KB

YOU CAN'T AFFORD TO BE STATIC: ROLLING WITH THE PUNCHES IN FORECASTING

May 2018

Benjamin Cavicchi
Research Analyst, Financial Management & GRC

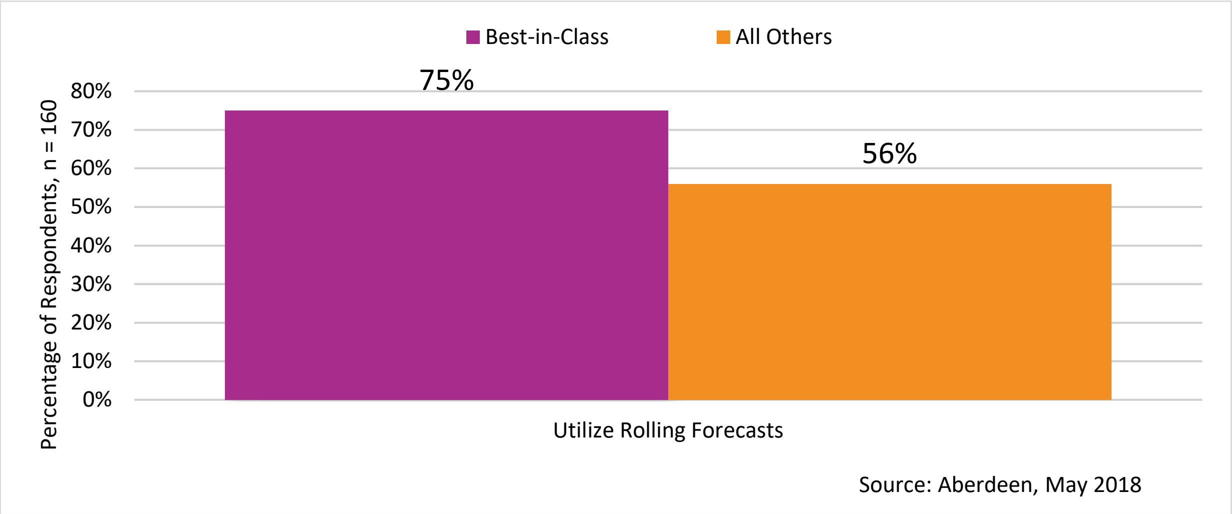
ABERDEEN

This knowledge brief examines many of the problems associated with running a business based on a static, yearly budget. It details the steps and solutions that leading firms have taken to adopt a more flexible and agile alternative: a rolling forecast.

Viewing the World Beyond Budgetary Boundaries

The yearly budget has long been the principal guide for organizations, and for good reason: the old adage that you achieve more of what you simply write down still holds true. However, the Great Recession made it glaringly apparent that for organizations to continue to compete and succeed, they must consider external changes within their industry and aberrations in the overall economy. Leading organizations are taking the necessary steps to address these problems as they move away from relying solely on their annual, static budgets to utilizing rolling forecasts, event-driven planning and flexible budgets (Figure 1).

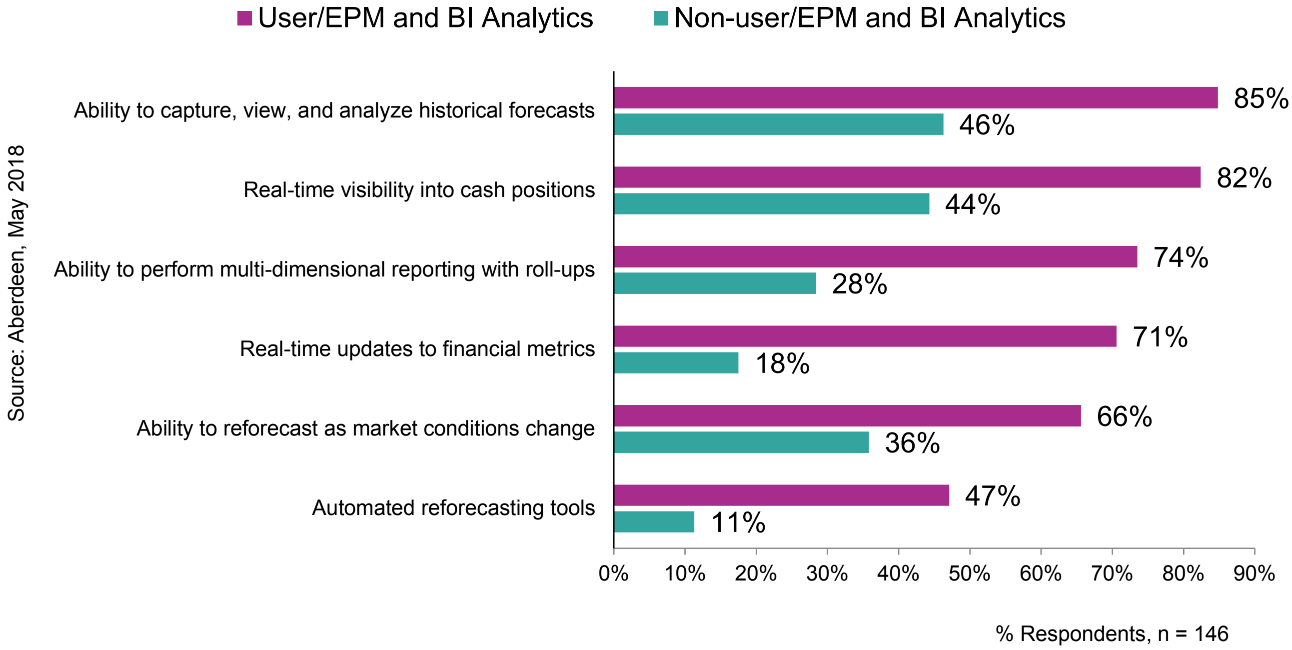
Figure 1: Best-in-Class Adopting a Rolling View



Rolling forecasts are updated regularly to reflect changes in the industry and/or the economy, and allow organizations to project future results based on a combination of year-to-date financials and the original budget, or updated expense and revenue forecasts. A rolling forecast creates a vision for the future and enables decision makers to assess the next steps in the execution of that vision and better judge the impact any decision will have on the bottom line. This ultimately results in regular business reviews that enable managers to be more proactive as they understand challenges, problems and trends sooner and more deeply.

Recent Aberdeen research has shown that leading firms are more likely to adopt an enterprise/corporate performance management (EPM/CPM) solution in conjunction with business intelligence (BI) analytics. In doing so, these firms gain a marked advantage in their forecasting capabilities, such as real-time access to financial data (Figure 2). These firms can then reforecast as market conditions change, and at times, automate the entire reforecasting process.

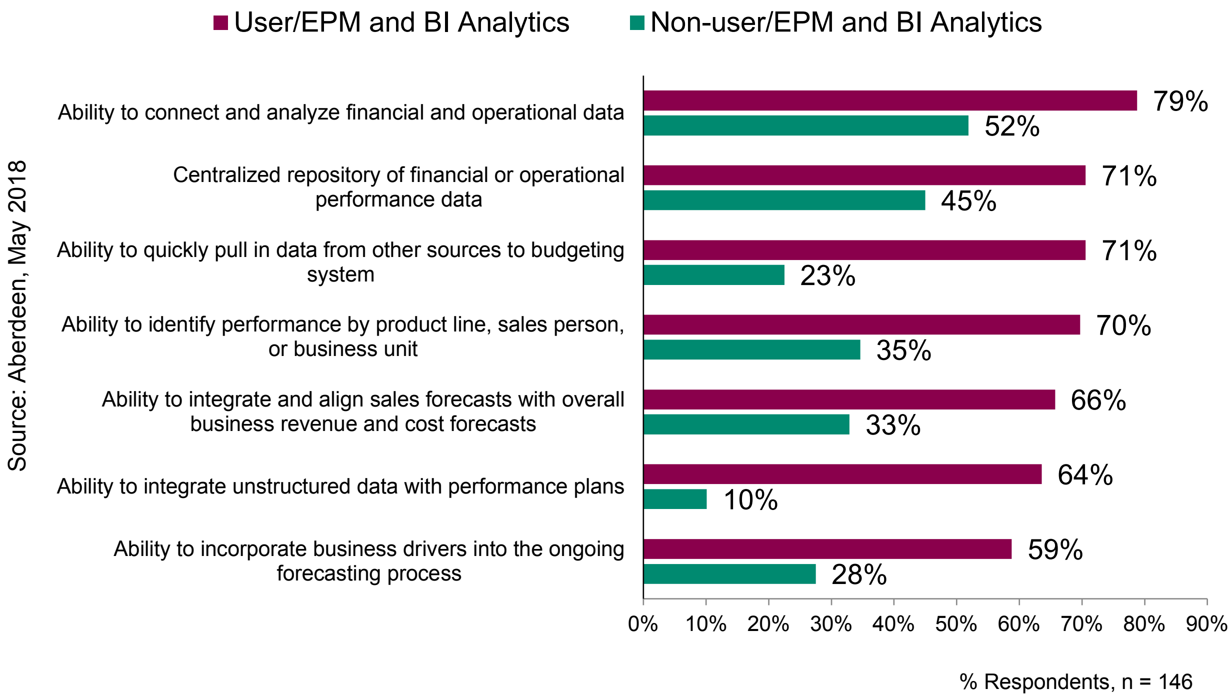
Figure 2: Deriving Accurate Forecasts



However, the value of a rolling forecast is not simply in being able to understand your financials in real time. How enlightening is knowing that revenue increased (or decreased) by x percent in the past month? The significance of a rolling forecast is that it gives decision makers insight into the dynamics of revenue and expense, and their related drivers. For example, changes in prices could be driven by labor and material costs, or, alternatively, labor and material costs could be driven by prices. Managers can only focus on what is truly important, if they know the business drivers of the organization.

Those who adopt a combination solution set of EPM and BI analytics are better positioned to incorporate various external and non-financial data into the forecasting and budgeting process (see Figure 3, next page). Users are roughly 52% more likely than non-users to analyze financial and operational data in tandem, and 208% more likely to break down information silos by intaking external data into a budgeting system. The incorporation of non-financial data helps to create a holistic view of performance drivers across the entire enterprise. Over time, some of these drivers will inevitably be dropped, but others will continue to evolve and eventually become the KPIs that determine an organization's goals.

Figure 3: A Holistic Approach to Data



Additionally, users are 107% more likely than non-users to incorporate business drivers directly into their ongoing forecasting process. Incorporating these drivers may eliminate a level of detail, but doing so provides flexibility in the planning process, agility when you need to create alternate plans, and a realistic expectation about the future.

The Results

The incorporation of (or the complete transition to) a rolling forecast can significantly improve the accuracy of both forecasts and budgets. Firms that undertake this transition improve the accuracy of forecasted and budgeted revenue to actual revenue by roughly 14%. These firms also realize improvements in both operational speed and performance. Their newfound agility enables them to continually optimize the flow of discretionary investments. With a rolling forecast, for example, it will be apparent when one division is lacking traction and money can be quickly diverted to assist other, more nimble divisions.

Table 1: Realizing Potential with a Rolling Forecast

Performance Metrics (Past 24 months)	Rolling Forecast/ User	Rolling Forecast/ Non-user	Performance Difference
Accuracy of actual revenue to budgeted revenue (Margin of Error)	8%	9%	+ 13%
Accuracy of actual revenue to forecasted revenue (Margin of Error)	7%	8%	+ 14%
Improvement in the amount of time it takes to complete a forecast	8%	6%	+ 33%
Improvement in time-to-decision	6%	5%	+ 20%
Improvement in revenue	6%	4%	+ 50%
Improvement in productivity	4%	1%	+ 300%

Recommendations

The financial crisis and Great Recession made it painfully apparent that the static, yearly budget's heyday has passed. Leading firms have come to terms with the fact that being beholden to such a document often results in missed targets and does not provide the necessary agility and flexibility to stay competitive. Instead, these organizations are turning to rolling forecasts that are less biased with resource allocation being more dynamic and self-regulating.

Adopting an EPM solution is a major stepping stone for many organizations looking to adopt a rolling forecast model, and a combined solution set of EPM and BI is even more powerful. This solution set provides real-time access to all forms of data, ranging from financial to operational. By integrating both financial and non-financial data, organizations gain a holistic view of performance across the entire enterprise and enable key stakeholders to make better decisions. For those companies seeking to improve their forecast accuracy, Aberdeen recommends the following:

- **Integrate financial and non-financial data.** The combination of disparate data into a rolling forecast enables a more complete understanding of what really drives your business. It allows executives and key decision makers to see both a financial and operational vision of the future.
- **Continually evaluate your business drivers.** It is inevitable that over time, some of the drivers will be deemed insufficient and will need to be discarded. Ultimately, the strongest and best predictive drivers will emerge and evolve to become the guiding KPIs of your organization.
- **Put forecasting at the center of the management process.** Forecasting is an essential tool for business managers to understand the financial impact of their decisions before they need to make them.

About Aberdeen Group

Since 1988, Aberdeen Group has published research that helps businesses worldwide to improve their performance. Our analysts derive fact-based, vendor-neutral insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategies. Aberdeen Group is headquartered in Waltham, Massachusetts, USA.

17438