

Leveraging the Power of the Accordion Style Rolling Forecast



*A perspective on using the
Forecast to streamline the
Annual Operating Plan*

By Randy Werder

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Financial Planning is ever evolving. For years, FP&A organizations have kept the Forecast and Budget planning processes separate. We want to talk to you about *eliminating the traditional Budget process*. The Budget process was great.... in 1998. Budgets do not react to what is actually happening in the business. They do not incent the right behavior. A Budget is not how you should manage a business. By leveraging a thorough forecasting methodology, we can eliminate the stress, frustration, and complexity of a separate Budget process.

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Introduction

Financial Planning & Analysis organizations are directed to deliver two key indicators of the company's financial situation. Throughout the duration of the current fiscal year, the financial Forecast is prepared – typically on a monthly or quarterly basis. During the second half of the current year, the next year's Annual Operating Plan (aka Budget) process begins and is typically finalized before the start of the next fiscal year.

These two concepts have traditionally (and unnecessarily) been bifurcated based on timing, effort, and planning granularity. An Accordion Style Rolling Forecast eliminates that need. It allows for them to both be planned together under a common methodology.

Harmonizing the Forecast & Budget removes complexities related to preparing scenario variance analysis. It also eliminates the effort spent preparing, reviewing, and approving the Budget, while also extending the vision of the planner beyond the current year.



What is an Accordion Style Rolling Forecast?

Simply put, it adjusts as you progress throughout the fiscal year. Accordion forecast periods will range from the current forecast month through the end of the next year – ranging from 13 to 23 months depending on the cycle. It ensures that regardless of the forecast cycle, you always have next year's Budget built into each forecast cycle.



Driver Based Planning

One of the key factors supporting an accordion style rolling forecast is leveraging Driver Based Planning. Making the investment to determine and build driver-based models allows for the pre-calculation of the Forecast baseline.

During the monthly rollover process, as prior month actuals are consolidated, planning driver calculations are automatically refreshed. Planners open the forecast cycle with 80-90% of their forecast already completed and are free to now plan by exception.

The power of this driver-based process is that it makes pushing out the forecast into year two a systemic effort and eliminates the need for a separate Budget scenario built from the ground up.

Evolution of the Forecast

A Simple forecast is planned for the current fiscal year only with no insight into next year.

A standard Rolling Forecast improves on the Simple approach in that planners are now thinking in terms of a full year outlook. It allows for planning a full 12 months of seasonality. The Rolling Forecast could also be in the form of an 18 or 24 month range that would provide a full second year forecast. However, all these versions leave 'orphaned' months in the last year that require planning effort with no real benefit.

The leading practice Accordion Style Rolling Forecast 'fills up' year two of the forecast. This allows for a complete year two population of the Budget, and thus lends itself to complete YoY, QoQ, and CYBud vs. NYBud analysis. It also eliminates the orphaned months planned in the 12/18/24 month methods.

Simple Forecast - *Current Year Only*

	CURRENT YEAR: Actual + Forecast (Year 1)											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
3+9	A1	A2	A3	F1	F2	F3	F4	F5	F6	F7	F8	F9
4+8	A1	A2	A3	A4	F1	F2	F3	F4	F5	F6	F7	F8
5+7	A1	A2	A3	A4	A5	F1	F2	F3	F4	F5	F6	F7
6+6	A1	A2	A3	A4	A5	A6	F1	F2	F3	F4	F5	F6
7+5	A1	A2	A3	A4	A5	A6	A7	F1	F2	F3	F4	F5
8+4	A1	A2	A3	A4	A5	A6	A7	A8	F1	F2	F3	F4
9+3	A1	A2	A3	A4	A5	A6	A7	A8	A9	F1	F2	F3
10+												
11+												

Actuals Month
Forecast Month

Rolling Forecast - *Next 12 months*

	CURRENT YEAR: Actual + Forecast (Year 1)												NEXT YEAR: Forecast (Year 2)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
3+9	A1	A2	A3	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12										
4+8	A1	A2	A3	A4	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12									
5+7	A1	A2	A3	A4	A5	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12								
6+6	A1	A2	A3	A4	A5	A6	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12							
7+5	A1	A2	A3	A4	A5	A6	A7	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12						
8+4	A1	A2	A3	A4	A5	A6	A7	A8	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12					
9+3	A1	A2	A3	A4	A5	A6	A7	A8	A9	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12				
10+																									
11+																									

Accordion RF - *Balance of the current year and complete next year*

	CURRENT YEAR: Actual + Forecast (Year 1)												NEXT YEAR: Forecast (Year 2)											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
3+9	A1	A2	A3	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18	F19	F20	F21
4+8	A1	A2	A3	A4	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18	F19	F20
5+7	A1	A2	A3	A4	A5	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18	F19
6+6	A1	A2	A3	A4	A5	A6	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18
7+5	A1	A2	A3	A4	A5	A6	A7	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17
8+4	A1	A2	A3	A4	A5	A6	A7	A8	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16
9+3	A1	A2	A3	A4	A5	A6	A7	A8	A9	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15
10+2	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14
11+1	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10	A11	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13

Extending the Forecast to the Budget

As the first year comes to an end, the final forecast cycle of the year is used to populate the Budget scenario for next year. This allows for a Budget snapshot at the beginning of the second year. Throughout year two, this version can be compared to the accordion forecast.

The accordion forecast can be used to populate additional scenarios such as Budget/Adjusted, What If, or even a less granular Long Rang Plan.

Accordion RF - Balance of the current year and complete next year

	CURRENT YEAR: Actual + Forecast (Year 1)												NEXT YEAR: Forecast (Year 2)												LRP		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Y3	Y4	Y5
3+9	A1	A2	A3	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18	F19	F20	F21	Y3	Y4	Y5
4+8	A1	A2	A3	A4	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18	F19	F20	Y3	Y4	Y5
5+7	A1	A2	A3	A4	A5	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18	F19	Y3	Y4	Y5
6+6	A1	A2	A3	A4	A5	A6	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18	Y3	Y4	Y5
7+5	A1	A2	A3	A4	A5	A6	A7	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	Y3	Y4	Y5
8+4	A1	A2	A3	A4	A5	A6	A7	A8	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	Y3	Y4	Y5
9+3	A1	A2	A3	A4	A5	A6	A7	A8	A9	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	Y3	Y4	Y5
10+2	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	Y3	Y4	Y5
11+1	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10	A11	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	Y3	Y4	Y5

Year End Rollover (Seeding the Budget Scenario)

													NEXT YEAR: Budget											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Budget													B1	B2	B3	B4	B5	B6	B7	B8	B9	B10	B11	B12

Actuals Month
Forecast Month
Budget Month
LRP Quarter

Conclusion

Modern CPM Forecasting should strive to eliminate the traditional static approach to Budgeting. We advise that the old school methodology of tying corporate performance to a dated Budget should be abandoned for a dynamic solution that evolves throughout the year as the company does.

The Accordion Style Rolling Forecast is the leading practice to prepare both the current year Forecast and next year's Budget. Combining driver-based planning with the rolling forecast provides an automated insight approach to planning, freeing up the FP&A organization to focus on value-add analysis to the business.

About Black Diamond Advisory

BDA employs an "Experts Only" approach. The company was founded from a consortium of five of the largest, most respected One Stream partners (Andersen, MarketSphere, Grant Thornton, Ranzal/Edgewater, and Ascend). These teams joined forces to create a powerhouse of the deepest technical & functional skills in the industry. BDA is a Diamond level OneStream partner.

There is one leader in the OneStream partner space that creates value by combining process and business innovation thinking with the power of the platform that allows you to become Best in Class. BDA has established a framework of OneStream solutions to accelerate your implementation.

We would love to have the opportunity to hear how we can help you transition to or grow your existing OneStream implementation.

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