

WHITE PAPER

MIS Alea the engine for Reforecasting

(Overcoming the problems spreadsheets cause when reforecasting)



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THE NEED TO FORECAST

Competition is fiercer now than it has ever been. Requirements for reporting up to date actuals are greater than ever and the need to analyse data and spot trends to gain competitive advantage is crucial.

Most organisation's reporting reflects this need, with weekly or monthly reporting of financial data the norm and often more frequent reporting of operational and sales related data.

Why then is that planning, certainly the overall financial plan or budget, tends to be done on a much less frequent basis, usually annually?

Does the organisation not have a requirement for up to date planning?

Is it acceptable to measure performance, and make vital decisions, against plans that may no longer be applicable?

Many companies still only set an annual budget and believe that they are managing their businesses when comparing actual performance against this "cast in stone" set of numbers.

Whilst in some cases this may be true, most organisations would be more competitive if they had the ability to reforecast on a regular basis; better performance management.

WHAT STOPS BUSINESSES FROM PRODUCING UPDATES TO THEIR ANNUAL BUDGET?

The main reason is that to produce regular forecasts is a difficult, time consuming and labour intensive activity. By the time forecasts are produced it is often time to start the next! More effort is used to produce the forecast than use it.

As well as the logistics of revising the budget, any organisation with multi-reporting units needs a business solution to managing and creating the model of their business. For the last 15 years this has been the spreadsheet. As the complexity of spreadsheet models have grown they have created their own problems with integrity and over-complexity. The effort to maintain spreadsheet models has become as great as the effort to produce an initial budget.

A key question therefore is: "Is the effort put in to a regular forecasting process really worth the effort?" If the forecasting process is going to distract from running the business and tie up your key resources for more than a short period of time then it will not gain acceptance within the organisation.

The value in a regular forecasting process, which is both quick and comprehensive, cannot be underestimated. Many organisation's forecasting is limited to replacing the budget with actual numbers on a monthly basis and then changing the annual total.

Most organisations do understand the key drivers of their business and could effectively reforecast on a regular basis by just reviewing and changing these high-level indicators against their consolidated numbers. This is a relatively simple process to do in a spreadsheet, but how can these changes be quickly translated into base level actions?

Budgeting and forecasting should be top-down planning exercises, which turn a company's strategic goals into activities that are translated into financial and non-financial measures. In reality most organisations still look on it as a number crunching bottom-up, "what's changed and add a bit exercise".

The path to most company's desires to reach true top down planning can be begun by gaining control of the bottom-up numbers. In this automation becomes a vital component of the process.

THE DIFFERENT APPROACHES TO FORECASTING

Essentially there are two approaches to reforecasting:

Replacement: The forecast period, usually the current financial year, remains the same throughout the year. Actuals replace the forecast or budget figures as they become available, typically on a monthly or quarterly basis. For instance the first quarter forecast would consist of actuals for the first three months of the year and forecast figures for the remainder of the year.

Automating this process means that within minutes a new forecast is available and the manager's can review their performance and initiate any known changes to the budgeting model.

Rolling Forecast: This is the process of simulating profit & loss accounts for a company on rolling basis.

When used as a management tool, rolling forecasts have an edge over many other performance management systems by continually requiring the organisation to consider the next actions to be taken and the affects of those actions on the business.

In the rolling forecast the period moves with time so the figures always reflect a set number of periods ahead.

STEPS TYPICALLY UNDERTAKEN DURING THE REFORECAST PROCESS

For the purpose of this paper we will consider the replacement approach to reforecasting. The mechanics of producing the forecast are similar, (and exhibit similar problems), for both.

Steps

1. Copy Budget spreadsheets.
2. Rename Spreadsheets
3. Zeroise where appropriate
4. Copy actuals to date into Spreadsheet.
5. Manually manipulate or calculate remaining forecast.
6. Use forecast for analytical purposes

1. COPY BUDGET SPREADSHEETS

Problem in a Spreadsheet <i>Copy budget spreadsheets</i>	MIS Alea Solution
<p>The first step in producing a new forecast or plan is to copy the whole of the current forecast directory and create a new directory so the new plan can be entered.</p>	<p>MIS Alea offers a template approach where data is stored by version and therefore there is no need to create new spreadsheets in a new directory</p>

2. RENAME SPREADSHEETS

Problem in a Spreadsheet <i>Rename spreadsheets</i>	MIS Alea Solution
<p>The next step is to change all references in the new directory to the new forecast or plan.</p>	<p>Because MIS Alea uses a template approach just select the new version in the drop down and you're ready to go.</p>

3. ZEROISE WHERE APPROPRIATE

Problem in a Spreadsheet <i>Zeroise where appropriate</i>	MIS Alea Solution
<p>Now remove the numbers which were in last month's forecast and replace them by this month's actuals. Just in case there are zero actuals in the new month and you want to make sure you don't make a mistake. Repeat this process for every worksheet in every workbook.</p>	<p>Because MIS Alea offers a template approach where data is stored by version, all Actual data will be imported directly into a version called Actual. The current forecast will automatically be updated to reflect the new month. Therefore there is no spreadsheet manipulation required.</p>

4. COPY ACTUALS TO DATE INTO NEW SPREADSHEETS

Problem in a Spreadsheet <i>Copy actuals to date into new spreadsheets</i>	MIS Alea Solution
<p>Download the actual numbers from you financial and other systems. Paste them or paste link them into the individual workbooks or into a trial balance worksheet and then use spreadsheet links to populate the individual reports. Be careful not to change the formats of the spreadsheets !!!</p>	<p>Because MIS Alea offers a template approach where data is stored by version, all Actual data will be imported directly into a version called Actual. The current forecast will automatically be updated to reflect the new month. Therefore there is no spreadsheet manipulation required.</p>

5. MANUALLY MANIPULATE OR CALCULATE REMAINING FORECAST

Problem in a Spreadsheet <i>Manually manipulate or calculate remaining forecast</i>	MIS Alea Solution
<p>Now you have got the new version together you have to collect the data from the end-users. Just think about how much spreadsheet management is involved in involving the budget holders in the on-going forecasting process and how long it takes your finance team to rebuild the final result. No wonder you only do the exercise a couple of times per year.</p>	<p>Because MIS Alea offers a template approach where data is stored in a multi-dimensional database your budget holders can access their planned numbers and every change updates both their own performance and the company's performance. No wonder MIS Alea users can achieve 12 reforecasts per year!!</p>

6. USE FORECAST FOR ANALYTICAL PURPOSES

Problem in a Spreadsheet <i>Use forecast for analytical purposes</i>	MIS Alea Solution
<p>Data for the total forecast will be stored in a number of separate spreadsheets. It is likely that this will be at a detailed level. Summarised or "rolled up" data will be stored in a summarisation spreadsheet. Because each spreadsheet is effectively a separate database it is difficult to analyse across them. The alternative is to analyse the summarised data for the whole organisation but clearly this cannot be done in detail.</p>	<p>MIS Alea stores all the detailed data on one database and takes views of that data in a spreadsheet environment as reports. All the data is available.</p> <p>These views are produced in browser without the need to copy and paste or re-key data.</p>

CONCLUSION

MIS Alea overcomes the problems of spreadsheets that make spreadsheet applications difficult to maintain and control which is exactly what needs to be done when creating new versions of numbers or forecasts.

The issues MIS Alea overcomes include.

- Maintaining Linked Spreadsheets
- Re-keying data between spreadsheets
- Rapid increase in Spreadsheet size/ rapid decrease in spreadsheet performance.
- Maintaining complicated macros
- Concurrent user support
- Flexible analysis of numbers.

These issues make forecasting in the spreadsheet environment very difficult; so remove these issues.

My key issues with reforecasting