



ACCELERATING BUSINESS PERFORMANCE THROUGH BETTER FORECASTING

ACCURATE AND COMPREHENSIVE FORECASTS
UNLOCK POTENTIAL FOR GROWTH

MORE ACCURATE FORECASTS FUEL GROWTH WITH BETTER DECISION-MAKING

FORECASTING TODAY is much more than reviewing what was spent last year and making adjustments. Forecasting involves developing a thorough understanding of sales trends, personnel needs, revenue projections and other operational issues.

The move to rolling forecasts has improved forecasting capabilities to some degree but there is still room for

improvement. A recent survey of finance executives by the consulting firm, Kaufman Hall, found that 38% of respondents use rolling forecasts. This leaves a clear majority of finance teams hampered by forecasting processes that may be less agile or responsive to real-time conditions.

Regardless of how the finance department approaches the forecasting process, the goal of forecasting is to narrow the gap between projected and actual business results, which could include revenue, expense, profitability or other measures.

THIS WHITEPAPER
WILL EXPLORE:

- **The challenges** of aligning budgeting and forecasting processes, including data stored in disparate systems and spreadsheets;
- **The value** of linking your corporate financial and operational processes to continuously monitor performance and provide rolling forecasts;
- **The questions** finance leaders should ask when evaluating solutions to automate the continuous forecasting process; and
- A look at **future solutions** and capabilities to accelerate business performance through forecasting.

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THE CHALLENGES OF SPREADSHEET PROLIFERATION AND DATA SILOS

ONE OF THE BIGGEST challenges improving forecasting is the proliferation of spreadsheets.

The Future of Financial Reporting, a survey conducted by FSN, recently found that nearly three-quarters (71%) of organizations depend on spreadsheets for collecting data across the majority of their business. In addition, the survey found that nearly half (46%) of organizations are dependent on IT to make changes to their reporting systems, contributing to slow and inaccurate forecasting processes.

“People are still using spreadsheets for forecasting because it is a familiar tool,” said Ron Massicotte, Director of Product Marketing at Prophix, a maker of Corporate Performance Management (CPM) software for budgeting, planning, forecasting and reporting.

Spreadsheet issues arise when data from unconnected systems has to be entered manually, which can result in errors that take time to identify and correct. When that data is used for multiple forecasts, the problem is compounded.

“We are both blessed and cursed that we have access to so much data but this causes FP&A professionals to spend a great deal of time eliminating duplicates, filtering and amending incorrect data before it can be turned into analysis,” said Kenneth Fick, President and CEO at Pierce The Fog LLC, a financial consultancy.

The challenges of spreadsheet-based forecasting are magnified as companies look to implement more strategic, interdependent forecasting and planning models.

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There is a continuous push to adopt new applications or tools to help solve an organization’s budgeting and forecasting problems but in many cases, technology is only automating poor processes. Fick added, “A better solution is a full mapping and analysis of the current process followed by process re-engineering and then, and only then, a system implementation or more likely, system optimization of an organization’s current CPM/EPM system.”

CONNECTING STRATEGIC, OPERATING AND FINANCIAL PLANS

THERE SHOULD ALWAYS BE A connection between the strategic plan, the operating plan and the corporate financial plan. Unfortunately, this is not often the case. By linking all three, the resources of the organization can be aligned to KPIs, as well as tracked through time to see if goals are being met, Fick noted.

When events change in external and internal environments, it

should trigger changes to the strategic operating and corporate financial plans. Knowing how and where those plans interact will allow an organization to quickly adapt to new goals, new KPIs and new business objectives, as well as re-chart a course that is beneficial for all stakeholders.

Access to real-time data for forecasting enables sophisticated analysis but this is difficult to achieve without a central repository of data, which is

lacking in many organizations. “It really opens up the doors to do ‘what-if’ calculations that will drive better forecasting and accelerate business performance,” said Massicotte.

If the forecast is to reach 40% profit margin on a particular product, for example, business leaders can look at various ways to reach that goal, be it pricing, manufacturing or personnel changes.

SETTING UP THE TEAM FOR SUCCESS

THE CFO OR THE VP of FP&A play a key role in leading the budgeting and forecasting process, as he/she is the primary communication funnel to the CEO and others in senior management in regards to organizational decision making.

Finance needs to collaborate with business leaders across the organization to budget, plan and forecast over multiple schedules. “The job of the CFO is to determine the people, processes and technologies that are going to be involved,” Massicotte said.

Deciding on a budgeting, planning and forecasting structure will guide the process. Fick suggests an annual fixed budget for a 12- to



18-month period; a rolling 12- to 18-month plan that is updated monthly; and a quarterly forecast looking ahead 12 to 24 months.

Fick emphasized that all stakeholders should understand the differences between a budget, a plan and a forecast. “A budget is what you want to happen; a plan is what the organization intends to make happen; and a forecast is what you expect to actually happen, given the most recent and best information.”

All stakeholders need to be clear and upfront about the level of detailed data they need in order to be successful. Companies need to embrace statistically driven approaches that go beyond the annual bottoms-up budget. Analyzing costs and revenues based on drivers will enable faster

‘what-if’ modeling and greater efficiency.

In addition, effective management reporting of both the budget and business forecast through dashboards, scorecards and other reporting feedback loops will allow for improvement of the overall process.

No matter what the approach to budgeting, planning and forecasting, the process should be flexible enough to respond to changing market conditions. “If a competitor discontinues a product or introduces a product, for example, you have to be able to make some quick changes,” Massicotte said. “You need to do some quick calculations to see what you would need to do to take advantage of the opportunity, such as adding inventory and staff and that is not easy to do in a giant Excel workbook.”

HOW TECH IS DRIVING THE FUTURE OF FORECASTING

WHEN DECIDING ON THE RIGHT tools to improve your company's forecasting capabilities, there are some key questions that finance professionals should ask, including:

- What activities are the most time-consuming for the budgeting and forecasting team? Can these be streamlined?
- Will the tool enhance the credibility of the budgeting

and forecasting reports and analysis that is produced? If so, how?

- How can/will this tool enhance communication across all departments?
- Overall, where can the current budgeting/forecasting operation be optimized?

The application of statistical techniques for forecasts

afforded by cloud-based solutions will allow business leaders to access data more easily and open up greater use of self-service analytics.

Going forward, artificial intelligence can help build smarter models to build more accurate forecasts for better decisions. "We're not quite there but artificial intelligence offers the ability to self-create budgets and forecasts," Massicotte said.



ACCURATE AND FLEXIBLE FORECASTS ARE THE CORNERSTONE OF BUILDING BUSINESS PERFORMANCE

As finance professionals seek to elevate their roles as business performance leaders, more accurate and flexible budgeting, planning and forecasting processes are needed to capitalize on shifting internal objectives and changing market conditions.

Currently, much of the forecasting process is being performed on massive spreadsheets that are difficult to manage and update.

Excel isn't the best solution for modern organizations who want to take their forecasting capabilities to the next level and involve business unit leaders in budgeting and planning decisions.

To achieve the goal of better forecasting, organizations can start by performing a full mapping and analysis of their current processes, followed by process re-engineering and assessment.

Once gaps in the process have been addressed, finance professionals should look at the latest tools and technologies to provide the necessary visibility and flexibility to produce more meaningful forecasts. And with the right tools in place, artificial intelligence and self-service analytics provide the promise of even more efficiency and flexibility in the future.

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—RON MASSICOTTE
DIRECTOR OF PRODUCT MARKETING, PROPHIX

KEY TAKEAWAYS INCLUDE:

- As forecasting demands become more complex, spreadsheets are no longer a reliable tool to provide an accurate view of the future, largely because of issues with visibility, data accuracy and version control.
- Strategic, operating and financial plans must work in concert to elevate the company’s forecasting capabilities to meet internal and external demands.
- Finance chiefs must evaluate new tools with an eye toward reducing manual processes and improving collaboration between finance and other business units to provide a clear and accurate view of the future.



ABOUT PROPHIX

Prophix develops innovative software that automates critical financial processes such as budgeting, planning, consolidation and reporting—improving a company’s profitability and minimizing their risk. Prophix provides the right balance of simplicity and depth, delivering CPM software that is easy, powerful and collaborative. For everyone. Thousands of innovative organizations in nearly one hundred countries use Prophix to gain increased visibility and insight into their business performance. For more information, visit www.prophix.com.