Prophix®

# Rolling Forecasts Drive Finance Agility

Insights & Opportunities for Finance Transformation

FSN®
The Modern Finance Forum

# Introduction

Transforming the finance function goes deeper than upgrading technology. It's using that technology to fundamentally change the role of Finance — from reactive to proactive, reporting to predicting, observing to advising. Taking on this new role, however, requires finance professionals to develop new capabilities and presently, planning, budgeting and forecasting are in the spotlight.

FSN & Prophix recently conducted a survey of CFOs to see how Finance functions are progressing with the digital transformation of their planning, budgeting and forecasting process. The survey sought to understand their capabilities in forecasting, automation, analytics and more.

The study found there are sizable gaps in abilities and outcomes in nearly every category. But every gap is an opportunity to build a bridge and drive collaboration internally.

The COVID-19 pandemic has been a notoriously difficult period for every business. In this period of uncertainty, the role of planning, budgeting and forecasting is becoming even more pivotal to the success of a business, and those falling short of accuracy and insightfulness are adding to their burden. Producing accurate, far-sighted forecasts and being able to respond quickly to change within and outside an organization are invaluably agile skills, but not ones universally demonstrated.

The Agility in Planning, Budgeting and Forecasting survey found some organizations fall well short of the basic competencies necessary to maintain an agile planning, budgeting and forecasting (PBF) process.

# Solutions

While agility is lacking in many areas, the survey finds that organizations that had made headway in transforming their PBF process are better equipped to handle change. Around a third of participants had made some efforts to transform PBF, although only 5% claim to have completely transformed the process. That said, those 5% are able to forecast quicker, more accurately and with greater foresight into the future than the transformation laggards. They are also able to manage their data better and used more advanced BPF tools.

The importance of data – its validity, trustworthiness and relevance – is widely recognized as a key component of agile planning, budgeting and forecasting. What is not as universally accepted is the importance of connecting with more users outside of the finance function. In addition, internal data sources are valued above external ones. However, including a variety of perspectives and data sources from across the spectrum is crucial to extracting the best insight from the PBF process.

Even as a semblance of normality comes closer with the vaccine roll-out, the landscape of society and the businesses that service them has changed irrevocably. There are opportunities within this wider societal change, but organizations won't be able to take advantage of them unless they have a clear vision of their future, and for that they need supreme agility in planning, budgeting and forecasting.

# Process Power: Rolling Forecasts

Even as many organizations fall short of a truly agile planning, budgeting and forecasting process, there are others that improved their lot substantially by introducing process improvements. The survey found that rolling forecasts lend more agility than quarterly ones, zero-based budgeting improves outcomes ahead of more traditional budgeting methods, and companies that find time to implement scenario planning are much more agile than their competitors over the longer term.

Twelve-month rolling forecasts are used by between 19% and 25% of companies depending on size (larger organizations are more inclined towards this), and it helps with many aspects of agility. Reforecasting time improves, accuracy is positively affected and the ability to respond to organizational change is markedly better than companies that only reforecast quarterly. Rolling forecasts are difficult to implement using cumbersome spreadsheets, which is why the survey finds that those that choose to use this method are likely to have already invested in specialist PBF software in the cloud.

# Transformation improves agility

Preparing for and managing change is a fundamental part of business success. This includes both the tectonic shifts in social and economic stability that occur during unexpected events like the financial crisis and COVID-19 pandemic, as well as the shifts that take place normally through the course of business, like changes in consumer demand, new business models, acquisitions or competitor disruption. Effective planning, budgeting and forecasting enables organizations to thrive in the face of change, although many businesses have not embraced change within the PBF process itself.

**Just 36%**

of finance functions have made substantial or transformative changes over the last 3 years.

The majority of organizations have not made any major changes to their PBF processes in the last three years. Only 36% have made substantial or transformative changes during that period, with the remaining 64% either implementing minimal improvements or no change at all.

In looking to understand how transformation impacts on the agility of planning, budgeting and forecasting, the survey compared the 5% of companies that have enacted complete transformation of PBF with the 14% that have put no effort into it in the last three years. The results show a distinct difference in how each manage their data. Those that have achieved complete transformation are able to manage data as a corporate asset rather than being overwhelmed by disconnected spreadsheets with poor data governance.

Figure 1: degree of transformation achieved

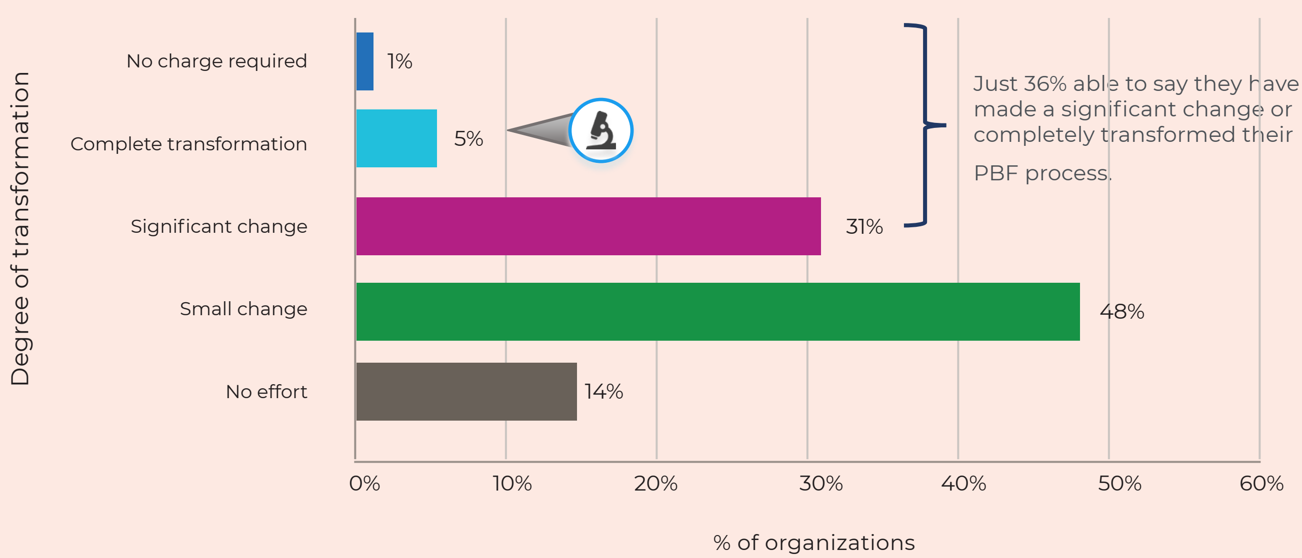
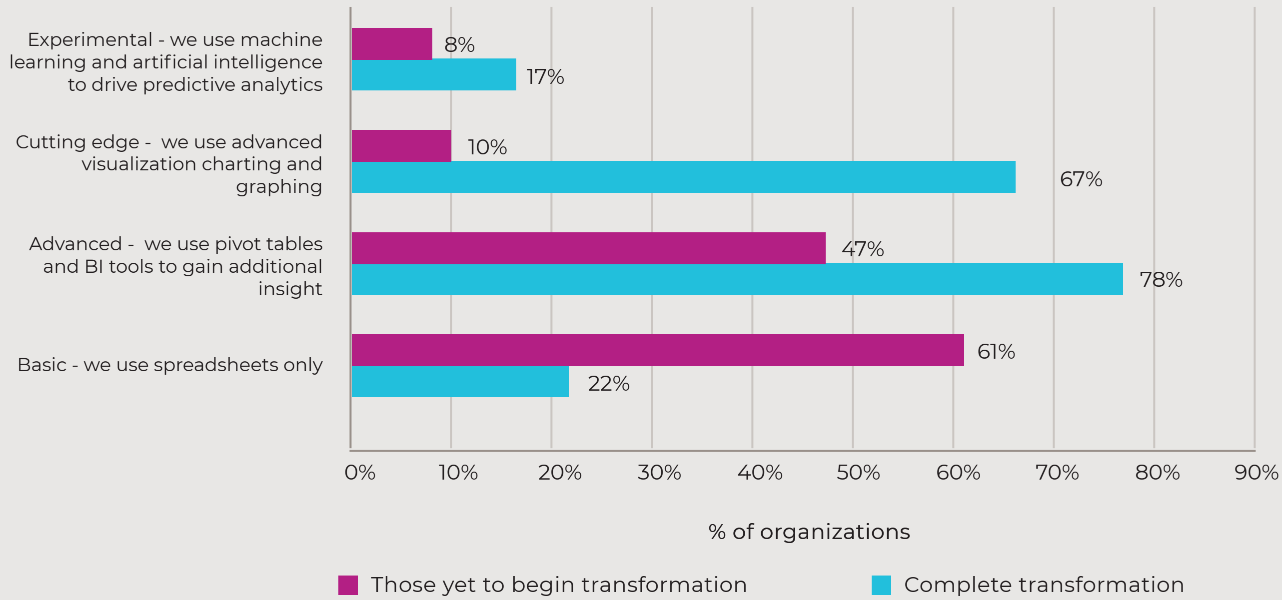


Figure 2: Percentage of organizations using basic, advanced, cutting edge and experimental tools




With this ability to manage their data, they have made the move away from basic spreadsheets to more "advanced" spreadsheets (pivot tables) coupled with BI tools and "cutting edge tools" for data visualization, although truly "experimental tools" (Machine Learning and Artificial Intelligence) are still out of reach even for those that have completely transformed their process. Earlier FSN research from the Innovation In the Finance Function found that AI and Machine Learning are the preserve of just 14% of companies with more than 10,000 employees.

Verified, well-managed data is a clear priority for improving the agility of the PBF process, and transformation improves the speed of reforecasting, essentially halving the time it takes to reforecast earnings and revenue and allowing organizations to reforecast more frequently.

In comparison to the transformation laggards, transformation leaders are able to forecast further out on the time horizon, with 31% looking out 12 months and beyond, compared with just 11% for transformation laggards.

31%

of transformation leaders able to forecast beyond 12 months, compared to just 11% of those who have yet to begin transformation.

Transformation experts are turning their attention to unifying and standardizing the budget process and managing the process in the Cloud, which will ultimately add to their already robust PBF agility.

Foresight is a key component of PBF and being able to see beyond a few months is a must. Transformation programs improve the integrity or trustworthiness of data, improve analytic capabilities, and enable faster and more accurate forecasting further out into the future.

# How Data Can Improve Forecasting Agility?

### Investment in automation is misdirected

The accuracy of planning, budgeting and forecasting is critical to preparing businesses for their future and ensuring they are well-equipped to fulfill their potential. But as the research shows, there has been little improvement in accuracy over the last four years. In order to improve accuracy, organizations need to go to the source of the insight – the data they collect and the tools they use to analyze it.

### Data

The quality of data used determines the quality of forecasting outcomes, an important aspect of agility. Senior finance executives understand this, and 84% said that improving the relevance of data captured is the most fundamental area that needs to change in order to improve agility.

A further 70% consider that exploiting non-financial data would improve agility, while 59% would consider a move to rolling forecasts. But only half see the value of connecting with more users outside of the finance function. The other half are missing an important tool in their PBF arsenal because casting the net beyond the finance function, broadens the data pool which can increase forecast accuracy and the richness of insights.

Respondents are more inclined to look internally for new data sources, relying heavily on what they already know. But, identifying operational data outside the general ledger (83%), customer relationship data (65%) and other sources of non-financial data (76%) would lend an even more insightful and agile perspective to PBF.

Figure 3: How would you improve the agility of the forecasting process?

84%

of respondents said that improving the relevance of data captured is the most fundamental area that needs to change in order to improve agility.

Disappointingly however, fewer finance executives consider that looking outside the organization adds insight and agility to the PBF process, although some recognize the value more than others.  63% see external data sources as a key PBF contributor, with 53% recognizing the value in customer web analytics and 37% turning to social media analytics to provide richer context for their planning, budgeting and forecasting.

It's perhaps unsurprising that external data takes a back seat to internal data, as on the continuum of necessity, the information within an organization tends to be mined first, yet many organizations aren't even doing that well enough. But the importance of external and non-financial data can't be overlooked. Previous FSN research has pointed very definitely towards the competitive advantage gained by using non-financial data, especially against more agile start-ups or rivals that are already using non-financial data for added insight.

The explosion of social media engagement is commonplace in consumers' day to day life, but organizations have been slow to recognize the value in these interactions. For example, some traders use social information arbitrage to spot new trends and buy into them before they take off, the sort of advantage that companies in competitive markets could use. That's not to say social media is the answer to the accuracy issue in PBF, but it's important for finance professionals to look outside their daily remit for data that will help improve their accuracy, and it could come from unusual places.

## Tooling up

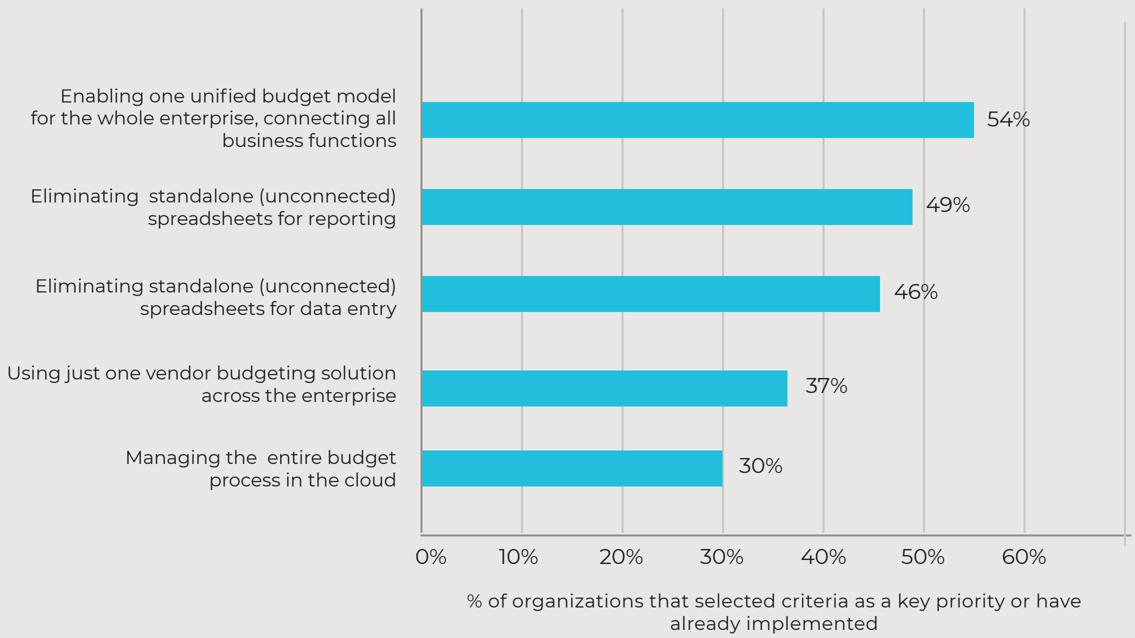
As the data pool increases and becomes more diverse, so must the tools used to analyze the data. In the planning, budgeting and forecasting space, the right tools, like specialist software, are profoundly under-utilized. Almost two thirds of organizations do not take advantage of specialist PBF software, instead relying on spreadsheets.

Vocalizing their technology priorities, just over half of respondents said they were looking to unify their budget model across the enterprise, 49% wanted to remove standalone spreadsheets for reporting and 46% wanted to remove spreadsheet data entry.

**54%**
of respondents said they were looking to unify the budget model across the enterprise.

Meanwhile 37% would like to use just one vendor for budgeting solutions, whilst 30% would like to manage the entire process in the Cloud. Surprisingly, cloud applications are not yet seen as a unifying platform, capable of bringing data together for the whole organization in one place.

Figure 4: What are your priorities for improving agility through technology?



# Rolling forecasts imbue PBF with agility

The frequency of planning and forecasting varies depending on the organization. Almost 8% only reforecast once a year, but 19% of organizations have moved to rolling forecasts – this increases to 25% in organizations with more than 10,000 employees. Meanwhile a quarter of organizations are limited to reforecasting four times a year. However, the difference in performance between organizations that reforecast quarterly and those that have adopted a 12-month rolling forecast is significant. FSN's research finds that rolling forecasts lead to greater agility in terms of speed and accuracy and enable companies to flex their budgets and forecasts more readily in response to organizational change. The most notable difference is around the ability to change the process, which strikes at the heart of agility.

Rolling forecasts are not a new phenomenon but uptake has been relatively slow and sparse. It's a technique that cannot readily be built, managed and maintained in spreadsheets. They require complex macros and considerable manual intervention, and this could explain why penetration of this technique is so low amongst the spreadsheet users that comprise the bulk of PBF applications. Conversely, specialist PBF solutions tend to have inbuilt 'financial intelligence' (rules, pre-built apps and shortcuts) that provide a very effective platform for rolling forecasts.

As one would expect, those using a more automated 12 month rolling forecast are able to reforecast quicker. 70% are able to reforecast in under a week vs 63% who only reforecast quarterly. And there is a small but significant improvement in the number of organizations that can forecast a year ahead (14% vs 12%).

Just 19%

of organizations use rolling forecasts.

Rolling forecasts also improve accuracy. Almost half of rolling forecasters are able to accurately forecast earnings to within +/-5% vs 35% of those that forecast four times a year, and there is an improvement in revenue forecasting as well, although slightly less marked, 42% vs 38%.

While there is a notable improvement in speed and accuracy amongst organizations that use rolling forecasts, the progress is even more marked within the context of organizational change. Those using rolling forecasts are able to make changes far more quickly and easily when circumstances require. 71% can get a minor change (e.g. new cost line) added or taken out of a budget or forecast model within half a day vs 57% who are bound to quarterly forecasts. There is similar disparity in getting changes added to budget holders' data entry templates. 58% of those using rolling forecasts able to get the above change reflected in all reports within half a day, whereas only 32% of quarterly re-forecasters can do it within that time-frame. Finally, 41% can make a simple change to their reporting hierarchies in half day compared with 32%.

> Those using rolling forecasts outperform those reforecasting just 4x a year.

Rolling forecasts lend themselves to more sophisticated finance systems, and organizations that use them are more inclined to use specialist PBF software (53% use cloud software in some capacity, vs just 31% who do not use rolling forecasts). They're also less constrained by spreadsheets and are more likely have mastered their data, all of which enables a more agile planning, budgeting and forecasting process.

Organizations are more likely to be able to implement rolling forecasts when their systems are modern, and their data is well-managed. Then they can enjoy the substantial benefits that an agile planning, budgeting and forecasting process affords.

# Synthesizing Financial Change at SI Group

SI Group, a leading global developer and manufacturer of chemical intermediates, was dependent on Excel spreadsheets for forecasting and reporting. With Prophix, SI Group's Office of Finance can create impressive rolling forecasts, report at the local, regional and group levels and distribute these reports automatically, as well as conduct advanced revenue planning for all market segments.

SI Group no longer has an annual budget instead, they forecast three times per year and have an ongoing rolling forecast that projects 15-months into the future.


To read the full story about SI & Prophix click here.

Prophix®

Prophix Customer Story

## Synthesizing Financial Change at SI Group

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### Business Challenges

SI Group struggled to gather and consolidate information into a standard format using Excel as their forecasting and reporting solution.

### Why Prophix?

In an effort to move away from Excel, SI Group sought out a Corporate Performance Management (CPM) software solution to standardize their financial processes. This would allow them to better monitor, aggregate and view their data from multiple viewpoints. With Prophix, SI Group can minimize ongoing requirements for maintenance, allowing their Office of Finance to focus on high-level value-add activities.

### Results

SI Group does not have an annual budget instead, they forecast three times per year and have an ongoing rolling forecast that projects 15-months into the future.

SI Group is the world's leading developer and manufacturer of chemical intermediates, phenolic resins, alkylphenolic resins, and alkylated phenols. SI Group focuses on nine key market segments including rubber resins, industrial resins, adhesive resins, fuels and lubricants, plastic additives, surfactants, antioxidants, pharma & specialty, and engineering plastics.

**Operating:** Since 1906

**Website:** www.siigroup.com

**Annual Revenue:** 1.2 billion USD

**Employees:** > 2,700

**ERP:** Ross/CDC

SI Group

READ THE FULL CASE STUDY

# Rolling Forecasting and Prophix

Forecasting is a process used to estimate a company's future financial outcome by analyzing historical data.  While you cannot predict the future, forecasting enables management teams to create data-driven predictions and plan for the future.  The most commonly utilized form of forecasting is known as static forecasts (budgets). They are helpful in tracking how actual performance compares to the strategic financial plan. But static forecasts are generally inflexible, reactive time-consuming to build and quickly become outdated. Which makes them less effective in times of rapid change or turbulent markets.  Therefore, it is a good best practice to move beyond fixed (static) forecasting and evolve to much more dynamic and frequent approach called Rolling Forecasting, a technique that has exploded in popularity recently.

***What is the difference between forecast and rolling forecast?***

*For example, if your **forecast** period lasts for 12 months, as each month ends another month will be added. This way, you are always **forecasting** 12 months into the future. **Rolling forecasts** usually contain a minimum of 12 **forecast** periods, but can also include 18, 24, 36, or more.*

Forecasting was already difficult to implement using manual processes and cumbersome spreadsheets. It makes sense that evolving to rolling forecasting involves even greater commitment and further overhead, which is why the FSN survey finds that those that choose to use this method are likely to have already invested in specialist PBF software, commonly referred to as Corporate Performance Software in the cloud like Prophix.

# How Prophix helps

Prophix streamlines forecasting by making all your financial data instantly available to you with in a single, unified system purpose built to facilitate budgeting, planning and reporting.

- **Single integrated solution –** Instead of time-consuming and error-prone manual data entry, data imports / exports or referencing other sources, Prophix does the work for you though seamless integration with your other business systems pulling actual, planned, and forecasted data into a single system when you need it.
- **Amplify Collaboration –** Leveraging Prophix's advanced workflow capabilities, you can drive accountability and streamline forecasting by tracking inputs, changes, and approvals, while avoiding long email chains or inefficient conference calls.
- **Promote Agility –** As you increase the frequency of your forecasts, the more you'll realize just how inefficient spreadsheets can be. You can quickly adapt for rapidly changing factors like interest rates, currency rates, production levels, payment terms and even automate routing tasks with artificial intelligence.
- **Plan Your Way –** You will have the freedom and the flexibility to contribute to forecasts, approve plans or even manipulate your numbers using software you are most comfortable with. Whether you prefer the feature-rich web interface or appreciate the convenience of Microsoft® Excel®, Prophix will ensure you are forecasting faster and more accurately than ever before.

By providing you with single view into your financial truth while leveraging automation and AI to drive collaboration and automate tasks, Prophix will help you master your data and provide you the added agility required to transform the frequency and accuracy of your forecasting.  Rolling forecasts that empower you to make better and more timely business decisions, based on the latest information, that provide greater insight into the future and keep you ahead of your competition.

## About Prophix

Your business is evolving. And the way you plan and report on your business should evolve too. Prophix helps mid-market companies achieve their goals more successfully with innovative, cloud-based Corporate Performance Management (CPM) software. With Prophix, finance leaders improve profitability and minimize risk by automating budgeting, forecasting and reporting and puts the focus back on what matters most – uncovering business opportunities. Prophix supports your future with AI innovation that flexes to meet your strategic realities, today and tomorrow. Over 1,500 global companies rely on Prophix to transform the way they work.


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