



## Long-Term Projections

This guide, from our Budgeting XLerator series, contains information to help organizations understand how long-term projections work and which approach is right for them. Long-term projections can be used in addition to forecasts since they serve a different purpose. The purpose of a projection is to estimate broad trends for the company, for strategic planning purposes.

### WHAT IS A LONG-TERM PROJECTION *(and how does it differ from a budget or forecast)?*

A long-term projection is a particular kind of long-range forecast or plan – one in which there is a high-level estimate of future years. Unlike a budget or forecast version, it is not the purpose of a projection to be used as an operational plan, with detailed account data. A typical projection done by finance consists of multiple columns for historic data (actuals, budget and/or forecasts) plus additional columns for projection years.

### WHAT SHOULD YOU CONSIDER WHEN CREATING A LONG-TERM PROJECTION?

#### »»»» LEVEL OF DETAIL

- 1. High Level of the Organization** – A company with 500 departments will likely have 500 distinct budgets. Projections, however, are almost always done at a very high level. Most companies do projections only for the topmost few levels in the company, or even just for the company as a whole.
- 2. High Level of the P&L** – Budgets are usually developed down to the account level, and can have hundreds of rows. A projection is typically a high level version of the full P&L, with perhaps a few dozen rows. Sometimes a hybrid approach is used, whereby there are detailed, line-item projections for key accounts like revenue accounts, but the rest of the accounts are projected at the subtotal level.

#### »»»» DATA RANGE

A projection has columns with data that fall into two categories: trend columns (historic actuals, current actuals, budget, or forecast versions) and projection columns (as many years into the future as needed). When using predictive analytics, the number and type of historic versions chosen will produce different results for the projection years. By including at least two years of actual data plus the current forecast for the trend columns, for example, will give you the most recent data from which to predict the values for the upcoming three to five years.

#### »»»» PROJECTION APPROACHES

A predictive analytics approach, which is the ability to automatically compute projection figures from the trend versions, is the best place to start. This approach, which uses a linear least squares regression, will provide the most accurate projection data based on the organization's individual historic data values. After a feasibility analysis, each row can then be adjusted individually, as needed, by simply entering a percent increase or dollar figure.



## SOFTWARE FEATURES FOR LONG-TERM PROJECTIONS – WHAT SHOULD YOU LOOK FOR?

### »»»»STEP BY STEP GUIDE TO EASILY CREATE A PROJECTION

The system should step the user through the process of creating a projection including level of the organization, trend versions and projections years, selected income and expense data elements, users, and detailed descriptions that explain the content and purpose of the projection.

### »»»»VERSION FLEXIBILITY

The ability to easily create multiple, different projections for the same set of trend columns and projection columns by copying a current projection to one with a new code and description. Then by applying different variables the user will be able to compare different impacts on projections such as increasing or decreasing revenues, holding headcount flat, add new strategic initiatives, and see the results in the future years.

### »»»»FLEXIBLE DATA INCLUSION

Organizations should also be able to choose which data to include even if the full P&L is not covered. Projections should be able to consist of any combination of accounts, subtotals, or top-level totals (total income or expense). The ability to omit accounts is useful because some parts of the P&L are zero or immaterial going forward and there is no point to including them in the projection.

### »»»»APPROVAL PROCESS

Finance needs to be able to control who can view or work on which projection(s), as well as who can sign off and revoke the sign-off. The approval process should also clearly show the progress and timing of the projection – if it has been started, and when it has been signed-off.

### »»»»EXTENDED FUNCTIONALITY

Organizations should be able to use or extend their existing Excel model for projections. By having a dynamic link between the long-term projections plan within the software solution and Excel, one can seamlessly move and update data between the Excel model and the long term projections plan to create one unified long-term projection.



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### 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.

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