The Power of Rolling Forecasts and Business Outlooks on Demand

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Introduction

Rolling Forecasts(RF) and Business Outlooks on Demand(BOD) are extremely useful tools in the CFO's tool box, especially in these times of great uncertainty and rapid change. Inexplicably, these projection models are still underutilized. The benefits include the ability to easily recast expectations of future performance and a significant reduction in the efforts to develop an annual operating plan.

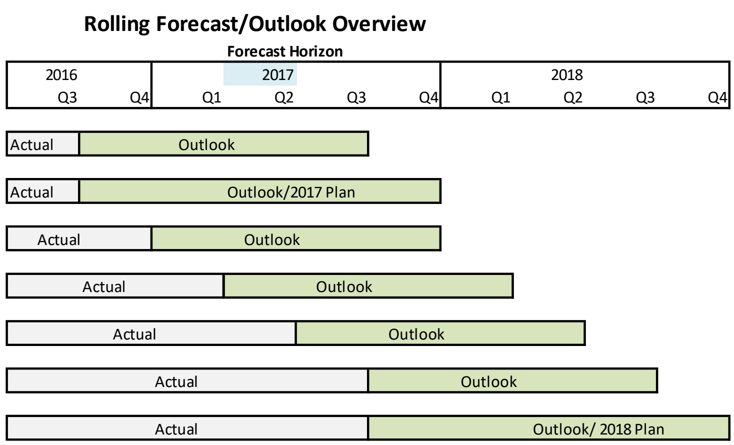
Background

The annual budget and plan processes originated in simpler times, with relatively stable environment and highly predictable business performance. The pace of change and uncertainty facing organizations today make these tools obsolete. Due to the rapidly changing business conditions, it has become increasingly important to be able to recast expected performance periodically during the year and, even, on demand. In many organizations, the rolling forecast or Business Outlook has become the cornerstone of the planning, projecting and management control activities.

Description

My first use of a rolling forecast was in 1985. As CFO of a division of large, publicly traded organization, we were required to provide quarterly forecast updates to the annual operating plan. Due to rapidly changing business conditions and the need for an early preview into next year's outlook, the Corporate Finance Team began requiring us to extend the forecast horizon at the end of each quarter. Figure I illustrates the timing and horizon for a typical rolling forecast process. At first, the RF was a largely mechanical exercise, almost exclusively done by the Finance team. The RF quickly demonstrated its worth when we encountered a significant competitive threat that required us to develop impact and response scenarios to this threat. Over the years, as I took on more responsibility as Corporate Controller and CFO, I always utilized a robust projections model and consider it an essential part of Financial Management.

Figure I



The forecast or Outlook model must be robust to easily reflect changes in key assumptions, performance trends, events or management decisions. Key assumptions and performance must be explicitly identified and incorporated in the BOD. In order to provide a comprehensive view of expected financial performance, financial projections in the rolling forecast should include the P&L, Balance Sheet and Statement of Cash Flow.

The frequency and timing of iterations will depend on a number of factors. A very dynamic environment will require more frequent updates than a stable environment. Companies that report earnings and provide earnings or other guidance to public capital markets typically use a quarterly cycle. Private companies typically update the outlook around management or board of directors meetings. Significant events may dictate a special revision to the Outlook.

Advantages

The rolling forecast has gained wide acceptance and serves as the cornerstone of planning and projections for many organizations. It provides a terrific starting point for a more rigorous annual planning process, long-term projections and also scenario and "what if?" analysis. Many organizations think of the forecast as a "Business Outlook" or "Continuous Business Outlook," or Business Outlook on Demand. Describing the forecast as a Business Outlook changes the view from a financial exercise to a business or operating activity. Adding continuous or "on demand" signifies that it can be updated as required by the organization.

Implementation

Many organizations have yet to take advantage of Rolling Forecasts or Business Outlooks on Demand. Typically, they cite limited human resources and capabilities, or an absence of effective software tools. Both impediments can be easily overcome. Organizations must acquire or develop analysts with the capabilities needed to develop and utilize projections models and other FP&A tools required in the 21st century. Many planning software packages are available, but many organizations start with well-designed models using Excel®.

Summary

The value of creating and utilizing a robust projections model to provide an extended view of future performance. It will facilitate early identification of trends and issues, scenario analysis and greatly reduce the inefficiencies and effort in annual planning cycles.

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