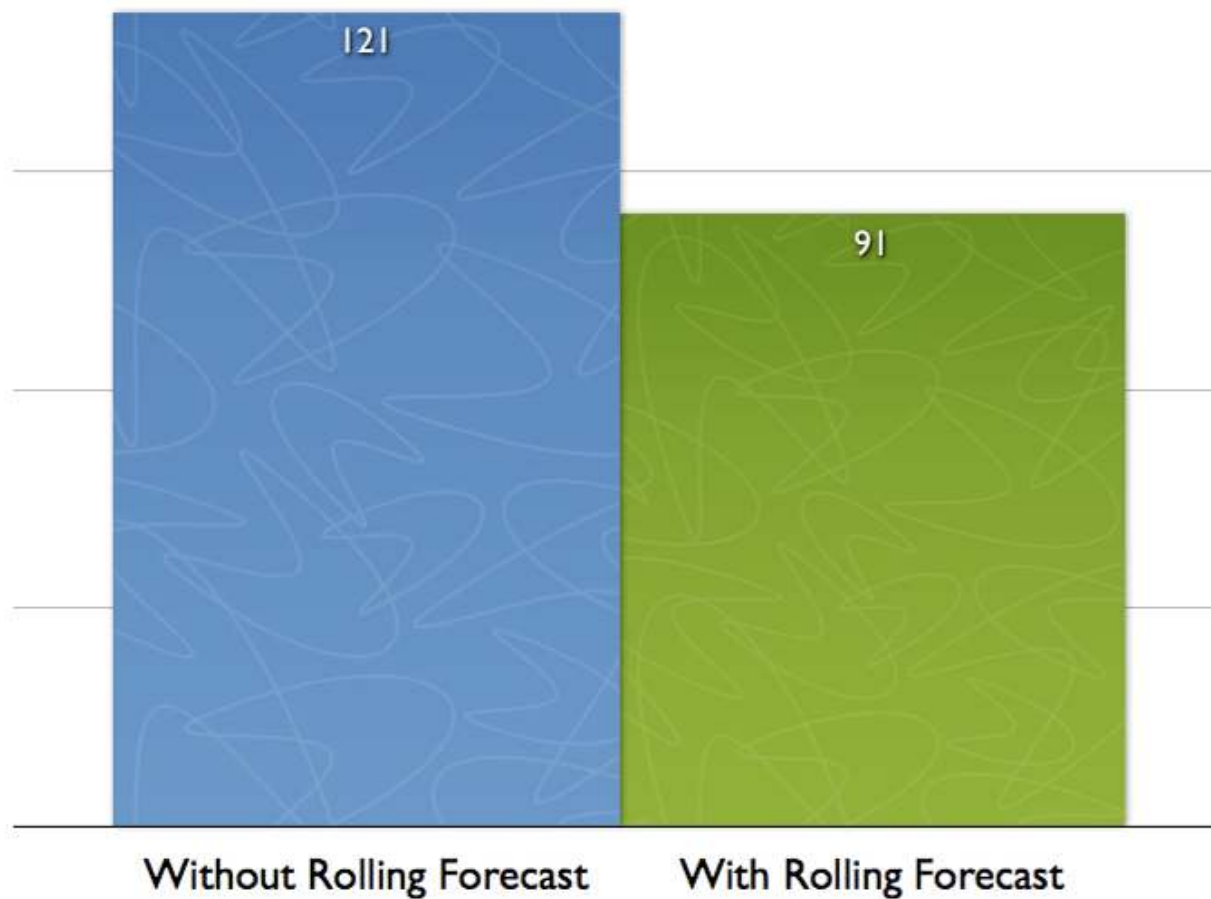
Reduced reliance on outdated budgets

Faster budgets

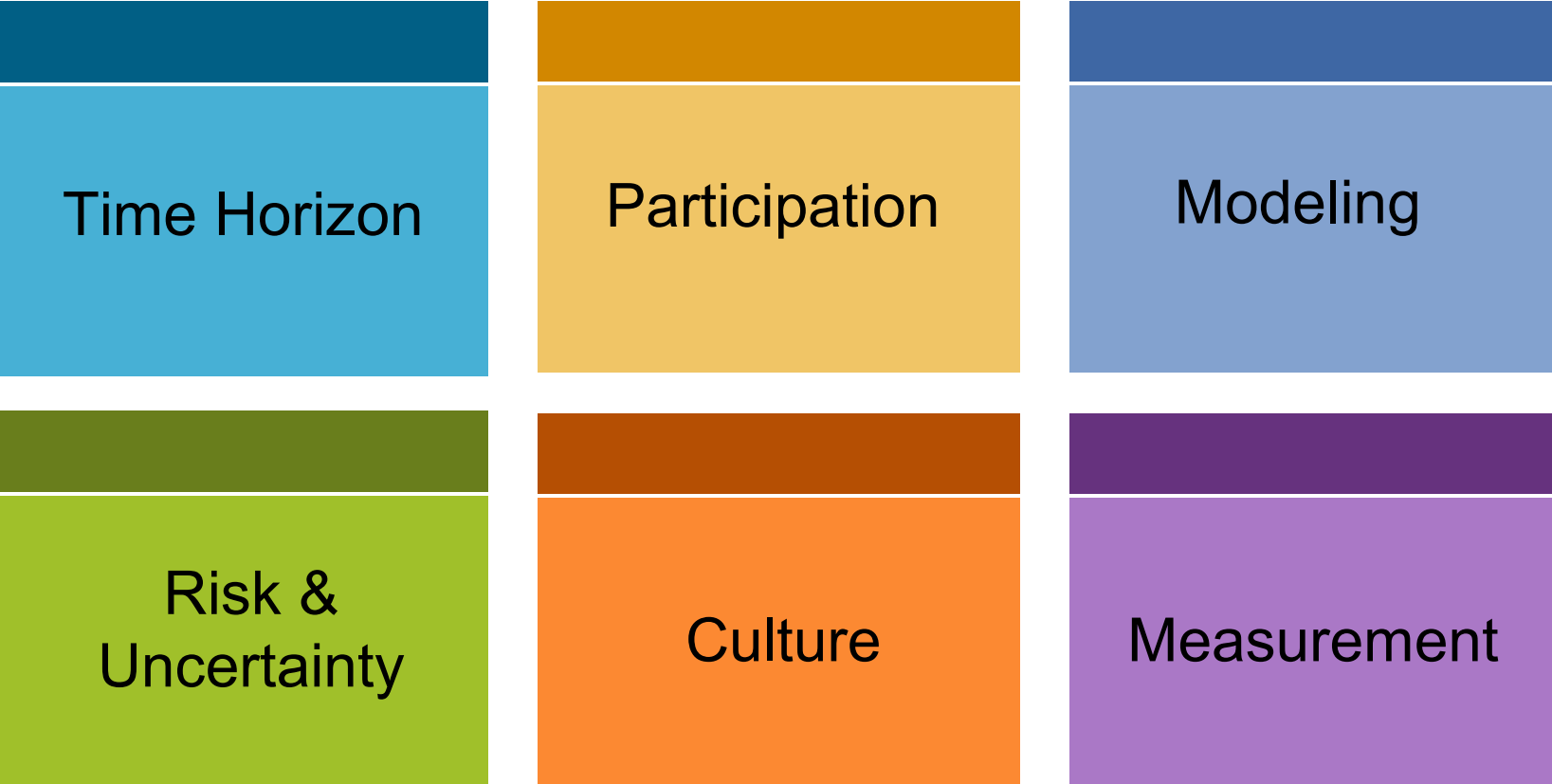
Higher likelihood of objective forecast as focus on year-end is reduced

Increased business awareness...more to come on drivers etc

## Rolling Forecasts speed up the budgeting process



# There are several success factors



**„A rolling forecast is a 12 month  
quarterly process.“**

***No, it depends on **your** business!***

## Match the time horizon to the rhythm of your business

### Short cycles

### Long cycles

Industry

**Consumer electronics**  
**Retailing**  
**Investment banking**

**Oil exploration**  
**Pharma development**  
**Infrastructure investment**

Function

**Advertising**  
**Cash flow**  
**Overtime**

**Plant construction**  
**Infrastructure investment**  
**Research & development**

## An example....

	Economic relevance	Variability	Speed of response
Revenues	High	High	High
Labor costs	High	Low	Medium
Fuel costs	High	High	Medium
Maintenance spending	Medium	Medium	Medium
Advertising spending	Medium	Medium	High
Aircraft ownership costs	Medium	Low	Low
Airport rates and charges	Medium	Medium	Low
Other operating	Medium	Medium	Medium

## Common Time Horizon decisions\*

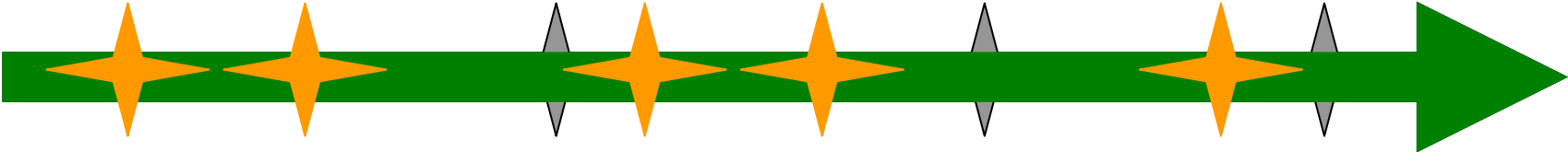
<b>Airline:</b>	<b>Rolling 2 quarters; monthly</b>
<b>Semiconductor:</b>	<b>Rolling 2 quarters; twice per quarter</b>
<b>Automotive:</b>	<b>Rolling 2 quarters; quarterly</b>
<b>Chemical:</b>	<b>Rolling 2 quarters; monthly</b>
<b>Telecom:</b>	<b>Rolling 4 quarters; monthly</b>
<b>Technology:</b>	<b>Rolling 4 quarters; quarterly</b>
<b>Engineering:</b>	<b>Rolling 6 quarters; quarterly</b>
<b>Consumer goods</b>	<b>Rolling 6 quarters; monthly</b>
<b>Pharmaceutical</b>	<b>Rolling 6 quarters; quarterly</b>



*„Best practice companies are  
moving towards more  
frequent & event-driven  
updates.“*



# Best practice companies update more frequently



But this typically requires a continuous collection process

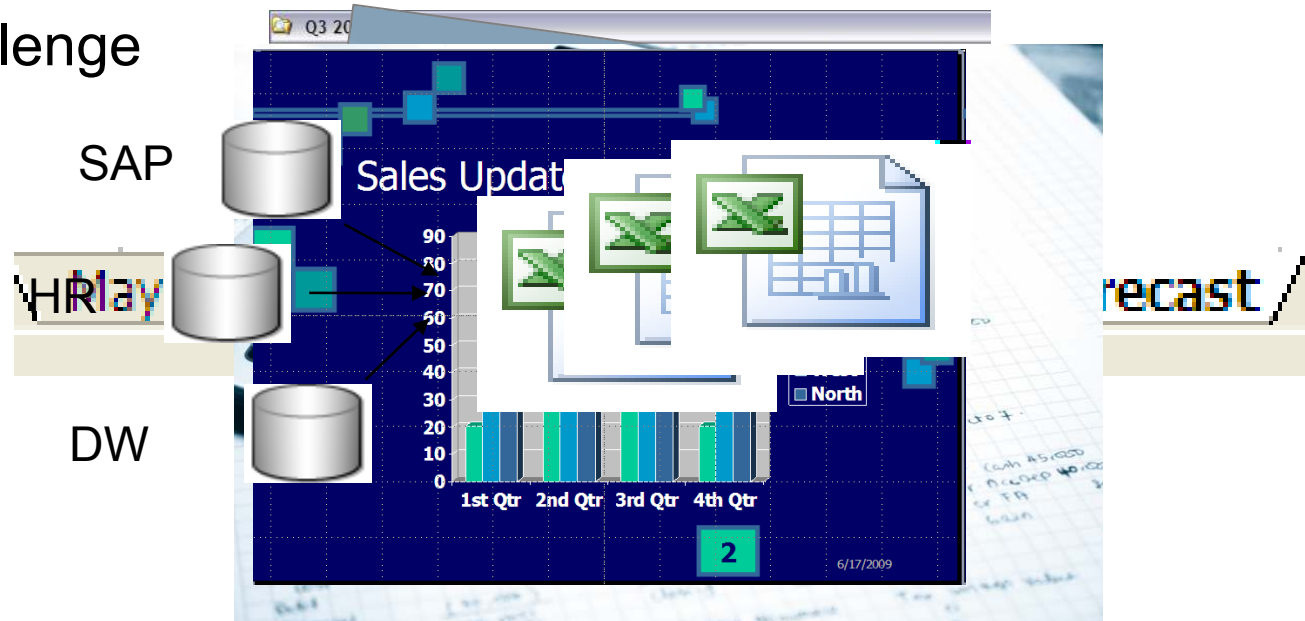
**Infrequent & Manual**



**Continuous & Automated**



# The Challenge



Update Models

Distribute Models

Aggregate data

What-if & Optimize



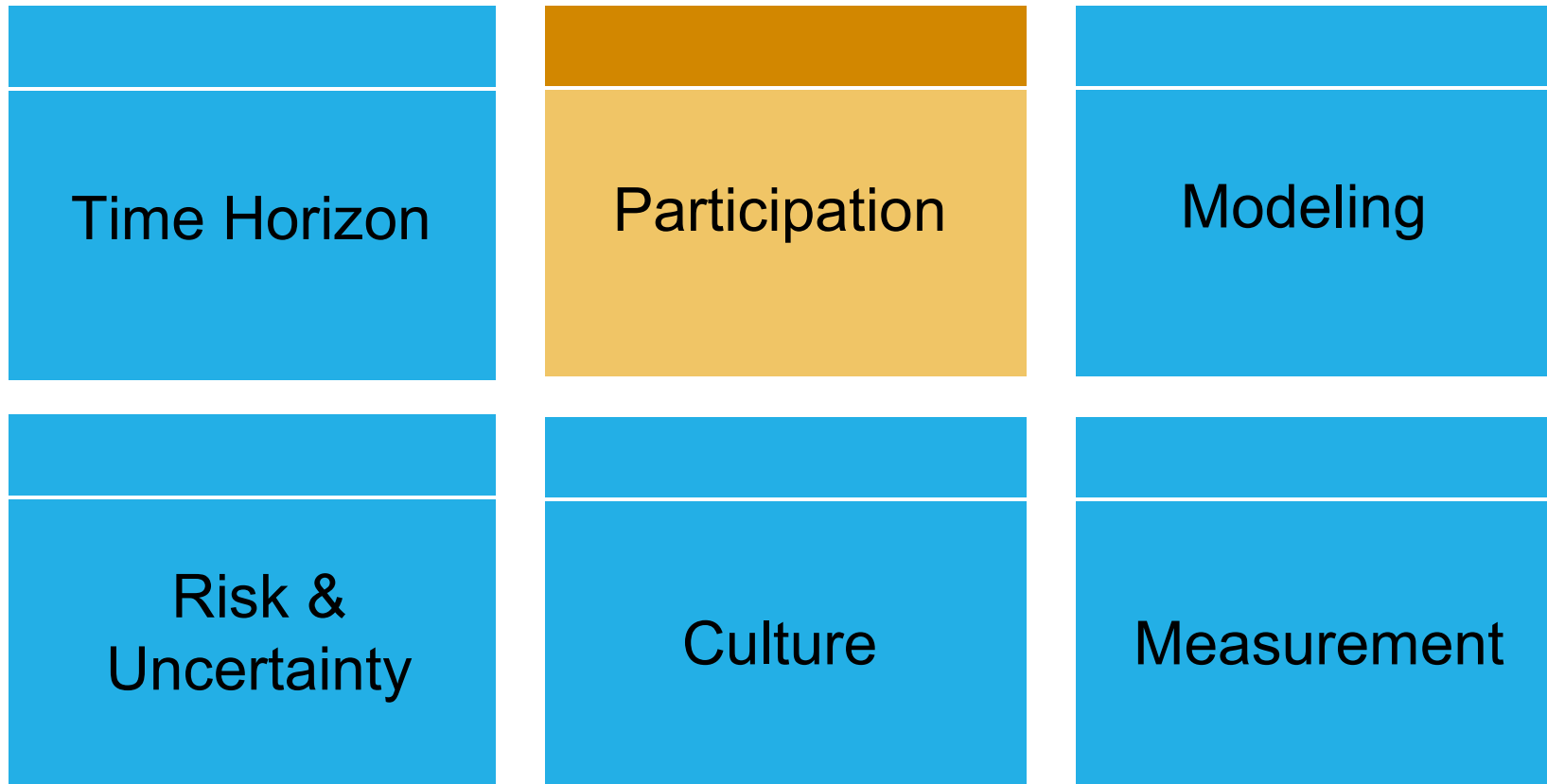
New version

Load Actuals

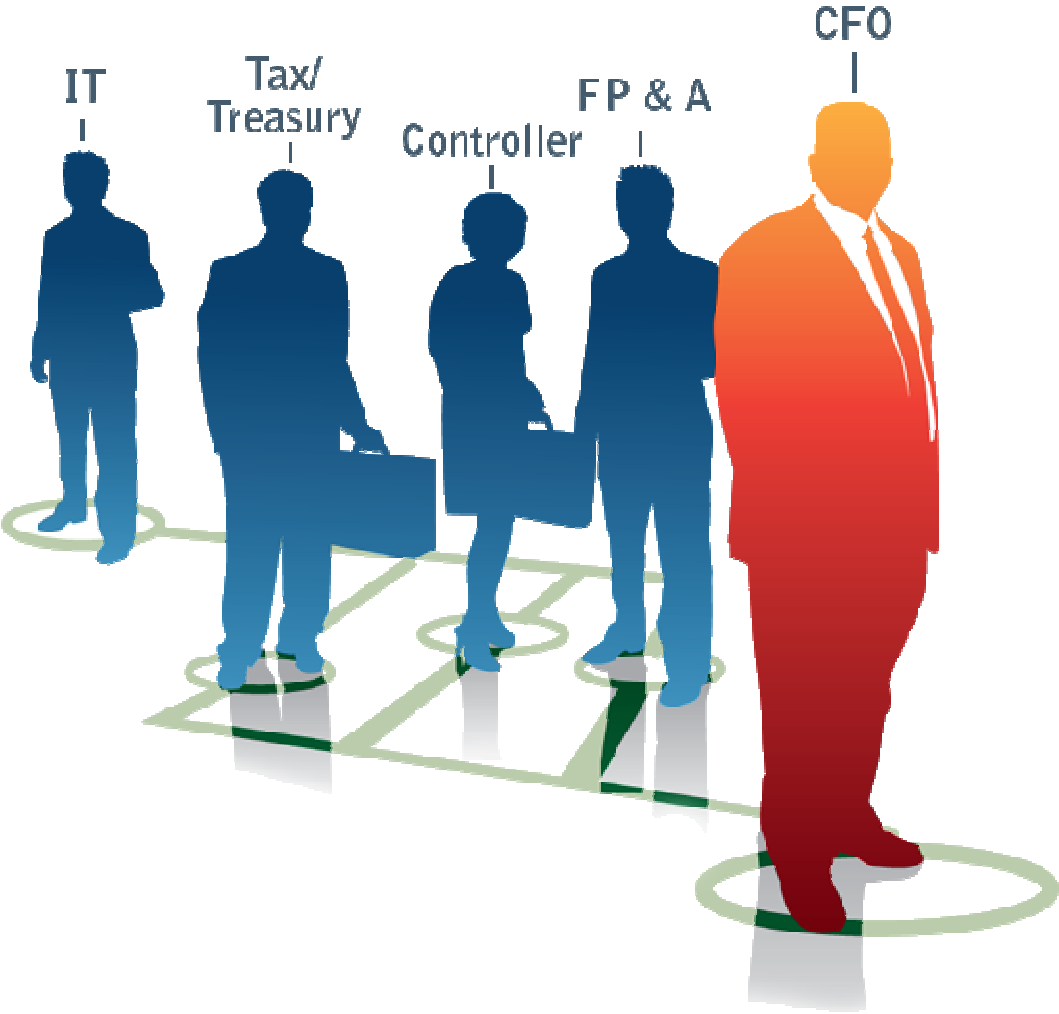
Collect Data

Report & Analyze

## There are several success factors



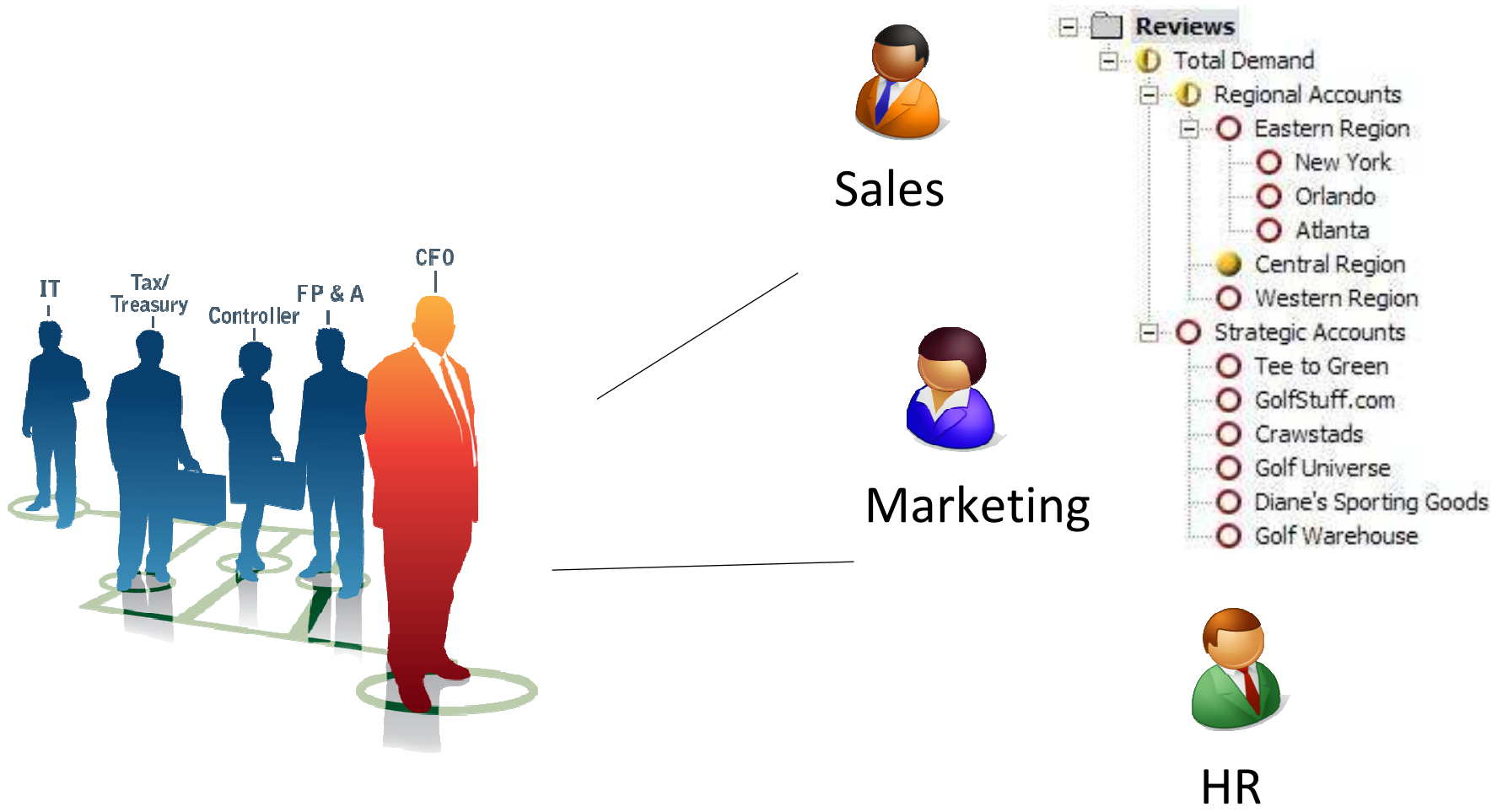
# Who creates the forecast?



How does the  
business feel about  
that?



# High participation creates value.

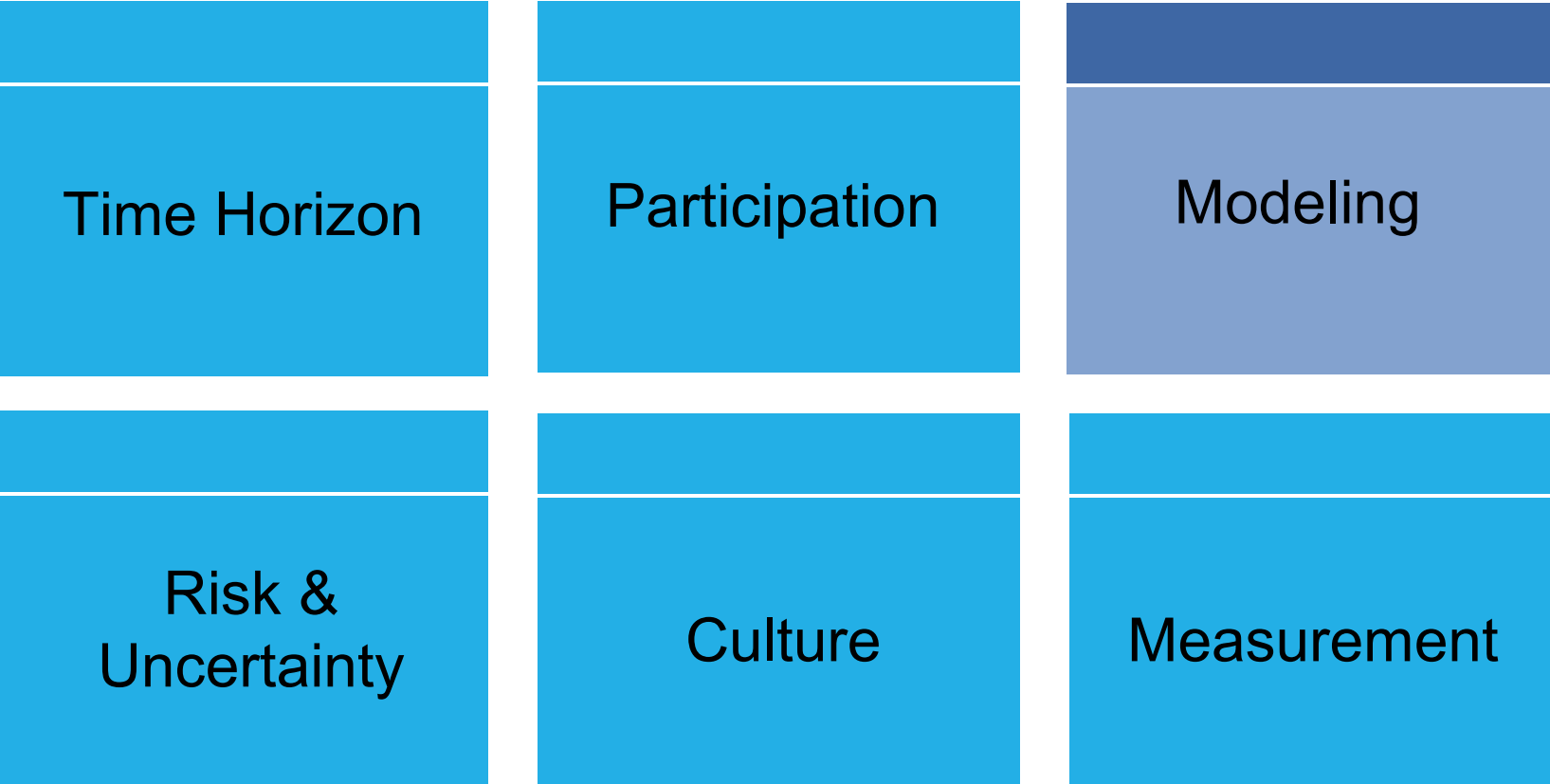




And let's not forget!



# There are several success factors



# Remember this model?

	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL	YTD Actuals Variance	YTD Act Var %	Total Variance	Total Var %
	Actuals	Actuals	Actuals	Actuals	Actuals	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast					
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Net Income	9.83	16.17	14.35	9.90	20.18	17.53	17.53	16.24	14.62	20.98	15.01	27.66	200.01	15.43	28%	0.01	0%

Can we answer critical questions with this information?

- 
- o **Risk?**
  - o **Opportunities?**
  - o **Customers?**

***“What they needed to identify were the volume drivers, those that influenced 80 percent of the numbers. This turned out to be only fifteen lines on the profit and loss statement.”***

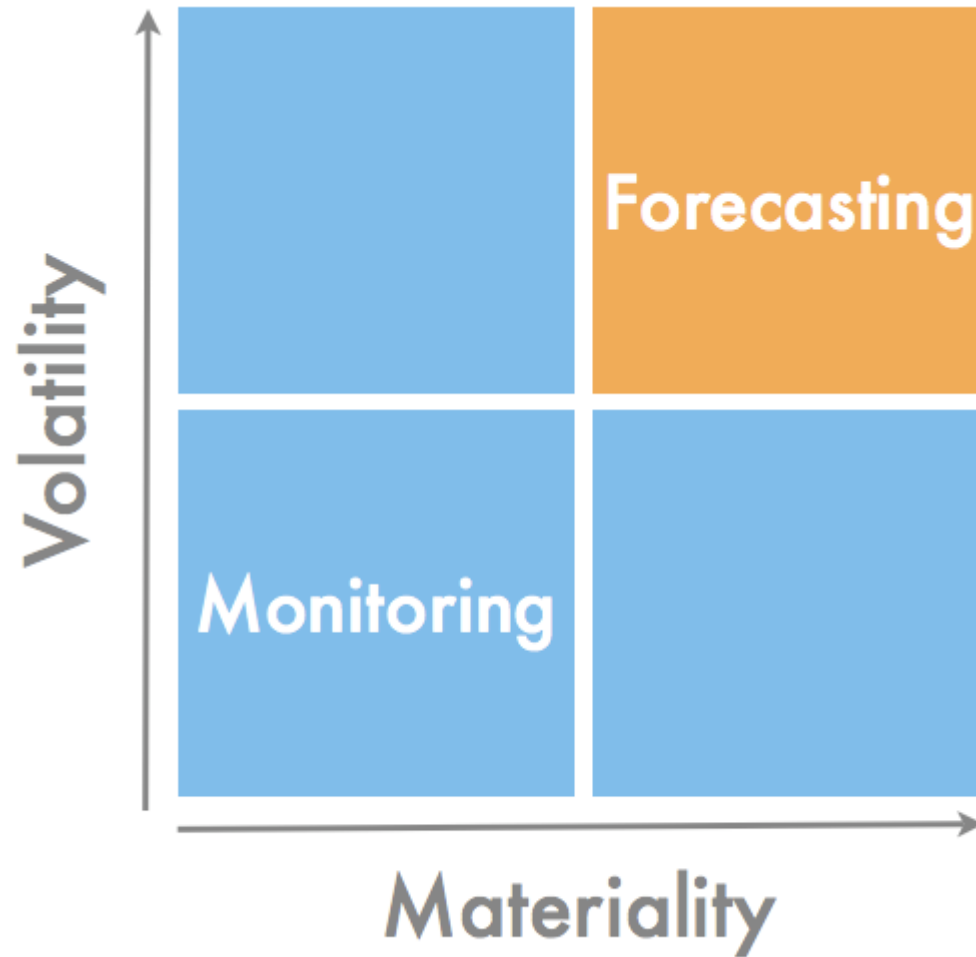
**Gary Crittenden –CFO of Amex when they implemented Rolling Forecasts**

**„Simplicity is the ultimate  
*sophistication.*“**

Leonardo da Vinci



## A simple test for selecting the right items



# The same applies to your time horizon



Toolbar: [Base]

Rows: Measures [Measures]

Columns: Time [Time]

	Jan	Feb	Mar	Apr	May	Jun	Q3	Q4	+ 2010	Q1	Q2	Q3	Q4	+ 2011
Revenue														
COGS														
Margin														
Salaries														
Travel Expense														
Rent														
Other Expenses														
Net Income														



Measures	Time																										
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	+ 2010	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	+ 2011	
Revenue																											
COGS																											
Margin																											
Salaries																											
Travel Expense																											
Rent																											
Other Expenses																											
Net Income																											



# The language of our forecasts need to change



**Opportunities**

**Pipeline**

**Number of employees**

**Customer Satisfaction**

**VS.**



634172 - Revenue (New Accts)

665891 - Office Supplies (Paper)

665892 - Office Supplies (Pens)

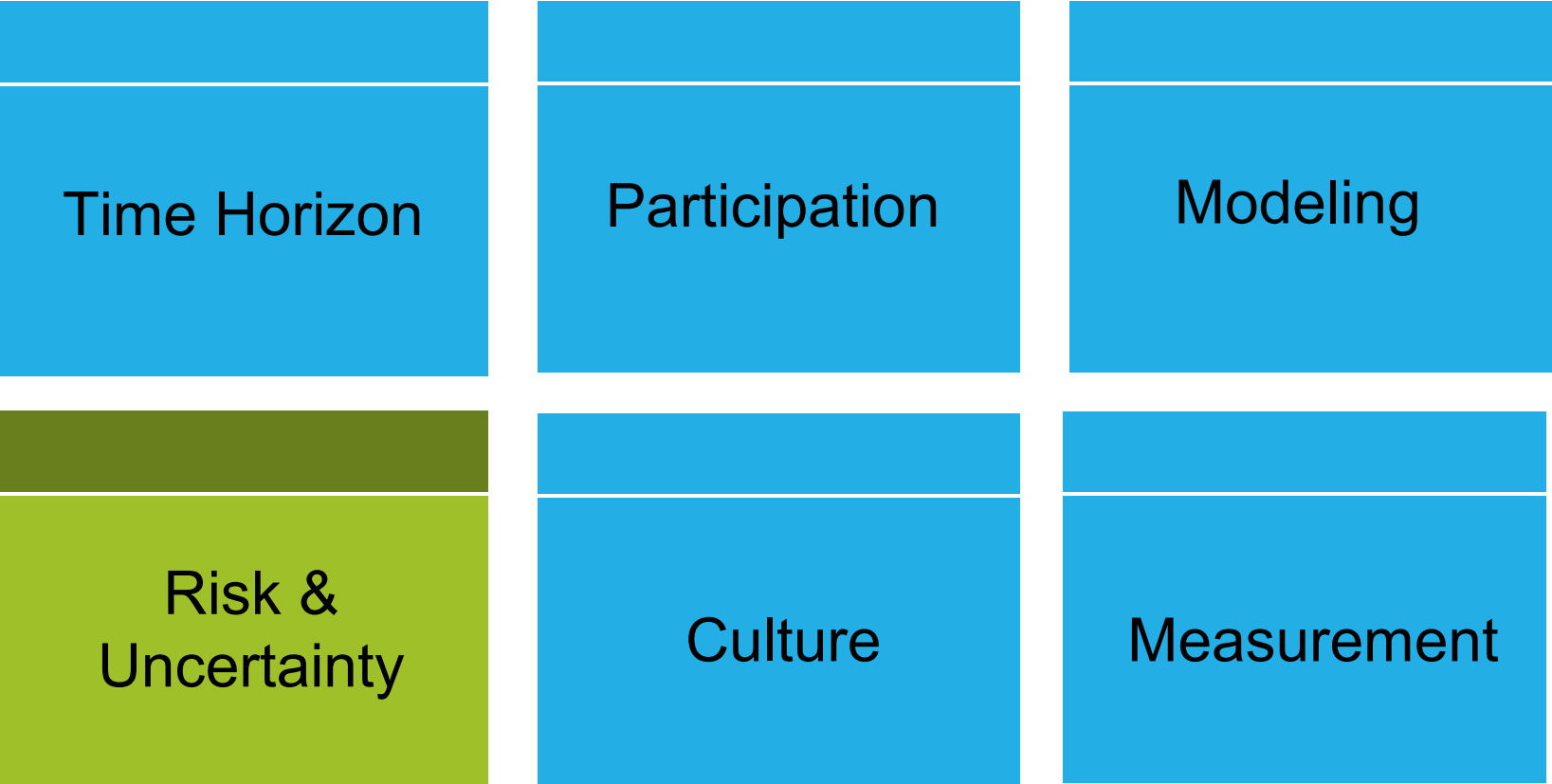
677199 - Gifts, Misc.



**Revenue?**



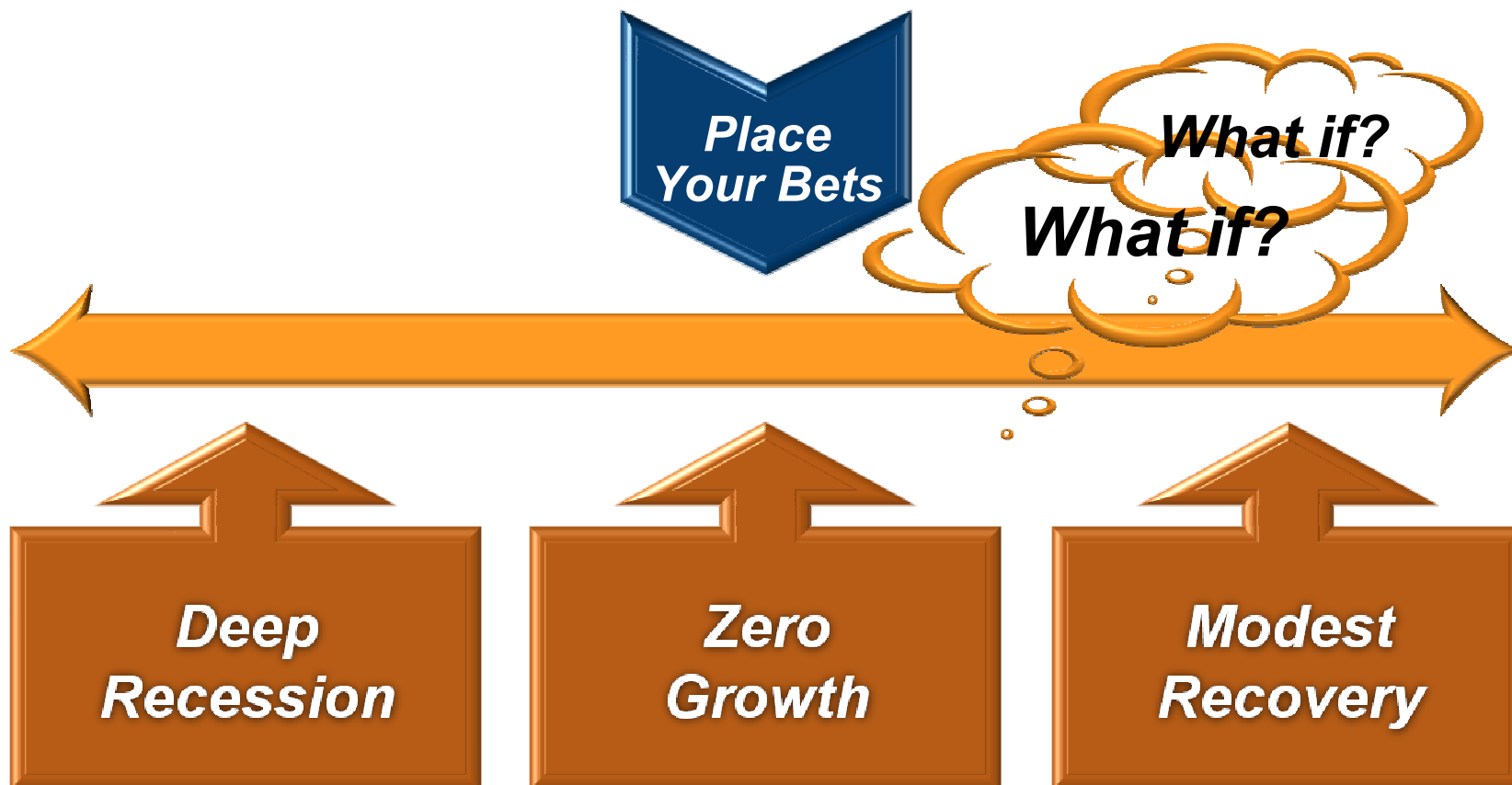
# There are several success factors





The Forecast?

# Considering Uncertainty



But developing scenarios can be very tedious



- Multiple scenarios
- Floating assumptions
- Data volumes

# Consider a simpler approach

### Forecasting - Uncertainty Assessment

Customers | Time | Measures | Upside

	Month +1	Month +2	Month +3	Total - Next Quarter
	Sales	Sales	Sales	Sales
Globe Inc				
Trading Co		50.00	75.00	125.00
International Machines				
European Imports	25.00	5.00		30.00
Bond & Partners				
United car dealers		5.00	35.00	40.00

Risk

- Upside
- Downside
- Risk Total

**Upside Exceptions**  
**Base Case (most likely)**  
**Downside Exceptions**

## Forecasting - Uncertainty Assessment

☰ Risk Customers | ☰ Time Measures | ☰

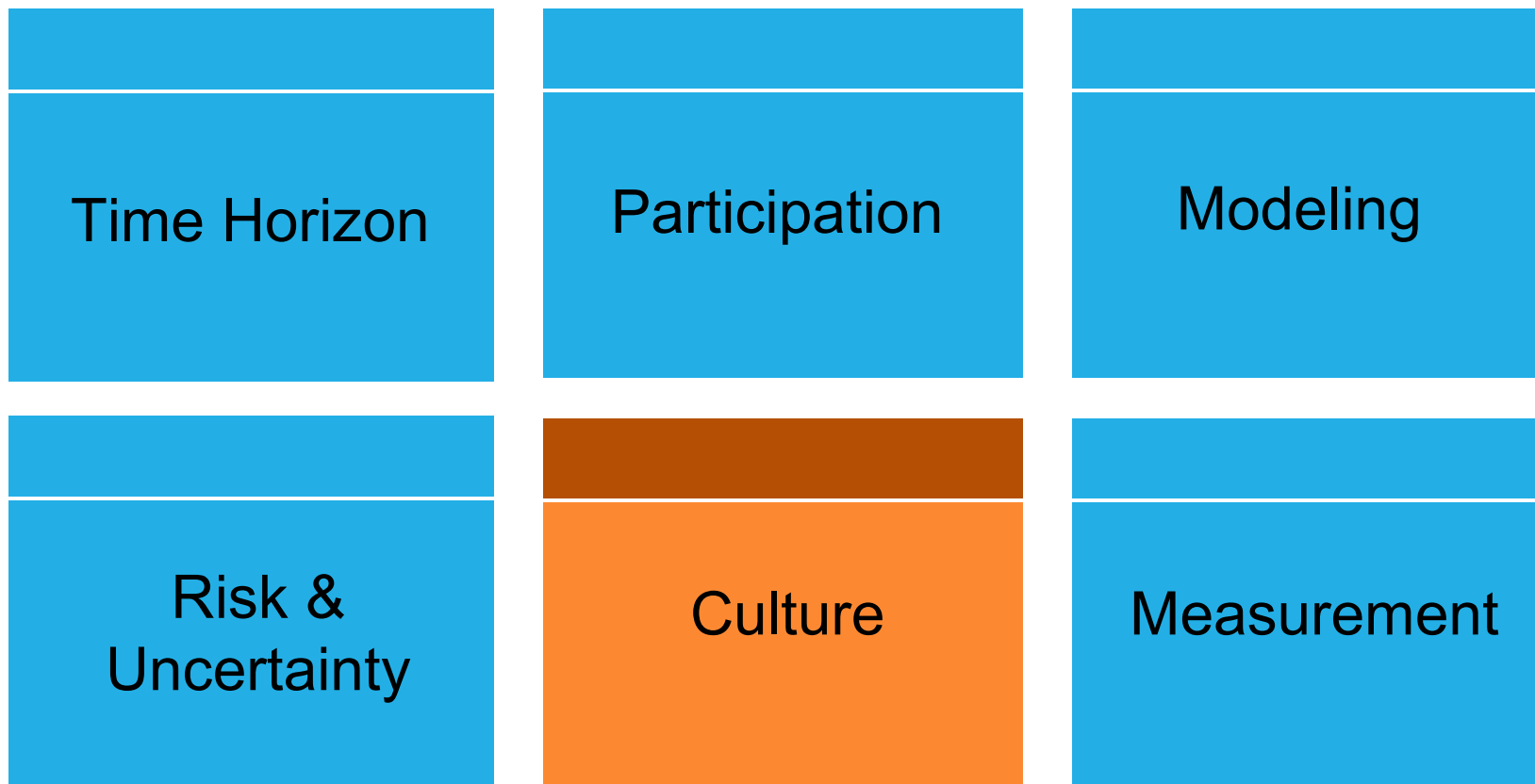
		Month +1	Month +2	Month +3	Total - Next Quarter
		Sales	Sales	Sales	Sales
Upside	Globe Inc				
	Trading Co		50.00	75.00	125.00
	International Machines				
	European Imports	25.00	5.00		30.00
	Bond & Partners				
	United car dealers		5.00	35.00	40.00
Downside	Globe Inc	-10.00	-25.00	-30.00	-65.00
	Trading Co				
	International Machines				
	European Imports				
	Bond & Partners	-50.00	-10.00	-5.00	-65.00
	United car dealers				
Risk Total	Globe Inc	-10.00	-25.00	-30.00	-65.00
	Trading Co		50.00	75.00	125.00
	International Machines				
	European Imports	25.00	5.00		30.00
	Bond & Partners	-50.00	-10.00	-5.00	-65.00
	United car dealers		5.00	35.00	40.00

### Add Comment

New product introduction very likely. Need sales management support for accelerate negotiations with purchasing manager.



## There are several success factors



Nice forecast. But I don't like the revenue numbers. They are **too low.**



**Executive**

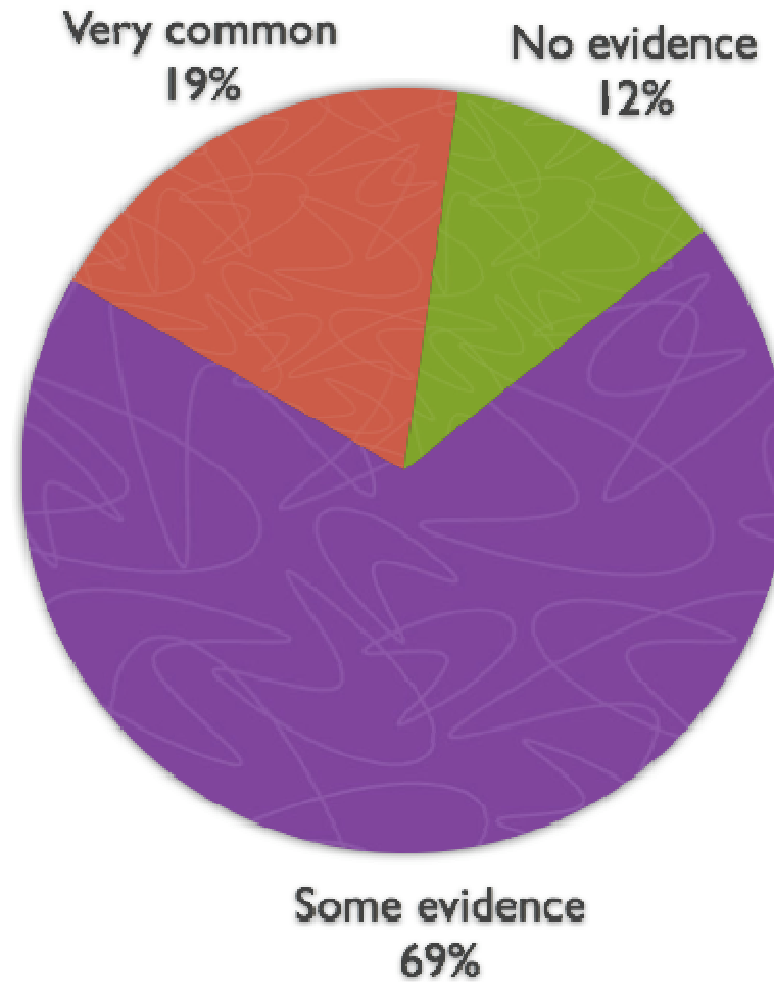
But this is the most **realistic** estimate I can provide!



**Business Manager**

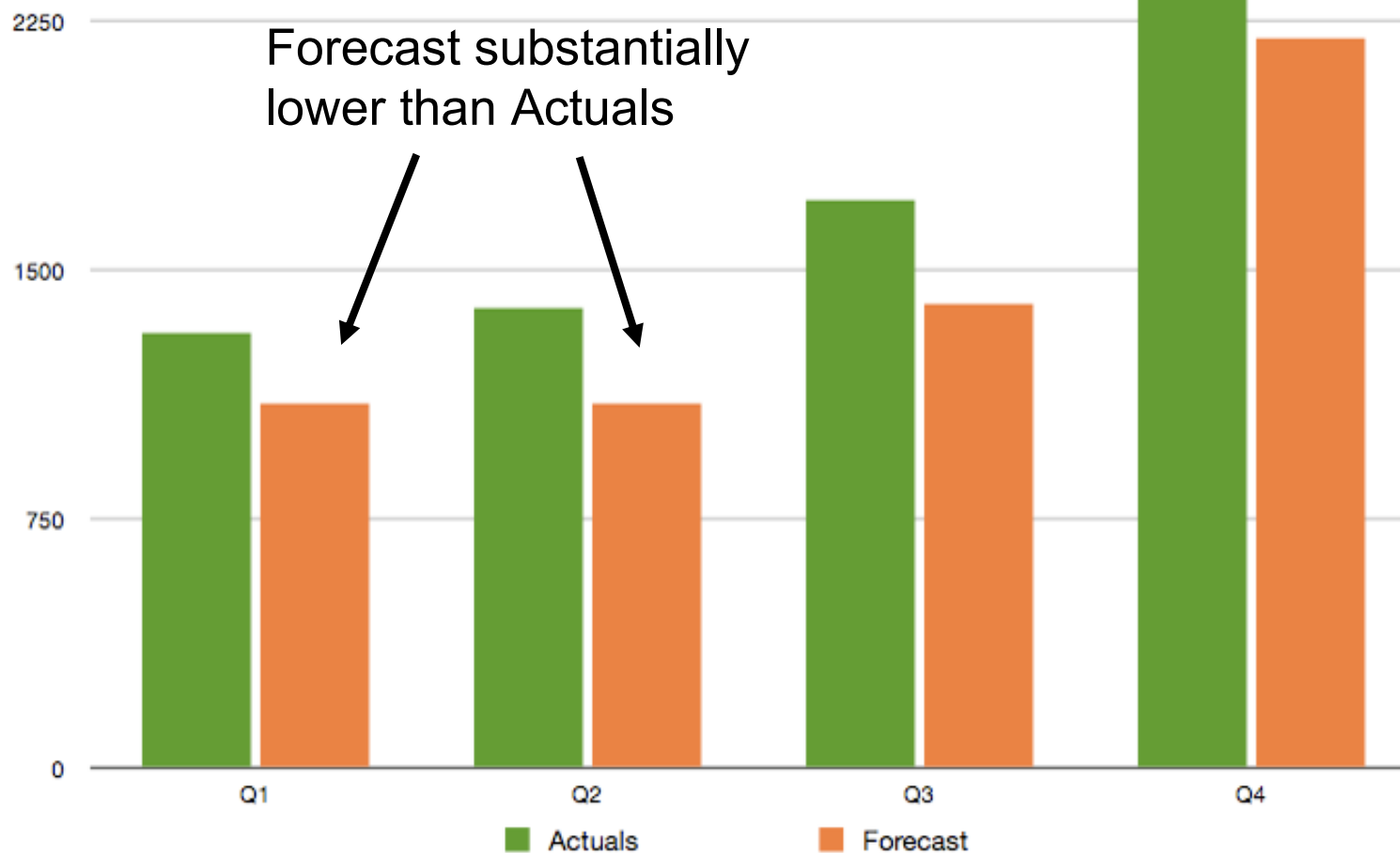
Please go back to your office and come back with **new numbers.**

## Is there evidence of sandbagging?



Source: Cognos Forecast Survey – September 2008

## A typical case of sandbagging: Revenue forecast



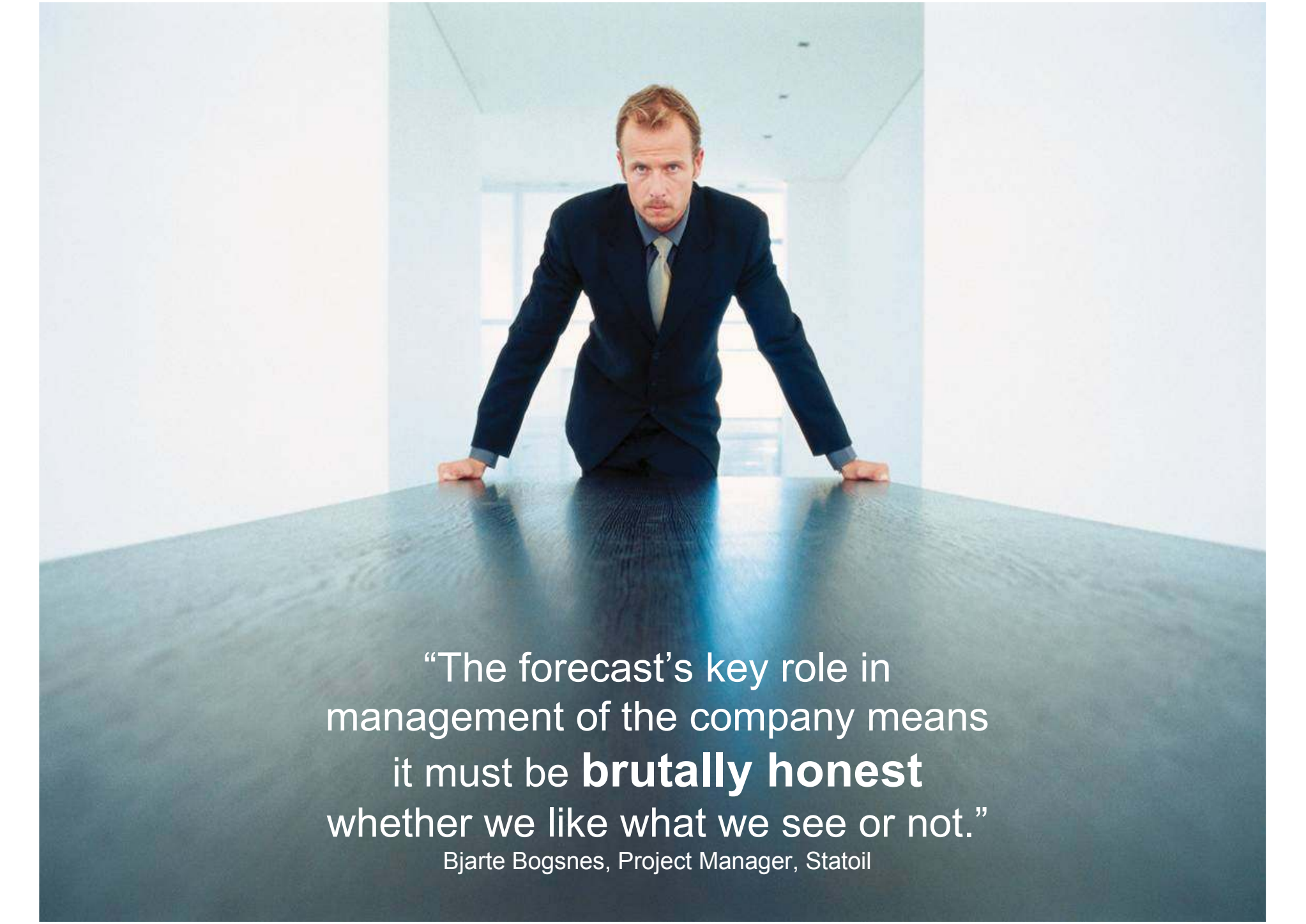
## Management sets the tone

“Why didn’t we anticipate that in the budget? Who **screwed up?**”

“Okay, clearly things have changed.

- What are the drivers of the change?
- What is the impact on our business?
- What actions should we be taking?”



A man in a dark blue suit and tie is leaning over a long, dark wooden conference table in a modern office hallway. He is looking directly at the camera with a serious expression. The hallway is brightly lit, with light coming from windows in the background. The table is very long and narrow, and the man is positioned in the center of it.

“The forecast’s key role in management of the company means it must be **brutally honest** whether we like what we see or not.”

Bjarte Bogsnes, Project Manager, Statoil

## A different approach is often required



Purpose of the  
Forecast

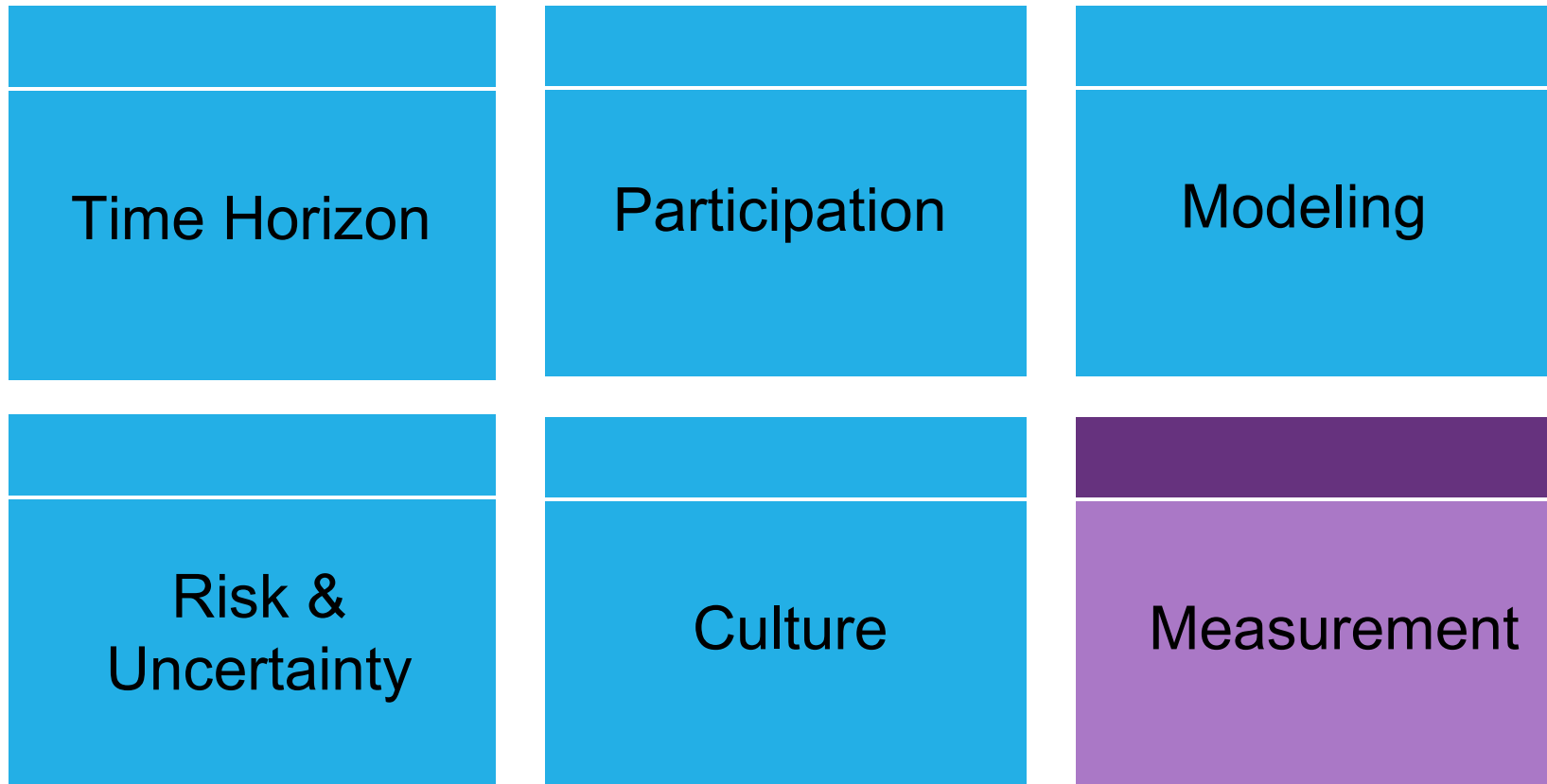


New Compensation  
Approaches



Assessment of your  
processes

## There are several success factors





Some measures you should consider

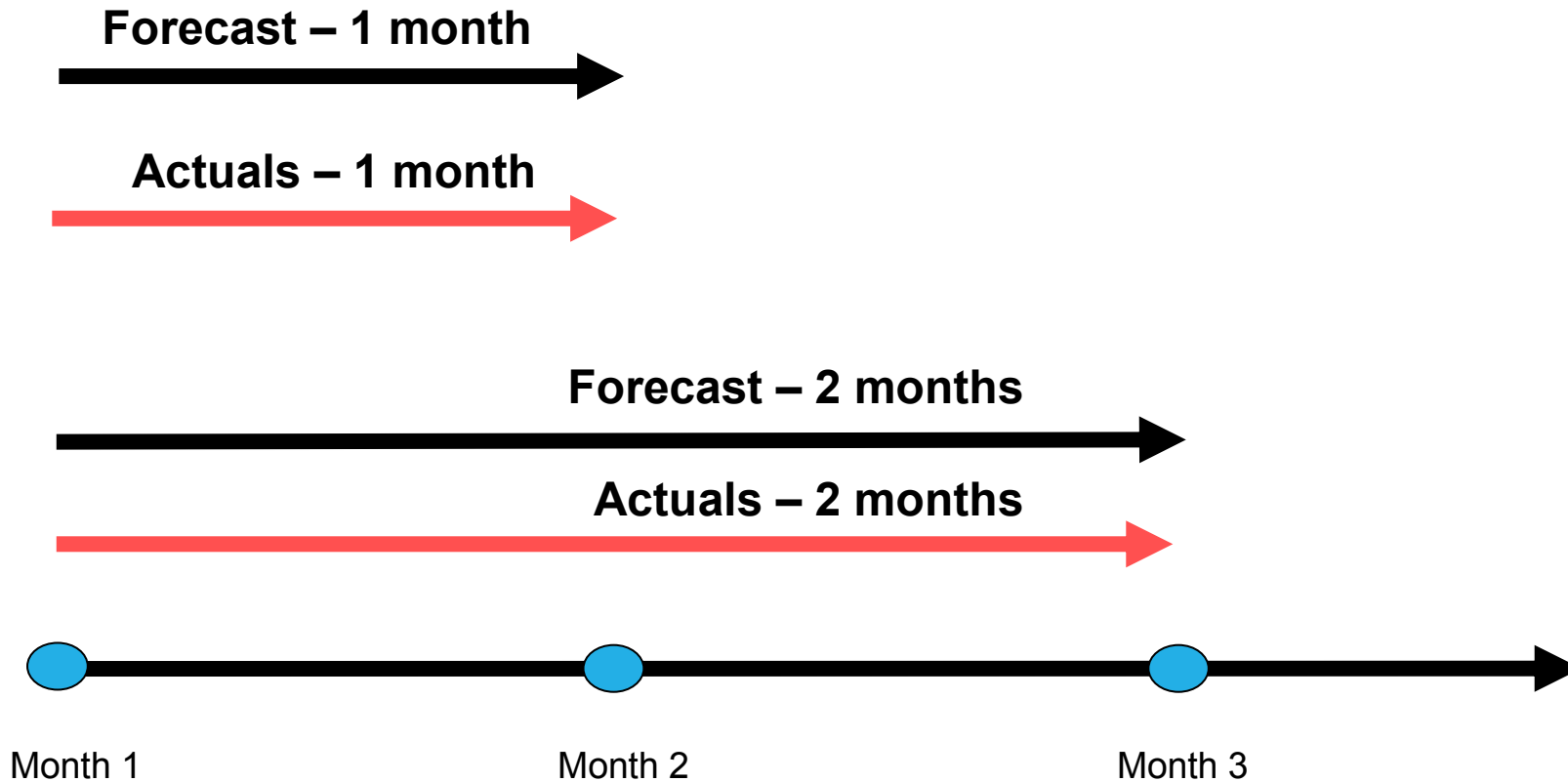
**Forecast Accuracy**



**Cycle Time**

**Confidence Levels**

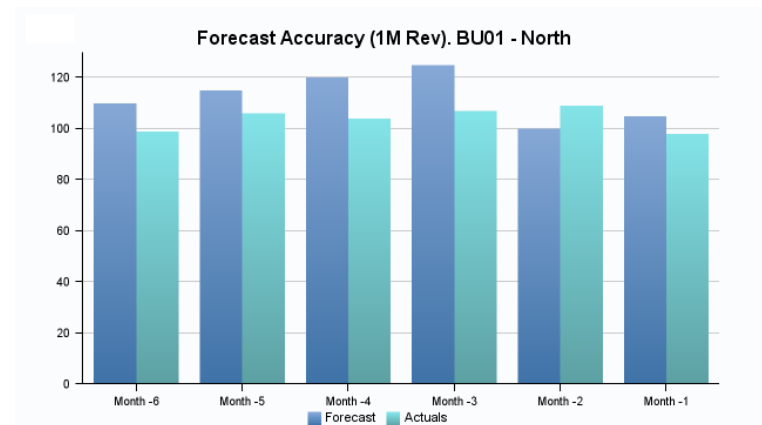
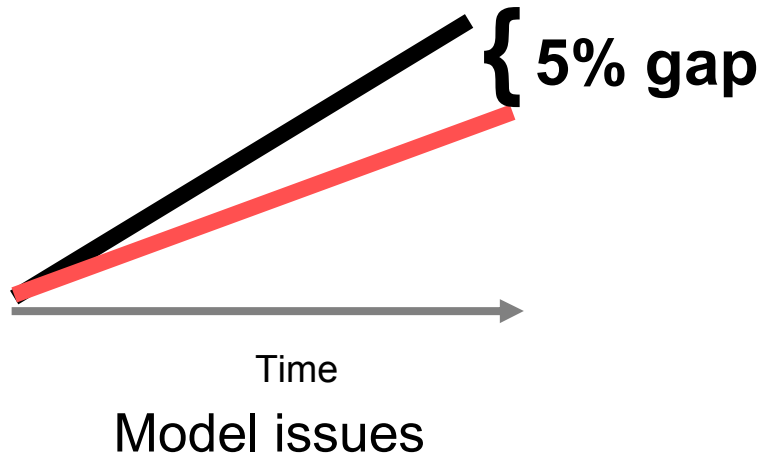
# Forecast Accuracy – Select the appropriate term



# Forecast Accuracy - useful in different ways



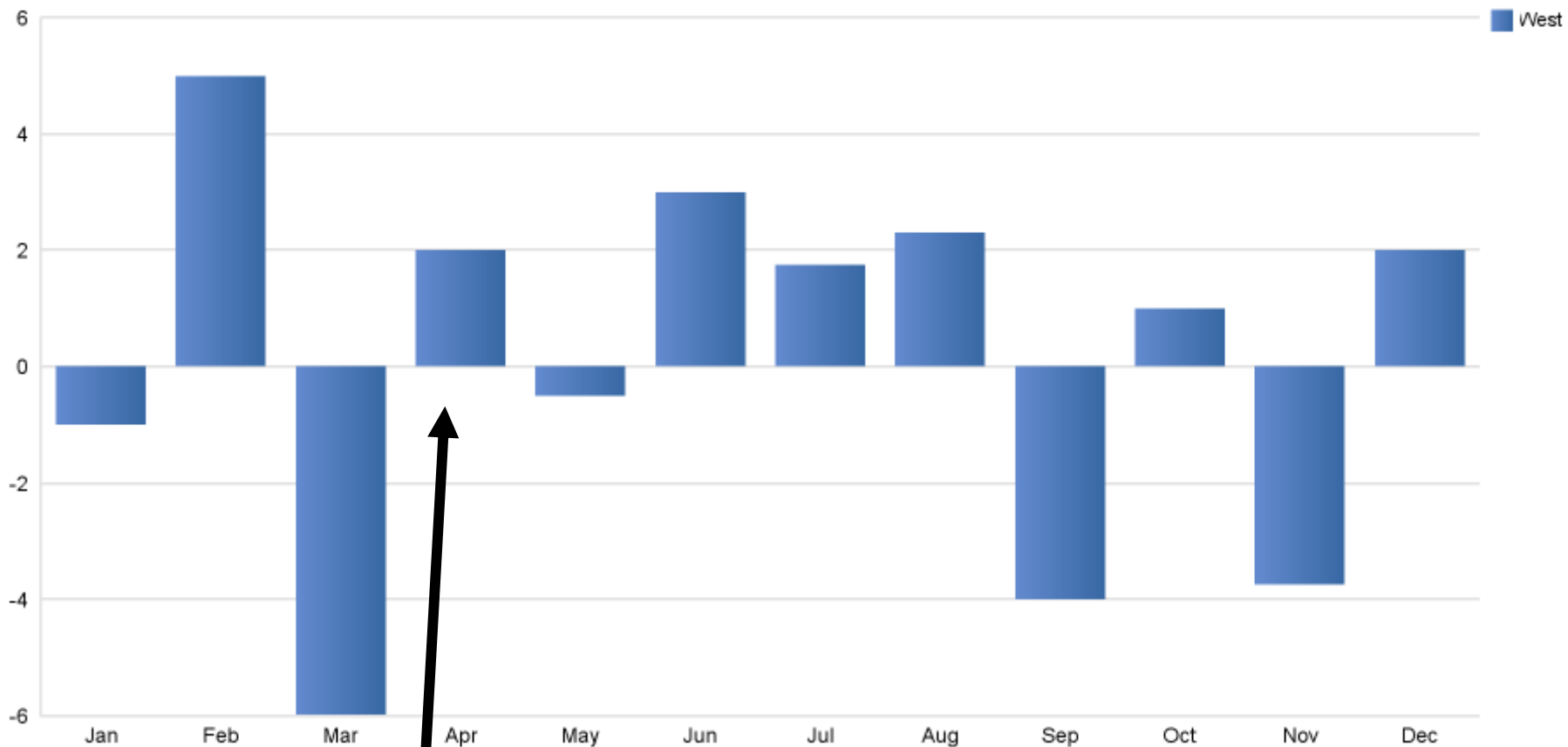
Attention



Discover potential bias

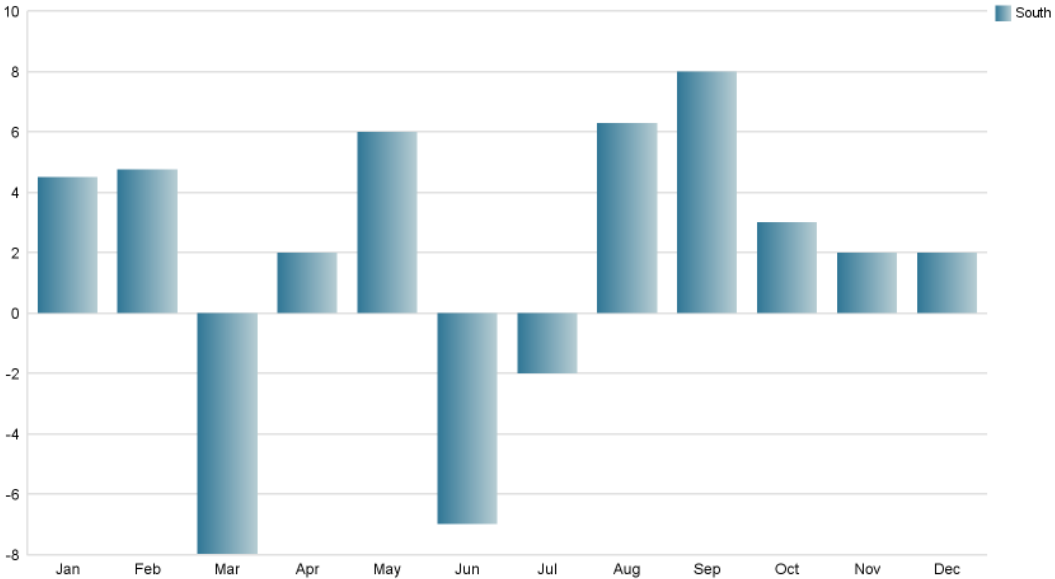
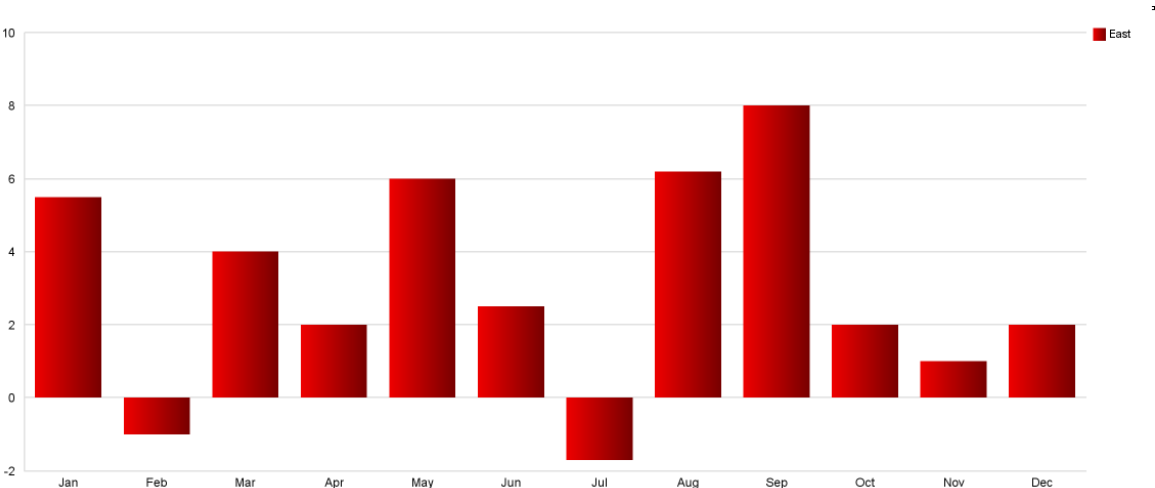
# Consider using a Run Chart

Business Units | Time | Forecast Accuracy

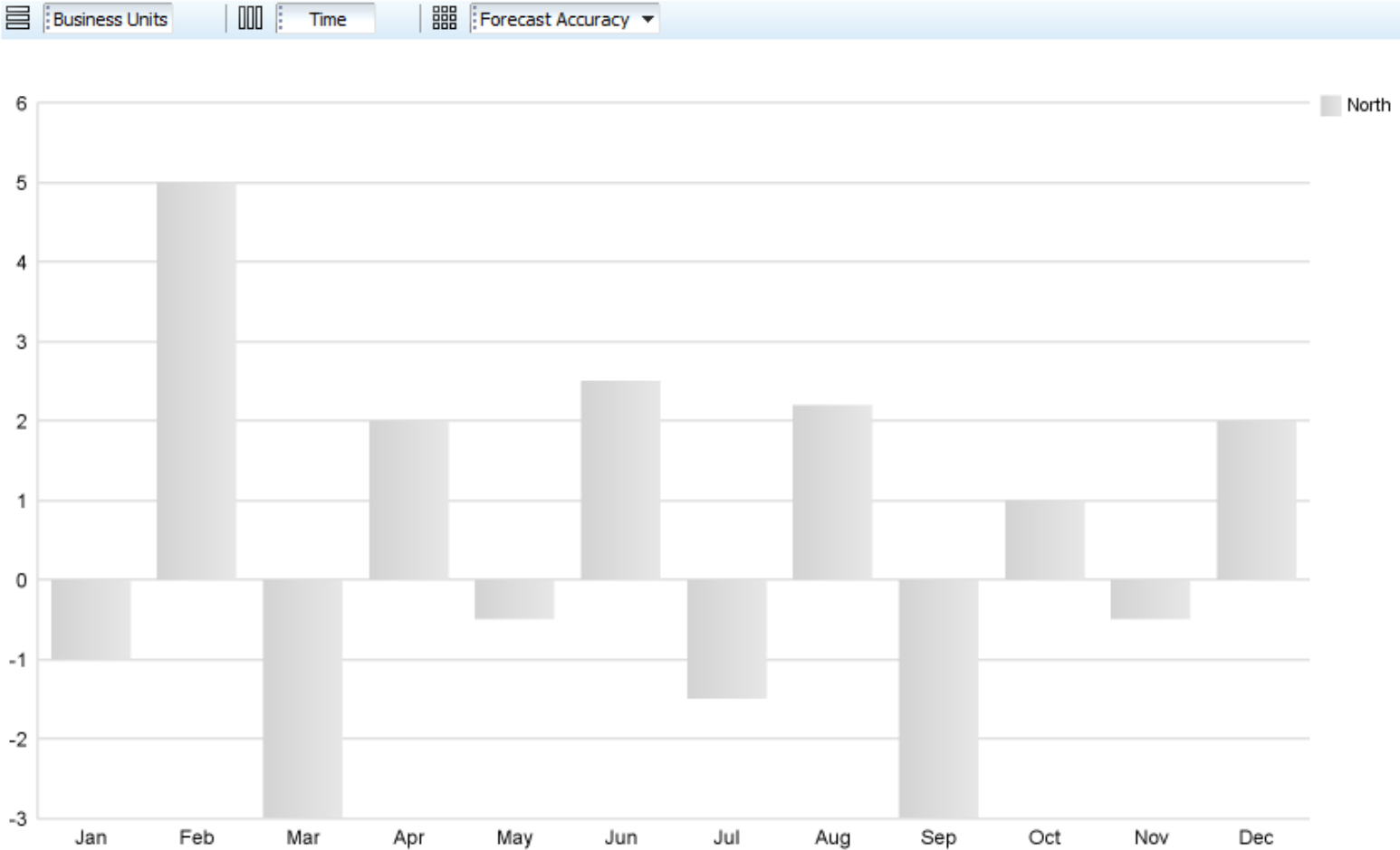


Forecast Accuracy - error

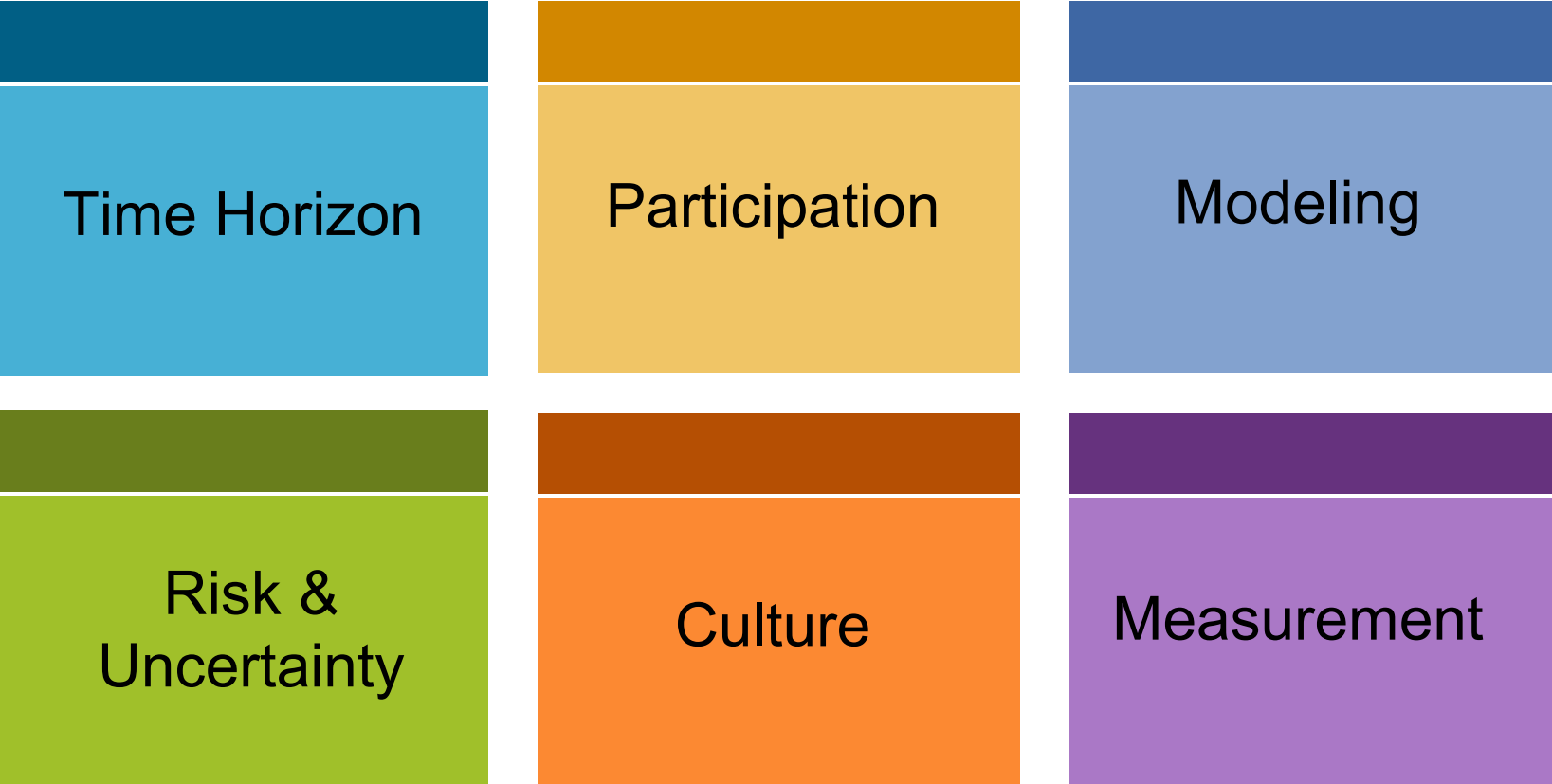
# Monitor accuracy often – a case of bias?



# Accuracy – no obvious bias



# There are several success factors



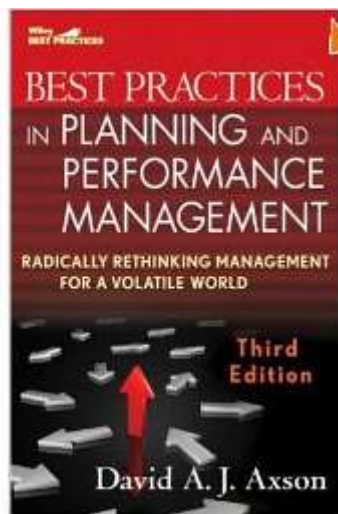
## But Rolling Forecasts are not a silver bullet

No one-size-fits-all approach  
Forecast culture required  
Changes to models required  
Technology upgrades





## Recommended reading



„Best Practices in Planning and Performance Management“  
*David Axson*



„Beyond Budgeting“  
*Jeremy Hope & Robin Fraser*



„Future Ready“  
*Steve Morlidge & Steve Player*

## Next steps

Review the summary document (to follow) and work through the exercises

Assess the process of your company

Join our other events to learn more about IBM Cognos solutions

Visit the Innovation Centre

Take a look at the CFO Study – Test your company's status:

- <http://www-935.ibm.com/services/us/cfo/cfostudy2010/self-assessment.html>

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# Clinton: 'Never waste a good crisis'

Friday, 6 March 2009

SHARE PRINT EMAIL TEXT SIZE

US Secretary of State Hillary Clinton today told an audience "never waste a good crisis", as she highlighted the opportunity of rebuilding economies in a greener, less energy intensive model.


Highlighting Europe's unease the day after Russia warned that gas exports to the EU via Ukraine might be halted, she also condemned the use of energy as a political lever.

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Clinton told young Europeans at the European Parliament global economic turmoil provided a fresh opening: "Never waste a good crisis ... Don't waste it when it can have a very positive impact on climate change and energy security."



GEGTTY

Mark Rolfe



[mark.rolfe@uk.ibm.com](mailto:mark.rolfe@uk.ibm.com)

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# Last but not least



