Forecasting

This guide, from our Budgeting XLerator series, contains information to help organizations decide what approach to forecasting is right for their organization. The purpose of a Forecast is to predict, at an account level, where the organization will end up by the end of that year.

WHAT IS A FORECAST *(and how does it differ from a budget or projection)?*

Budgeting is the process used to compose a monthly plan (during the prior year, or at the beginning of the current year) to predict the revenue and expenses of the organization for that year - with the goal of managing to that plan and controlling the monthly variances. The Forecast is used throughout the year to manage against Budget, identify trends, and track the specific data needed to make changes to the plan. A projection is a long range plan based on data from historical actual, budget and/or forecast data to estimate the future.

WHAT SHOULD YOU CONSIDER IN YOUR FORECASTING PROCESS?

››› FREQUENCY

Forecasts can be completed monthly, quarterly, semi-annually, or as needed, depending on the needs of the organization. More frequent forecasts provide increased accuracy and reliability against plan.

››› PHILOSOPHY

Forecasts are started by merging monthly actuals with the current monthly budget or previous monthly forecast. There are typically two starting points: keep the annual totals the same as the original budget, or adjust the totals based on the actual spending for each line item.

- If the organization has a pre-determined/established budget philosophy or a predictable revenue stream, for example, then one would want to use "keep totals the same" and have the department heads document any variances to plan.

- For organizations with significant changes through-out the year, an optimal approach would be to "adjust totals" so that the revised annual total takes into account any monthly variance from the original plan. Therefore the finance team can clearly see what line items mightbe headed towards being over-budgeted or under-budgeted.

- Many organizations would use a hybrid approach with a fixed philosophy for certain line items and a flexible philosophy for others in order to accommodate their unique levers that impact their business.

››› REPORTING NEEDS

Depending upon whether the organization wants to be able to compare forecasts throughout the year, different approaches are needed. If an organization does not need to report on differences throughout the year, they would maintain one forecast version throughout the year that is updated periodically with actuals. If instead it is important to keep individual forecasts throughout the year for comparison purposes, a new forecast version would be created for each forecast cycle.

››› WHO TO INVOLVE

Forecasts can be maintained strictly by the budget office/finance, or they can be completed by all budget managers at each department level, or anything in between. The needs of the organization determine who is involved throughout the forecasting process: all departmental managers have accountability for overseeing their budget/forecast through-out the year; only those departments which typically have the most changes (e.g. facilities, IT) are involved in the process; or only finance is involved by doing a more top-down approach to changes throughout the year.

SOFTWARE FEATURES FOR FORECASTING – WHAT SHOULD YOU LOOK FOR?

»»» STEP BY STEP GUIDE TO EASILY CREATE A FORECAST

The system should step the user through the process of creating a forecast including the historical actual version and months to include, the current budget or forecast version and months to include, whether this forecast version should include an updated set of calculated values, driver values or employees, and a description to explain the purpose of the forecast.

»»» FLEXIBLE DATA COMBINATIONS

Not only should there be a choice of whether to start a forecast by holding the totals the same or changing the totals based on actuals, the data that goes into a forecast version should be flexible and controlled by finance. A forecast version is a combination of actuals and either a budget or forecast. Finance needs to be able to decide which historic data version is to be merged with budget or forecast version. For example, with a calendar fiscal year, in February, finance can merge January actuals with eleven months of the current budget to create February Forecast version. In March, finance can merge January and February actuals with ten months of the February Forecast version to create the March Forecast.

»»» LEVEL OF DETAIL

Organizations should be able to choose whether to complete forecasts at the account level or below the account level. In most organizations, forecasts are completed at the account level, keying off the monthly budget numbers. However for organizations with rapid growth, large changes in headcount throughout the year, or who need very specific monthly numbers for details below the account level - a different approach is in order. For these organizations, specific data (such as individual employees, assets, or line item detail) needs to be able to be adjusted on a monthly basis that then automatically rolls up to the account level.

»»» DEPARTMENTAL DATA TRANSPARENCY

Regardless of the number of departments involved in the forecast process, an organization should still be able to view forecasts on a department level. When a forecast is created, it should automatically be created at the department level, so that either finance or the department head can adjust the data as needed.

»»» APPROVAL PROCESS

Typically an organization is working on the current forecast while producing the next fiscal year's budget. Therefore there needs to be a separate approval process for each version, and the department heads need to know what they are responsible for working on at a given time. For full accountability, in order to sign off on their forecast, department heads must be required to review their forecast first.

ABOUT XLERANT

XLerant provides a cloud-based, budgeting, forecasting and reporting solution designed with an easy to use interface that makes a complex process accessible for all users. It was created by finance and IT executives who had first-hand experience with the time-consuming frustrations of budgeting and forecasting with Excel-based templates and recognized that the industry needed a solution that worked for the finance team as well as the end user. We believe your time is better spent on analysis, not the process, and delivering strategic guidance instead of consolidating spreadsheets or fixing formulas. Ultimately, the budget needs to be a numerical expression of the strategic plan and that requires engagement, communication, and collaboration.

Visit www.XLerant.com to learn more.

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