Getting ready for rolling planning

For effective rolling forecasts, you have to chop away the dead wood of assumptions, and deal with the big picture rather than the detail. **David Parmenter** explains all

Just like a house, rolling planning should be built on solid foundations. I will consider these foundations over two articles, beginning with this one.

Embrace abandonment

Austrian-born management consultant Peter Drucker frequently used the word 'abandonment' in connection with business growth. What he said about abandonment is one of his great gifts to the world: 'The first step in a growth policy is not to decide where and how to grow; it is to decide what to abandon. In order to grow, a business must have a systematic policy to get rid of the outgrown, the obsolete and the unproductive.'

In planning, many processes are carried out, year-in and year-out, simply because they were done the previous year. To build solid planning foundations, you should challenge all the previous forecasting givens and throw out all the inefficient processes you find, including:

* forecasting in a spreadsheet
* forecasting in detail, at account code level and to the pound
* forecasting only to the end of the current year – as if the following year did not exist
* giving budget holders an annual entitlement; they do not know what the coming year holds, nor does anyone in finance
* setting monthly targets from the annual plan; this is best done just before the quarter starts.

Forecast at the right level

Forecast at a category level rather than at the account code level.

Forecasts are rarely right, and forecasting at a detailed level does not lead to a better prediction of the future. Looking at the detail does not help you see the future any better (see box); in fact, it tends to screen you from the obvious.

A forecast should concentrate on key drivers and large numbers, not a myriad of figures gathered at account code level – 'signifying nothing', as Shakespeare put it.

TAKE THE CHOPPER

Imagine that you have been asked to count the trees in 100 square miles of forest. You have two choices: the detailed way and the 'helicopter' way.

For the detailed way, 70 staff are split into 10 teams, each of which is assigned 10 square miles and given satnavs, spray paint, camping kit and provisions for three weeks. The teams update their count each night on a spreadsheet, and at the end, the counts are consolidated. However, some teams forget to load all their spreadsheets into the workbook, so the final count is wrong, although no one knows that.

For the helicopter way, satellite imaging is used to select five sample areas, each a tenth of a square mile in size. The staff are split into five teams, each of which counts its area in a day. The five counts are averaged and multiplied by 1,000. The answer is wrong, but it is wrong quickly and is still a good approximation.

For forecasting, the helicopter way is usually the better option unless you are dealing with payroll, which managers can forecast by using actual salaries.

Think about it: do you need a target or budget at account code level to control costs? If you have good trend analysis captured in a reporting tool you can easily identify costs that are out of control. Therefore, you can apply the 10% rule and dispense with forecasting at account code level unless an account code is over 10% of total expenditure. ■

NEXT STEPS

1. List what you need to abandon in your annual planning process.
2. Dispense with forecasting at account code level unless a code is over 10% of total annual spend.
3. Migrate your forecasting model from Excel to a planning tool.
4. Find out more from my website (see below).
5. Email me (**parmenter@waymark.co.nz**) for advice about how to stay in the helicopter and see the big picture during your forecasting and planning.

David Parmenter is a writer and presenter on measuring, monitoring and managing performance

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