

Forecasting with BudgetPak

Uses, options, recommendations

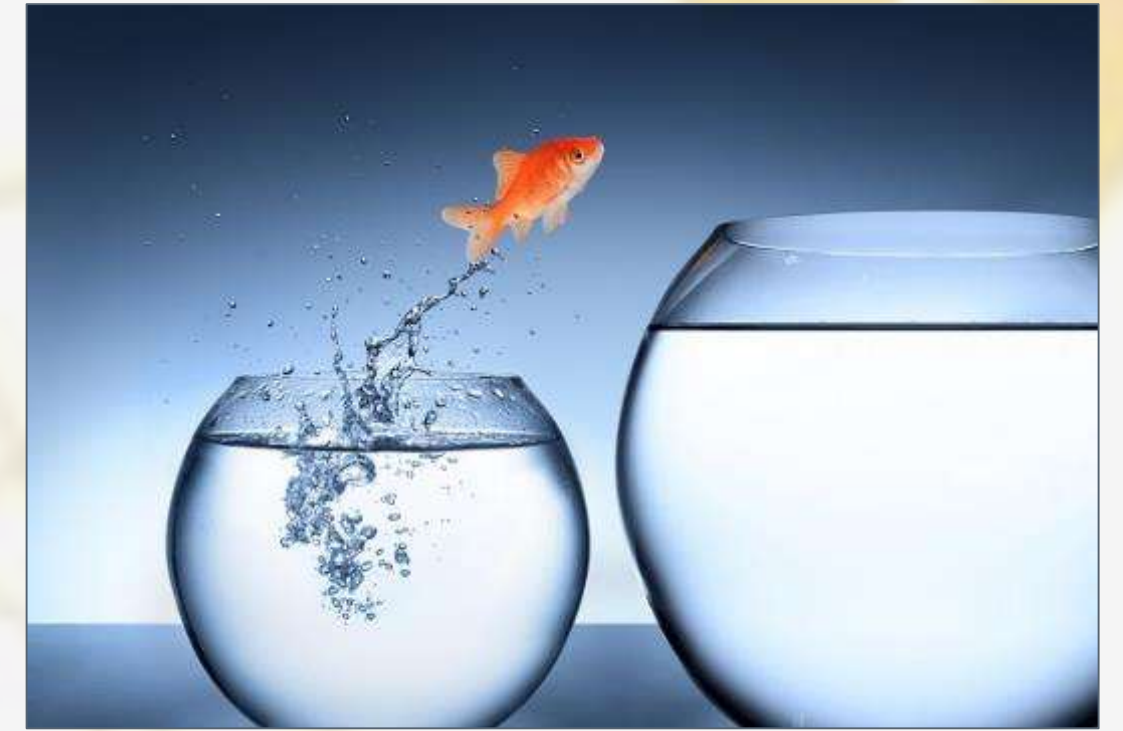
Charles Pevsner

April 18, 2017



Goals

- Understand differences between budgets, forecasts, and detailed forecasts
- Understand the considerations when choosing between standard and detailed forecasts
- Understand the reconciliation problem and how you can minimize its effects
- Understand tradeoffs with version usage and frequency of forecasting

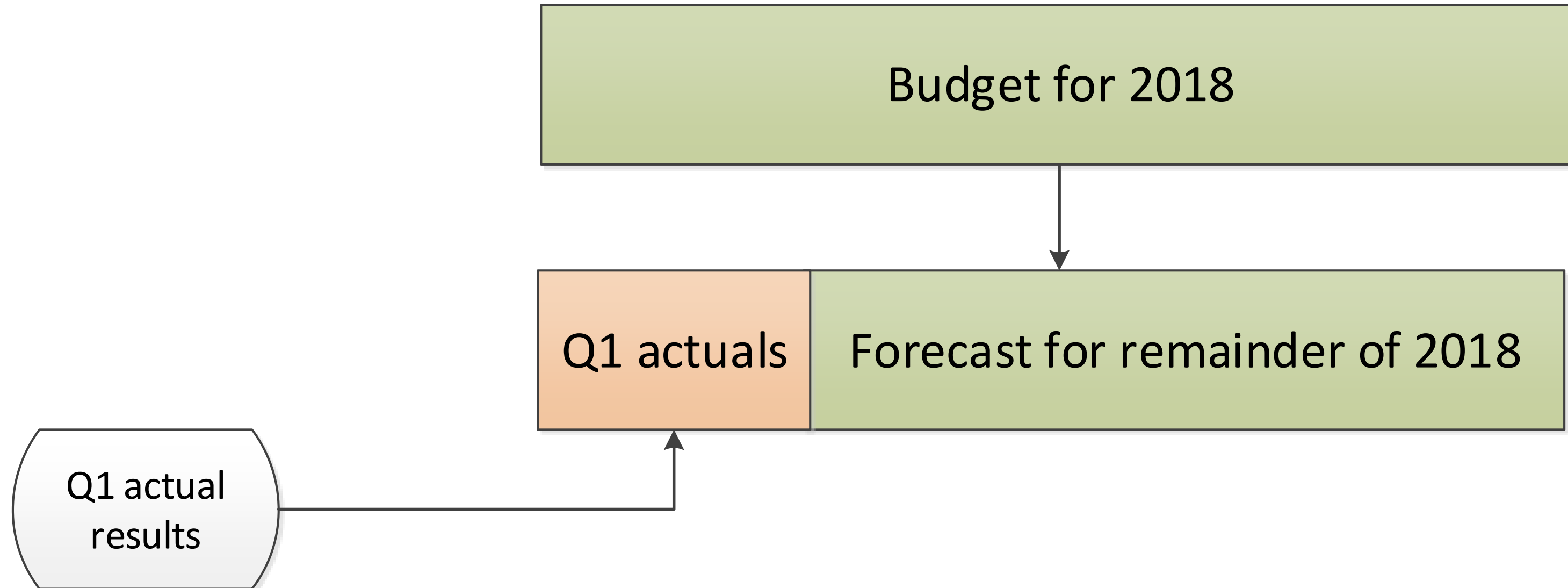




- The classical model of forecasting using BudgetPak
- What is not a forecast?
- Budget/forecast differences
- Standard/detailed forecast differences
- Detailed forecasts: Considerations
- The reconciliation problem
- How often to forecast?
- Version usage choices

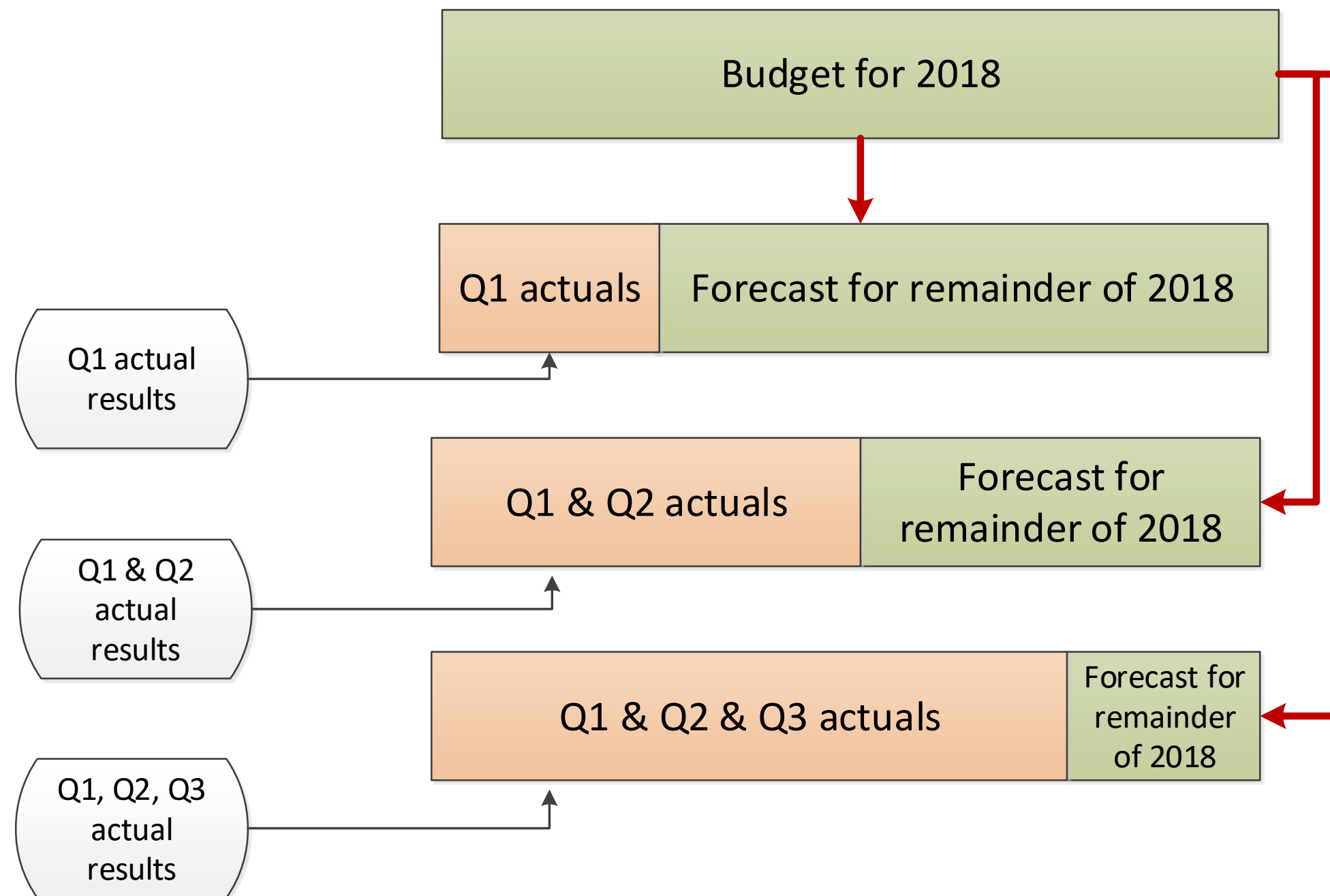
The classical model of forecasting using BudgetPak

- For all today's examples, assume a calendar fiscal year
- The classical model:

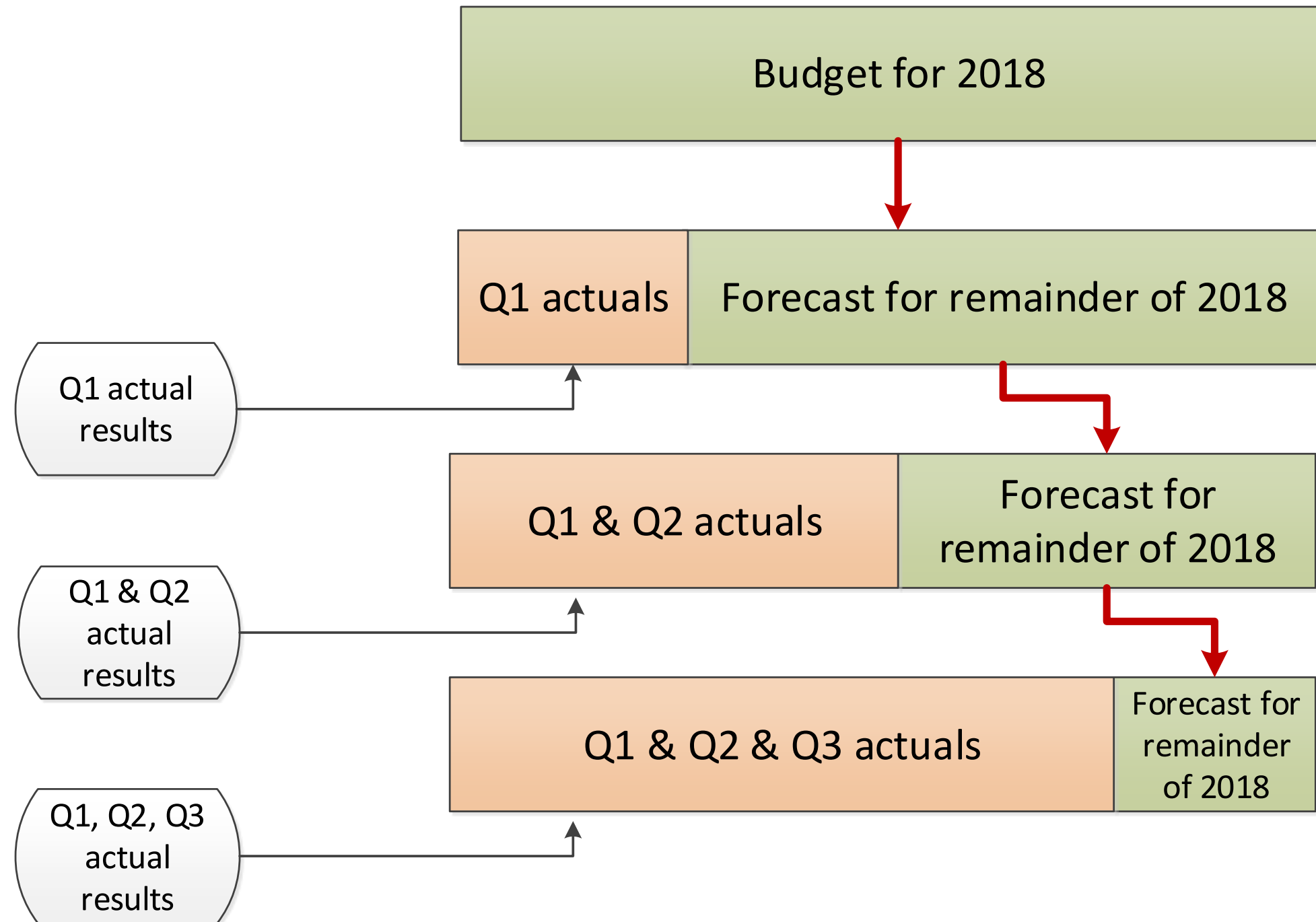


Annual forecast cycle continues the pattern:

1) One option is to base all the forecasts on the budget:

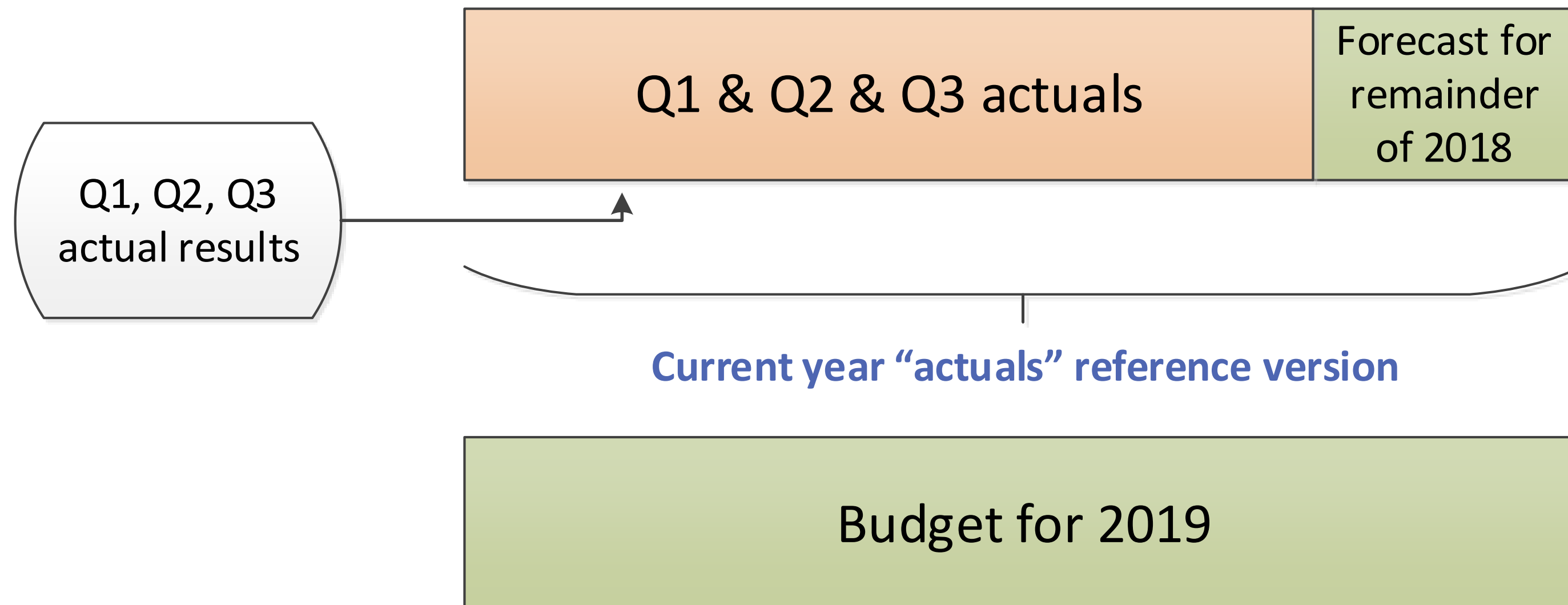


2) Another option is to base each forecast on the prior forecast:



Some companies do a Q4 “reforecast” before beginning annual budget

- Intention: Get best possible “current year actuals” prior to starting budget



What is not a forecast?

What is not a forecast? (In BudgetPak)

- Revisions or reallocation (of a budget version while its year is in progress)
- Projection, or long-term projection: Specific meaning in BudgetPak

P&L	2008 Forecast	2008 Budget	FY 2009 Outlook	FY 2010	FY 2011
R001: Sales - product line A	\$9,065,377	\$9,341,049	\$9,616,720	\$9,892,391	\$10,168,063
		3.04 %	2.95 %	2.87 %	2.79 %
R002: Sales - product line B	\$2,289,775	\$2,368,915	\$2,448,055	\$2,527,194	\$2,606,334
		3.46 %	3.34 %	3.23 %	3.13 %
R003: Consulting revenue	\$1,221,481	\$1,249,570	\$1,277,659	\$1,305,748	\$1,333,837
		2.3 %	2.25 %	2.2 %	2.15 %
Revenue	\$12,576,633	\$12,959,533	\$13,342,433	\$13,725,334	\$14,108,234
		3.04 %	2.95 %	2.87 %	2.79 %
TOTAL INCOME	\$12,576,633	\$12,959,533	\$13,342,433	\$13,725,334	\$14,108,234
		3.04 %	2.95 %	2.87 %	2.79 %
Cost of Sales	\$1,923,858	\$1,968,328	\$2,012,798	\$2,057,269	\$2,101,739
		2.31 %	2.26 %	2.21 %	2.16 %
Compensation & Benefits	\$17,097,084	\$17,501,737	\$17,906,391	\$18,311,044	\$18,715,698
		2.37 %	2.31 %	2.26 %	2.21 %
Rent & Occupancy	\$1,030,865	\$1,058,200	\$1,085,536	\$1,112,872	\$1,140,207
NET	(\$17,396,213)	(\$17,737,257)	(\$16,331,620)	(\$16,628,825)	(\$16,926,030)
		1.96 %	-7.92 %	1.82 %	1.79 %

Differences between budget and standard forecast versions

Budget	Standard forecast
All periods are editable	Only the active periods are editable

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Calculated accounts: All calculations supported	Headcount-based calculated accounts are not supported 😞
Line item detail by period supported	No line item detail by period 😞

Differences between budget, detailed forecast, and standard forecast versions

Budget	Detailed forecast	Standard forecast
All periods are editable	Only the active periods are editable	Only the active periods are editable

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Headcount- and asset-based accounts are automatically calculated and are read-only	← Same as budget	Headcount- and asset-based accounts are not calculated and revert to read/write for manual budgeting
Calculated accounts: All calculations supported	All calculations supported 😊 ← Same as budget	Headcount-based calculated accounts are not supported 😞
Line item detail by period supported	Line item detail by period supported 😊 ← Same as budget (almost)	No line item detail by period 😞

Choosing between a standard and detailed forecast

- Organizational: What you're doing now will probably drive decision
- Have things gone largely according to plan?
- Accuracy vs. materiality: Detailed forecast likely more accurate, but...
 - Adds more complexity to configuration (and initialization)
 - Requires more understanding/training, both from Finance and budget holder
 - Requires more time, both from Finance and budget holder
 - Remember that more detail does not necessarily translate to more accuracy and a better plan



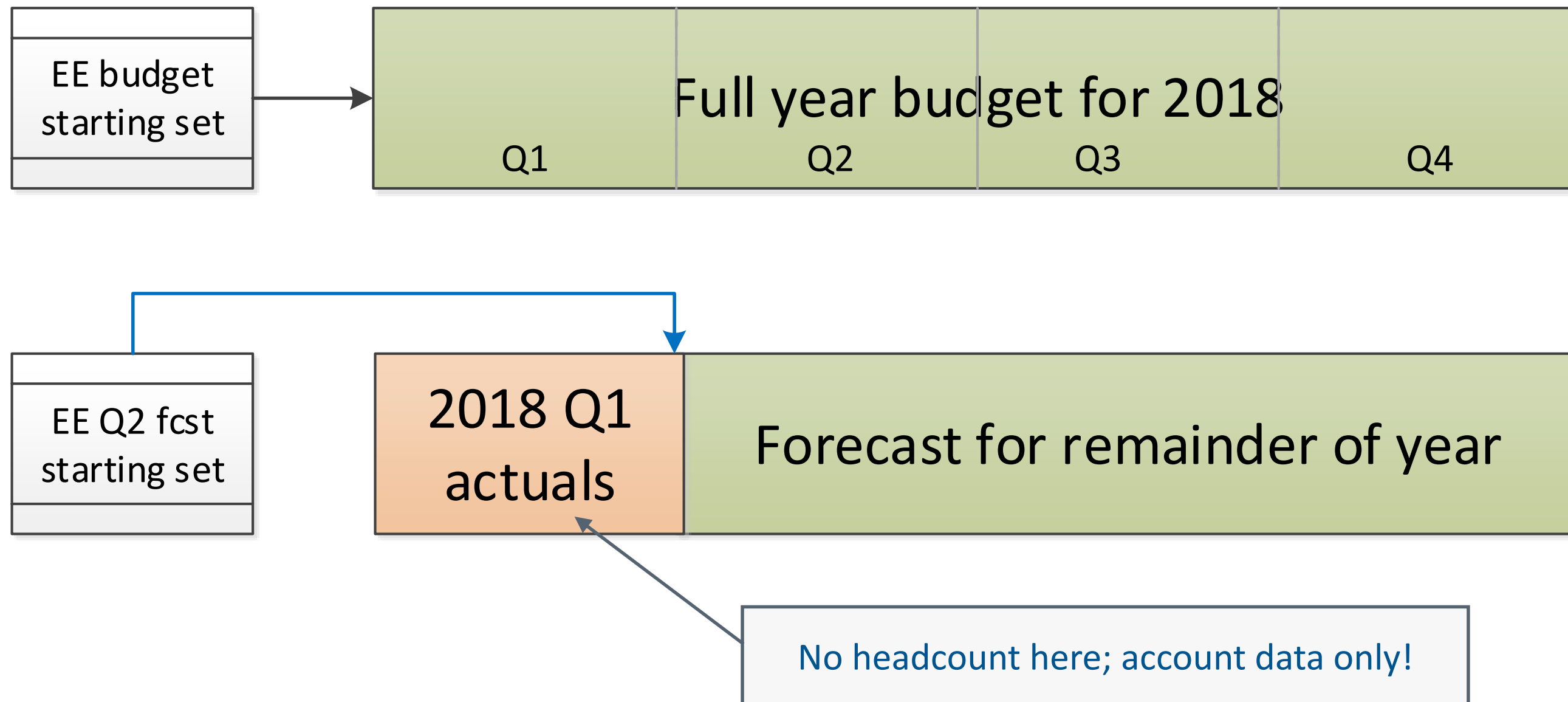
Detailed forecasts: Considerations

- Very useful if:
 - Headcount (or assets) change rapidly and invalidate budget
 - Plan has otherwise been “overtaken by events”
- But....inherent in a detailed forecast is the **reconciliation problem**



The reconciliation problem: Background

- As with a budget version, a detailed forecast has a starting set of employees
- The “as of” date for the starting set is the beginning of the “active” periods



The reconciliation problem: Example

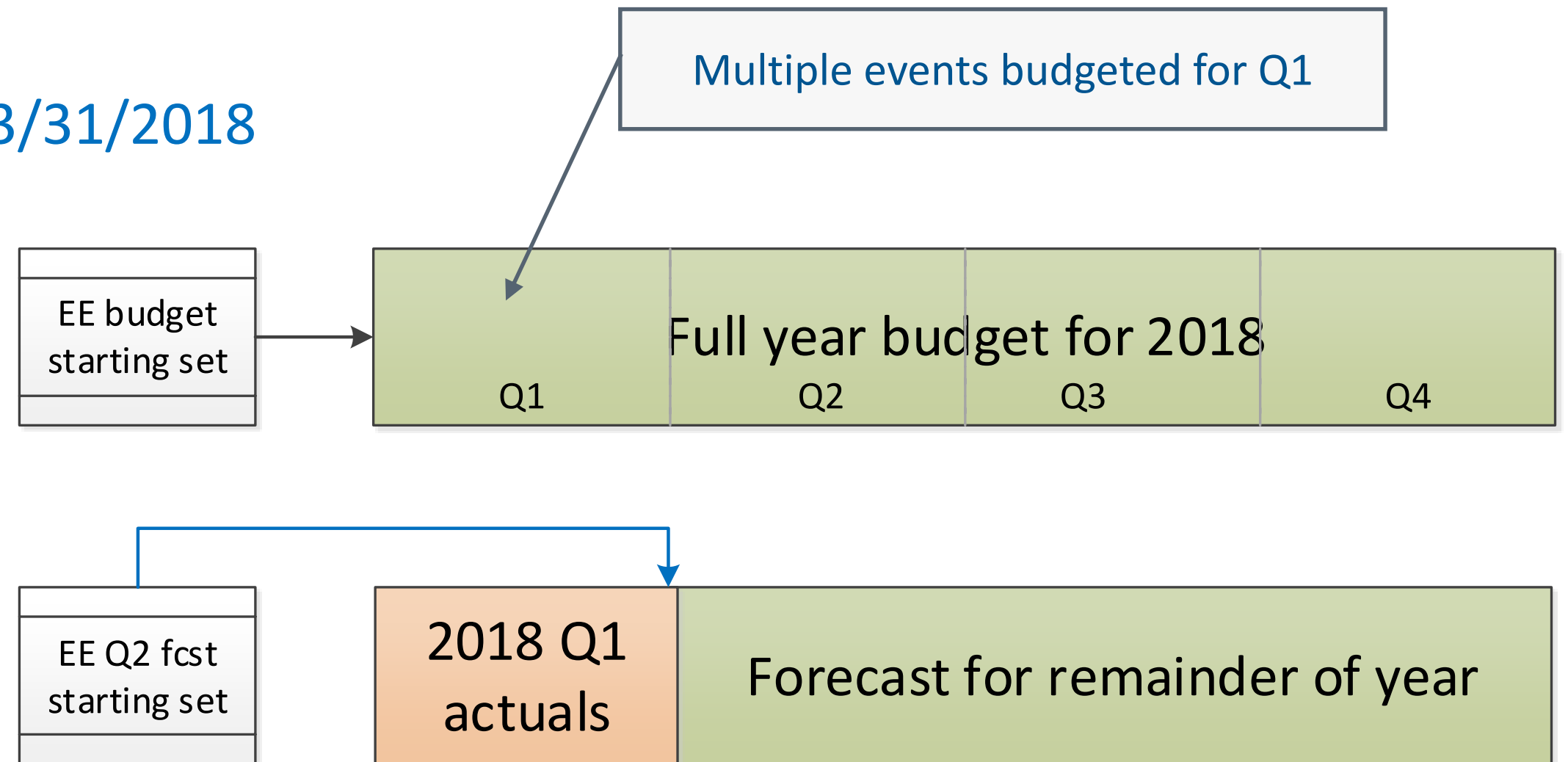
- Consider these events in the budget:

Groucho gets a raise on 1/15/2018 from \$50,000 to \$53,000

Harpo is terminated on 2/15/2018

Chico is hired on 3/15/2018

Zeppo gets a \$5,000 bonus on 3/31/2018

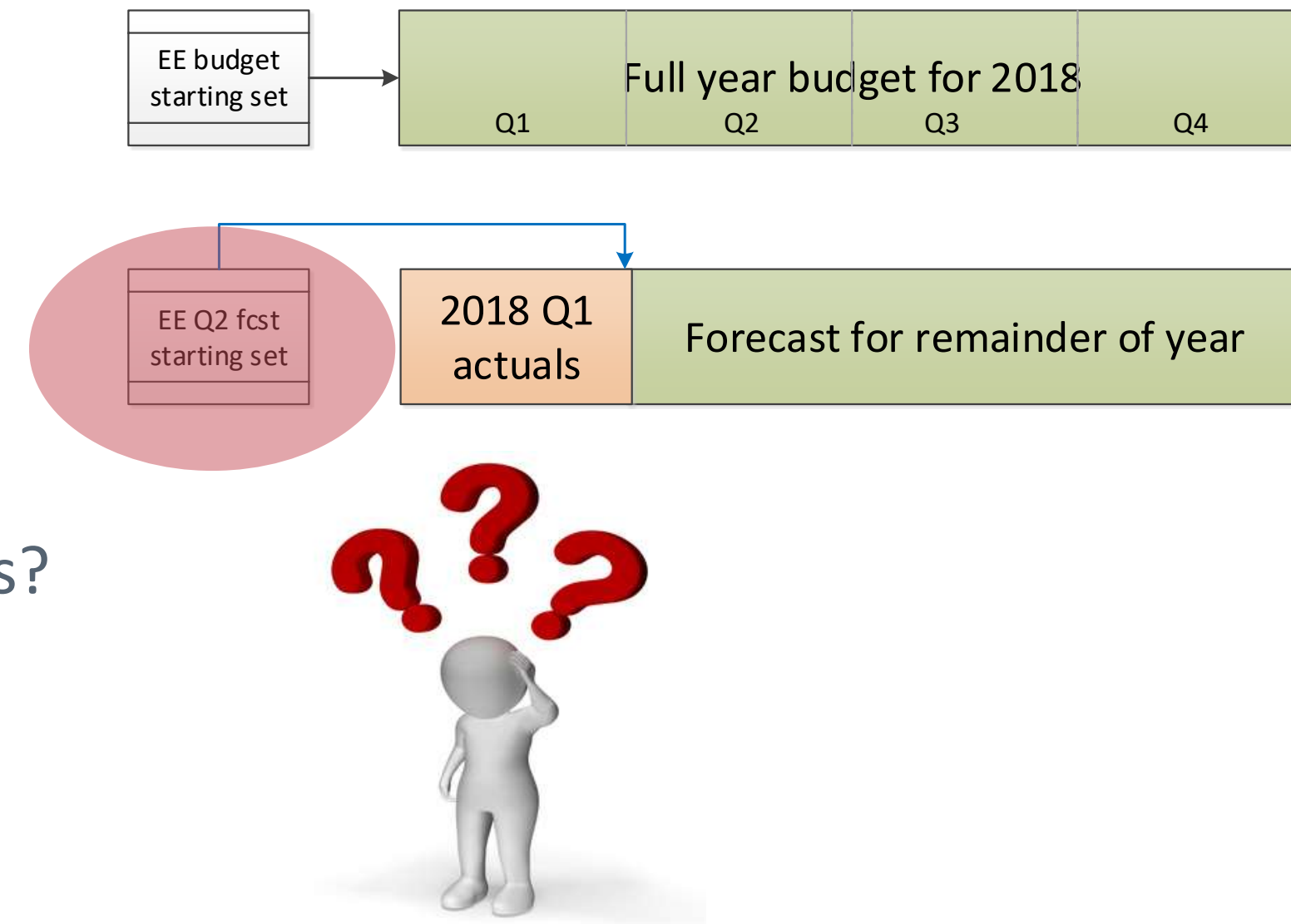


Reminder – the plan:

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The reconciliation problem: Example (cont'd)

- Now...what should the starting set of employees for the forecast (beginning on 4/1/2018) look like?
- Should Groucho's salary be \$53,000?
Yes – but only IF the budgeted raise *actually happened*
- Should Harpo be in the set?
No – IF he was *actually* terminated
- Should Chico be in the set?
Yes – but only IF he was *actually* hired
- Should Zeppo's YTD compensation include a \$5,000 bonus?
Yes – but only IF he *actually* got the bonus



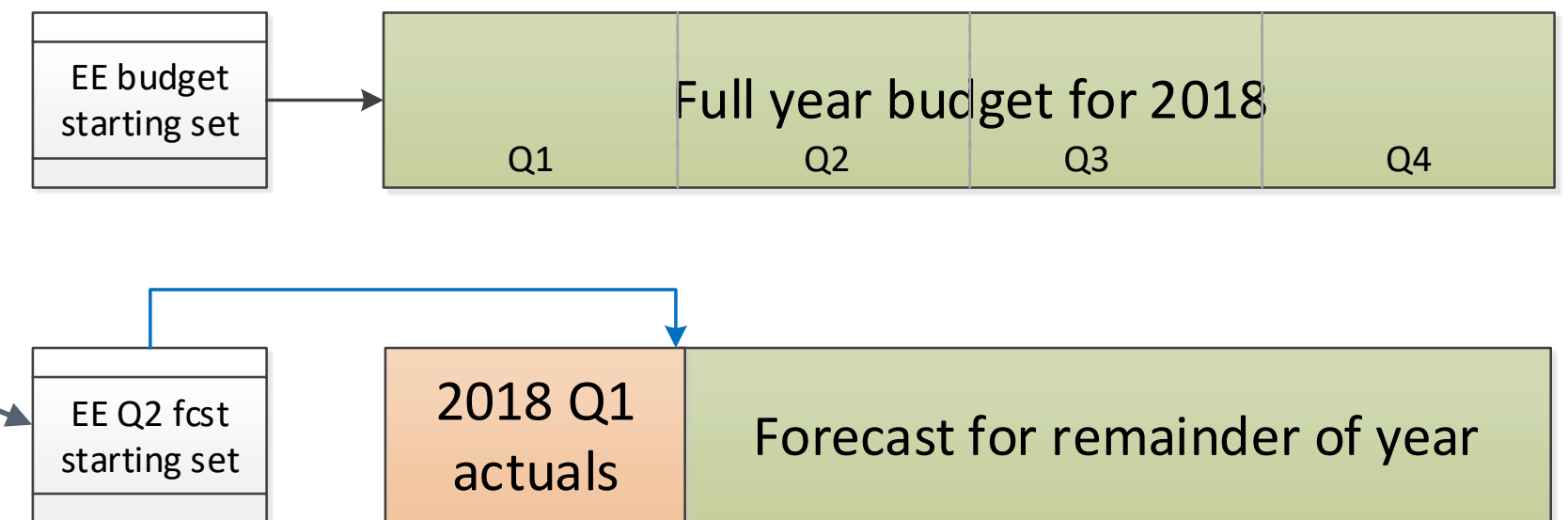
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The reconciliation problem: Example (cont'd)

- So...the *key question*:

Does the starting set for the forecast match the plan...or reality?



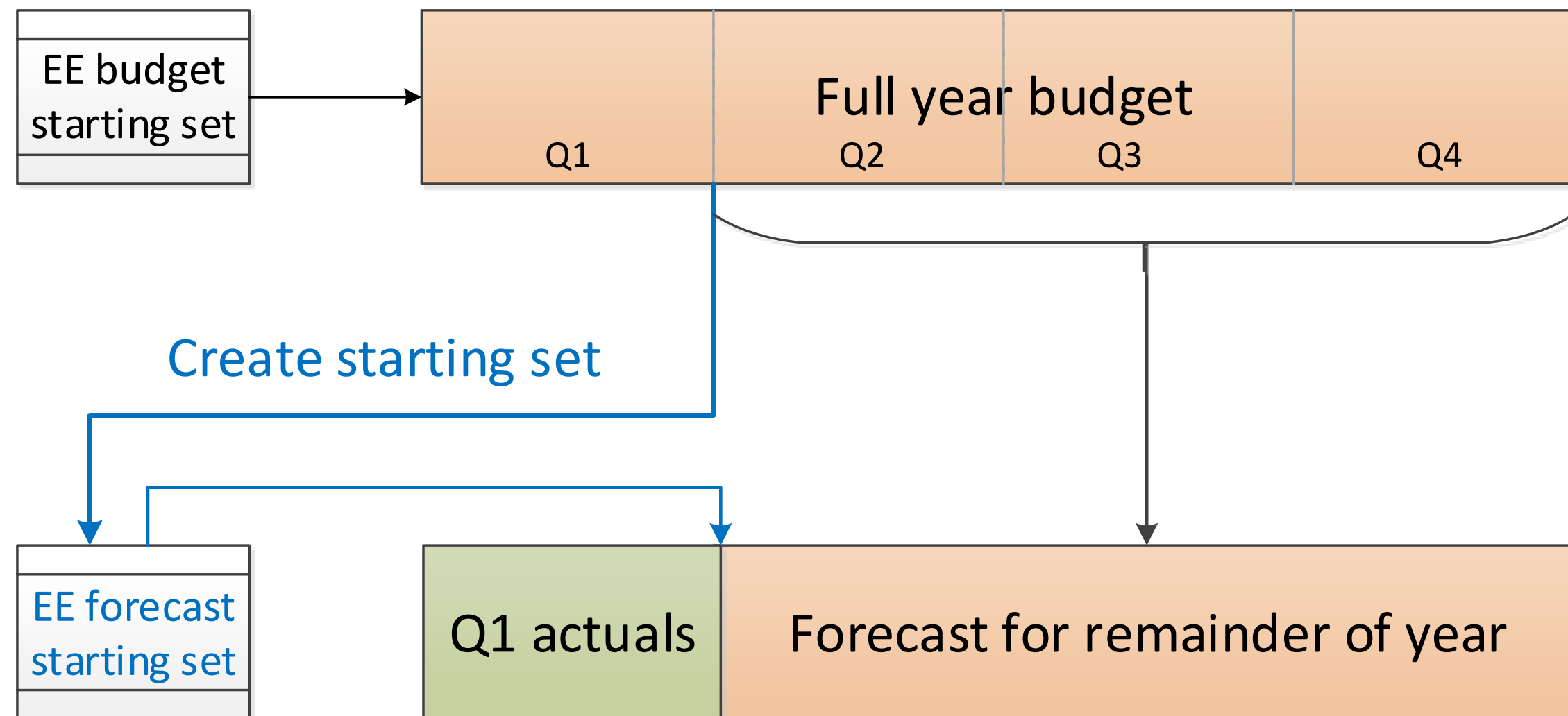
The reconciliation problem: No silver bullet, but you do have choices

- Reconciliation questions are inherent in any forecast
- There is no magic solution and no “right” answer
- Recommendation: Minimize the differences in the way you create the starting set of employees for the forecast
- How? Before beginning the forecast, assess how much reality has deviated from the plan
 1. **If pretty much on track:** Create starting set from an end point in the budget
 2. **If very different:** Create starting set by importing an updated roster from HR



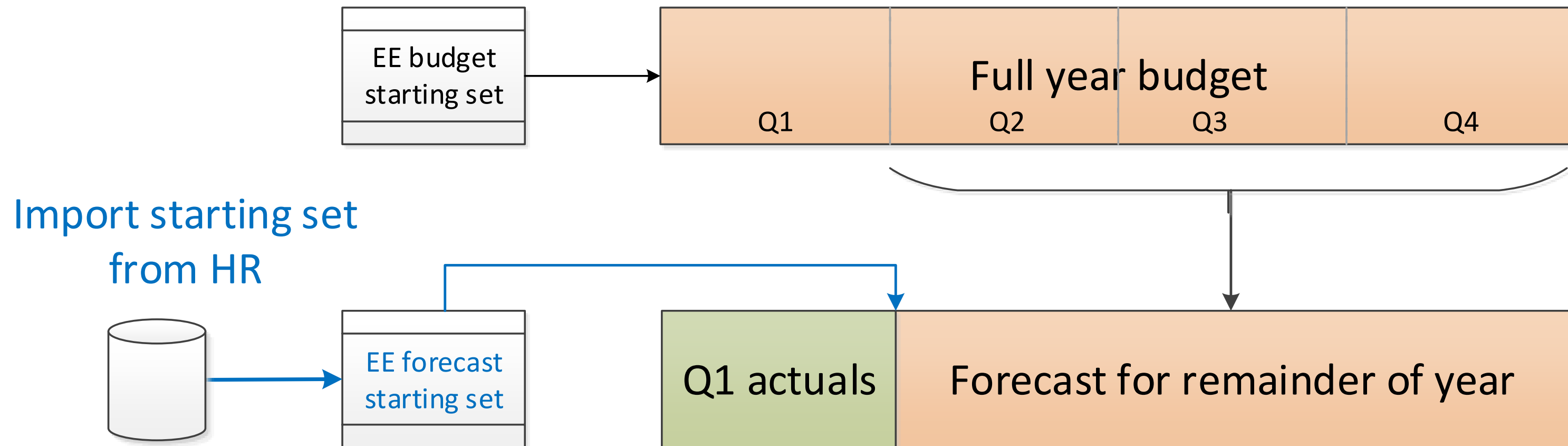
Case 1 - Pretty much on track: Create starting set from an end point in the budget

- BudgetPak provides an easy way to do this
- Automatically factors in all of the planned events (raise, termination, new hire, bonus impact on YTD comp, etc.)



Case 2 - Very different: Create starting set by importing an updated roster from HR

- Guaranteed (?) to be current and accurate
- BudgetPak will “match up” events from the budget (Q2 – Q4 in example) with starting set (using employee ID)



How often should you do a forecast?

Only Q4 “reforecast” prior to annual budget?

Quarterly?

Monthly?

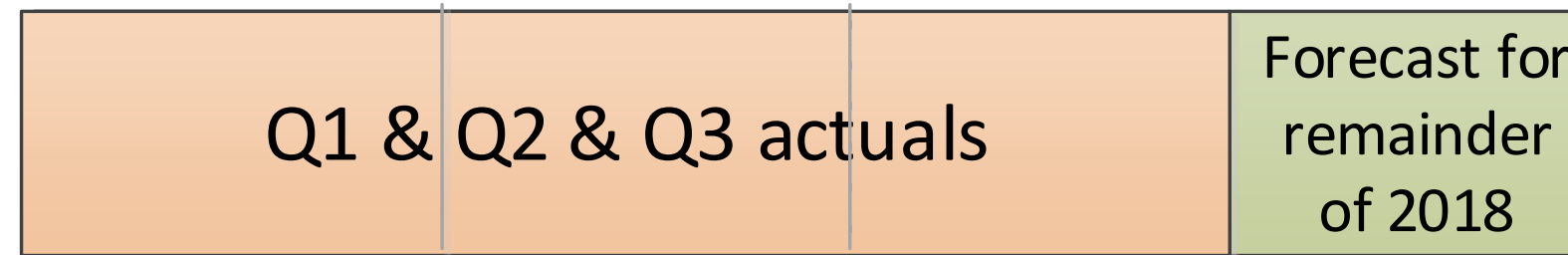
- Organizational: What you’re doing now will probably drive decision
- Less frequently: Less time required (of you and your budget holders)
 - and shorter initialization
- More frequently: In theory more accurate; but more time required (of you and your budget holders)
 - ... and longer initialization



How many versions to use for a forecast?

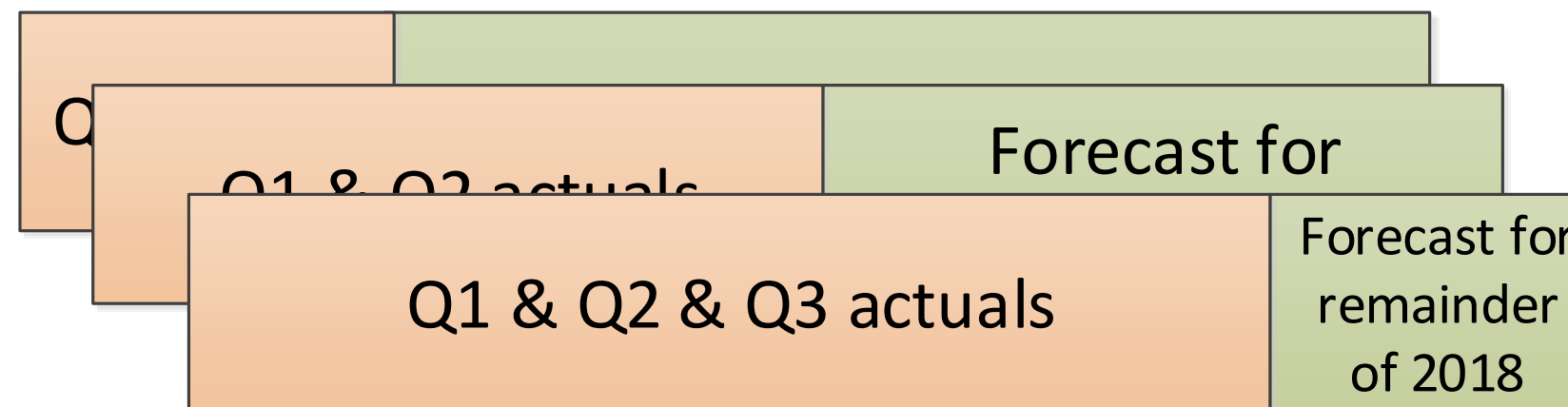
- One per year: If you do not need to report on differences between forecasts throughout the year

~~Version: Q2 forecast~~
~~Version: Q3 forecast~~
Version: Q4 forecast



- On per forecast cycle: If you need to report on changes between forecasts throughout the year

Version: Q2 forecast
Version: Q3 forecast
Version: Q4 forecast



Q&A

Thank you!