Rolling Forecast Best Practices

Is your company planning for a rainy day, or wishing for an umbrella when the deluge hits? Like meteorologists, chief financial officers (CFOs) and other financial professionals rely on forecasts as part of their daily workflow. But *unlike* the local weather boffin, financial pros who rely on inaccurate or incomplete forecasts have more to worry about than a rained-out picnic. Whether they're setting annual budgets, monitoring cash flow, or making important business decisions related to acquisitions, supply chain management, or preserving business continuity in an uncertain global economy, finance teams need an accurate picture of what's to come in order to leverage opportunities and mitigate disaster.

To this end, *rolling forecasts* are one of the most important financial tools used in financial planning. By following a few best practices for rolling forecasts, you can incorporate real-time strategic agility into your forecasting process, making it easier to meet your business needs in both the short term and the long.

Why Rolling Forecasts (and Best Practices) Matter:

A clear, consistent, and accurate vision of what's to come has been on humanity's wishlist since time immemorial. Sadly, scrying in an ancient mirror or visiting the local medium doesn't usually produce reliable results, and so financial professionals are forced to rely on more mundane methods for seeing into the future. Budget forecasting is a tool relied upon by businesses of all sizes and types to transform data into insights they can use to help them meet their business needs and make strategic decisions about the weeks, months, and years ahead.

But in an increasingly complex global economy, a static budget for the fiscal year simply doesn't provide enough flexibility or insight to allow for effective decision-making. Financial teams need a flexible and responsive forecast process that allows them to adjust their strategic plans based on new information in real time.

Enter rolling forecasts.

One of the most important concepts to grasp when dealing with rolling forecasts is that they are systematic (follow a series of steps), iterative (driven by multiple instances of following those steps), and reactive (adjustable based on circumstances, usually to refine or otherwise optimize). Rolling forecasting is an enhancement to, rather than simply a replacement for, more traditional static budget and performance management paradigms.

At their most basic, rolling forecasts help financial planning and analysis (FP&A) professionals develop a clear picture of future results based on a blend of original budgets and actual, real-time data. Forecasts created in this way may be limited to the fiscal year, but in practice they generally include the upcoming 4 to 6 quarters.

Systematic, context-aware, and reactive, rolling forecasts make it easier for teams to create, monitor, and modify forecasts for multiple objectives to:

- Map out a clear picture of the financial future;
- Identify, contextualize, and prioritize strategic business decisions; and
- Respond to market conditions and other external factors and reforecast as necessary in order to protect business continuity within a specific time frame.

Rolling forecasts are built around what is known as a *baseline forecast*, which is a simple forecast using historical data to predict future spend, demand, efficiency, etc. This forecast is analyzed and used to create additional versions that can be used in turn to:

- Use the plan as a template for other forecasting models.
- Estimate and evaluate the impact of different business drivers as well as historical data, providing a more complete and accurate image that's more manageable within specific forecast periods, rather than the fiscal year alone.
- Perform variance analysis to compare actual data against projected.
- Perform "What-if analysis" (also called *sensitivity analysis*) to predict outcomes based on specific modifications to the model.

When optimized with best practices, rolling forecasts not only improve the financial planning process, but provide insights teams can use to make better business decisions and improve overall corporate performance management.

> *The goal of any useful forecast is to peek into the future and make smart decisions based on what you see. But the same versatility and flexibility that make rolling forecasts so useful in strategic planning make it extra important to set clear parameters for each model you'll be using.*

Essential Rolling Forecast Best Practices

If you're ready to get started with rolling forecasts, incorporating a few basic best practices into your workflows makes it easier to ensure you're using high-quality data to produce optimal results.

1. Choose the Right Data Management Tools

Applications such as Microsoft Excel were used in early versions of rolling forecast modeling, but the complexity of the analysis and the amount of data generated, captured, and managed by businesses operating in the age of digital transformation make this too time-consuming and impractical.

Implementing a solution that includes advanced data management tools (including analytics and process automation), such as Planergy, eliminates the need to manage multiple spreadsheets or cobble together siloed data sources. Fully integrated with your existing software environment and bringing together all your data sources into a single system, such a solution helps ensure clean, accurate, and complete data that produces accurate forecasts of all kinds and actionable insights you can use for more strategic decision making.

2. Set Clear Objectives for Your Forecast

The goal of any useful forecast is to peek into the future and make smart decisions based on what you see. But the same versatility and flexibility that make rolling forecasts so useful in strategic planning make it extra important to set clear parameters for each model you'll be using.

Identify the goals you're pursuing, the objectives you'll need to achieve to reach them, and then make those the focus of your rolling forecast. For example:

- Effective spend forecasting is an important part of overall spend

management, and an essential part of optimizing your procure-to-pay process, strategic sourcing, and overall business process management.
- If managing your cash flow is a priority, you might model your forecast around the impact of optimizing not just your spend, but the ways in which you anticipate using cash infusions from (for example) lines of credit or loans.
- If you're developing a new product or entering a new market, you might build multiple forecasts around business drivers like consumer spending habits, availability of essential materials, and overall economic stability to identify the right suppliers, marketing demographics, and launch window.

3. Set a Specific Rolling Forecast Window

Establishing the specific time frame you'll be using for a given rolling forecast is easier when you take the time to answer a few basic questions.

- What interval will we use for forecasting (businesses often reforecast monthly, for example)?
- How long will the rolling forecast be? Will you start with a two-year baseline and adjust after a year, or use incremental reforecasts over a period of 12, 15, or 18 months?
- How are forecasts adjusted during each interval? Will each forecast be updated monthly, quarterly, or incrementally across a broader time frame, such as 18 or 24 months?
- How will the forecast align with our existing business cycle to meet our current and anticipated business needs? For example, if future sales in six months will be determined by investment in materials and production today, having rolling forecasts beyond that period will help you plan more strategically.

4. Start Small, Think Big

If you're new to rolling forecasts, it's best to start with limited, targeted plans that seek to generate maximum value and savings, whether they take the form of better prices from vendors, lower costs via process optimization, reduced risk through more strategic sourcing, etc.

Starting small gives you a chance to demonstrate the value of the process to key stakeholders while ironing out any potential bottlenecks, and gives you time to bring other systems (such as data management, essential to effective financial analysis and forecasting) up to speed. Naturally, this process is made infinitely simpler, and is much easier to expand, with help from a centralized budgeting and procurement solution like Planergy.

5. Make Rolling Forecasts Your Baseline for Strategic and Financial Planning

Once you've built a model for a rolling forecast, it's ready to be sliced, diced, and put through the figurative wringer as you explore outcomes and make adjustments based on real-time data and events.

Establishing a baseline gives you a safe "square one" to return to when you need to predict the potential impact of major events and/or radically modify your processes and workflows (for example, many companies struggled to react effectively to protect business continuity in the early days of the COVID-19 pandemic, when shutdowns and quarantines created major disruptions in supply chains all over the world).

6. Identify and Prepare Forecast Comparisons

Variance analysis is essential in gauging the overall effectiveness of your forecasted models—not just for the fiscal year, but for each period of your rolling forecast. You need comparative data not just for year-over-year, but for the both the entire rolling forecast period and each updated period within it.

Maintaining these comparative analyses helps you make strategic adjustments when needed, and further refine your forecasting procedures for the next rolling forecast you generate.

7. Focus on the Connection Between Business Drivers and Financial Dynamics

Identifying the business drivers with the power to radically alter your company's financial performance and competitive agility is crucial to both forecasting and business process management.

Two of the most common examples are material and labor costs having a direct impact on product pricing (and vice versa), and total sales as a driver for production. Other potential drivers include:

- Number of physical locations.
- Average location size.
- Prices charged for goods and services sold.
- Total product volume sold.
- Total sales staff.
- Employee salaries and wages.
- Sales performance per team member.
- Website traffic conversion rates.
- Manufacturing rates of production.
- Total downtime.
- Overall production efficiency rates.
- Energy costs.
- Rent and building maintenance.
- Commodity prices (e.g., wood, steel, oil, rubber, etc.).

While it's important to have a complete picture, from a value standpoint it's equally important to limit the number of drivers tracked to those with the greatest impact *for the current rolling forecast*. Overall, you'll likely be tracking all business drivers across multiple forecasts, but each forecast should have its own focus in order to remain valuable as both its own metric and part of your overall business process development and optimization. So if you're forecasting spend for a specific category (for example, iron used in producing your company's products), the business drivers you include would be different than those for, say, energy costs for cooling offices and production facilities during the heat of summer or heating them in the dead of winter.

Remember, too, that external business drivers can have a significant impact on financial and competitive performance. Rolling forecasts can help leaders at all levels of your organization make more strategic business decisions and develop an adaptive stance, whether their goal is optimizing the P2P process, lowering total cost of ownership (TCO), or edging out the competition in emerging markets.

Over time, the drivers with the most pronounced effect on your revenue and expenses will form the foundation of key performance indicators (KPIs) you can use to monitor everything from internal processes to vendor compliance as you optimize your workflows to create savings, value, and efficiency improvements.

8. Manage Strategic and Capital Projects Separately

Because they often last months or even years, capital and strategic projects aren't a very good fit for rolling forecasts that operate within more limited time frames. They also tend to suffer from scope creep and myriad interdependencies that can change for multiple reasons, making any kind of consistent tracking difficult if not impossible.

Keep Your Business Rolling Toward Success

Until science finds a way to perfect the time machine or significant advances are made in crystal ball technology, a 100% reliable method for predicting the future will remain a dream. But if you use rolling forecasts, you can chart out a clear course for the coming fiscal year and beyond while maintaining the flexibility to make smart business decisions if (or more likely, when) things take an unexpected turn.

What's your goal today?

1. Use Planergy to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our "Solutions" page to see the areas of your business we can help improve to see if we're a good fit for each other.
- Learn about us, and our long history of helping companies just like yours.

Book a Live Demo

2. Download our guide "Preparing Your AP Department For The Future"

Download a free copy of our guide to future proofing your accounts payable department. You'll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

download a free copy of our guide

3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

Related Posts