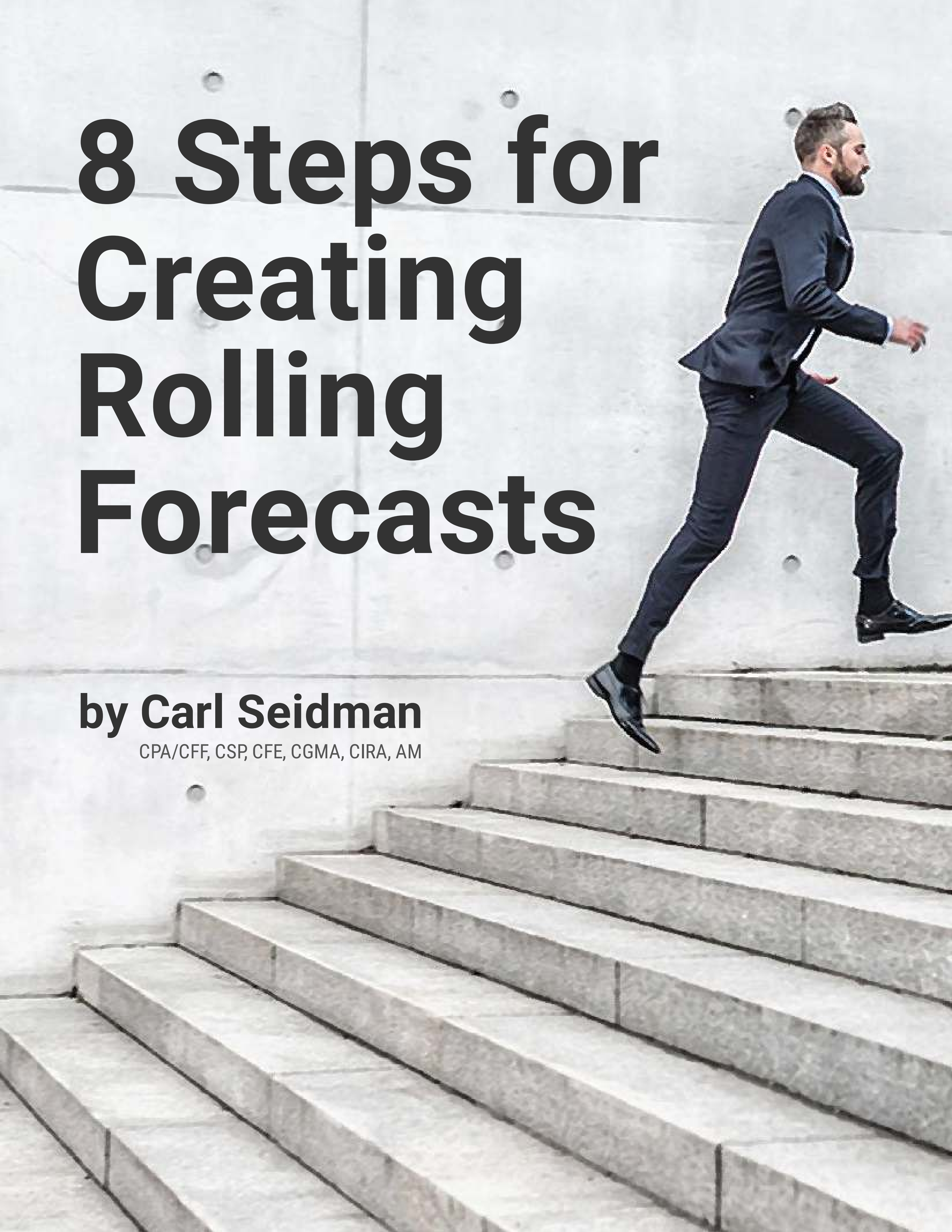

8 Steps for Creating Rolling Forecasts

by Carl Seidman

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In a constantly changing world, companies must aspire to change with it. It is no longer enough to install basic financial systems and employ someone to maintain them.

Employing static budgets alone, completed at a point in time and updated once per year, is insufficient for long-term planning. Finance and accounting departments across the globe are evolving into increasingly more capable financial planning and analysis (FP&A) teams, focusing on forecasting, strategic planning and analytics.

It isn't that budgets have become irrelevant; quite the contrary. Budgets still play a key role in transposing a strategic outlook into a financial one. They are critical for demonstrating what resources must be deployed and when to make the strategic vision a reality. They are helpful in tracking how actual performance compares to the strategic financial plan.

But static budgets are generally inflexible and reactive. They are time consuming to build and update and quickly become outdated after only a short time. They often aren't utilized effectively, thus causing employees to lose faith and not take the budgeting process seriously. These issues are problematic, but they can be reduced or even eliminated through the implementation of rolling forecasts. These dynamic forecasts are not replacements for annual budgets—they are compliments to them.

According to Oracle, organizations effective at integrating financial and operational data, embedding analytics in every process, and using advanced analytical techniques to predict future trends outrank their peers on measures of profit and revenue. With the advent of big data, more companies are able to utilize their information to perform analytics, identify drivers of performance, and make better business decisions in real time.

Steps for creating a rolling forecast

The process for creating a rolling forecast takes practice and sufficient time to complete. It should be done in a sequential order to avoid missteps and rework. By utilizing the eight steps below, companies can build rolling forecasts more effectively.

1. **Identify the end goal and start with the end in mind.** The individuals tasked with building and managing the rolling forecast should be clear about its objective. They need to understand who will rely upon the forecast and what business decisions it will be used to assist.

2. **Consider the time horizon and time increments.** The architect of the forecast needs to determine how far out in the future the forecast will go. The further out into the future, the more insightful the forecast may be, but the less accurate. The designer also needs to determine the forecasted increments. Will the forecast look into the future one week, one month, one quarter, or one year at a time? The longer the increments, the less detailed they will be but the less frequently they will need to be updated. There is no rule of thumb; a company should determine what is most appropriate for its circumstances.

3. **Determine how detailed the forecast must be.** The risks of making poor decisions having relied on inaccurate information must be assessed; thus, the users of the rolling forecast should determine how detailed the forecast must be. If the consequences of a bad decision are large, more time and effort must be spent to improve accuracy.

4. **Determine who must contribute.** Not everyone needs to take part in the forecasting process. Those who are able to contribute insightful, unbiased intelligence leading to the success of the forecast should be included. Participants should be empowered to contribute and held accountable to achieving or failing to achieve targeted performance.

5. **Identify quantitative and non-quantitative elements of value creation.** Value-drivers are key to determining what moves the needle and grows the business. Strategic leaders should assess what dimensions of the business are most important to its success rather than focus on every line item in the chart of accounts.

6. **Vet the key sources of data.** Management must ascertain the quality of data sources and that the information feeding into the rolling forecast is correct.

7. **Establish scenarios and sensitivities.** One of the key benefits of rolling forecasts is consideration of an assortment of scenarios. Using scenarios, or 'what-if' analyses, FP&A teams can develop a range of possible financial outcomes given a set of assumptions and key drivers. As new information becomes available or as assumptions change, the flexible rolling forecast can be easily updated and new scenarios can be run. Staying current and preparing for the possibilities of the future will position a company to make better decisions.

8. **Track actual performance to the rolling forecast.** Variances between actual performance and expected performance should be monitored and assessed. Management should seek to understand what occurred, why it occurred, and what should be done about it. This applies to performance failures and successes.

Carl Seidman is Principal of Seidman Financial (a division of Seidman Global LLC). For more insights, check out the [AFP Guide to Implementing a Rolling Forecast]*.*

About Carl Seidman

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Carl Seidman is a trusted business advisor specializing in financial planning & analysis (FP&A), business strategy, and finance transformation. He advises Fortune 500 corporations and middle-market companies, helping establish effective FP&A practices, processes, and teams. At the same time, he supports financial professionals, positioning them for greater control over their careers by helping build their competence and confidence while eliminating time-wasting activities and mistakes.

Carl's FP&A development methodologies and curriculums have been implemented by leading organizations as part of their financial leadership development programs (FLDPs) for top talent and emerging leaders. More than 13,000 corporate finance professionals globally have attended his training programs, workshops, and seminars. Carl also serves as an FP&A, CFO advisor, and management consultant to entrepreneurial businesses throughout North America and Europe and assists them with strategic financial planning, value enhancement, and revitalization.

Carl is a Certified Public Accountant (CPA) has earned other professional credentials including the CIRA, CFF, CFE, CGMA, AM (Accredited Member in Business Valuation), CSP (Certified Speaking Professional (CSP), Certified Anaplan Model Builder, and was a National Association of Certified Valuators and Analysts (NACVA) 40 Under Forty honoree. He holds a BA in finance and economics and an MS in managerial accounting.

Carl lives in metro Chicago with his wife and twin sons.

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