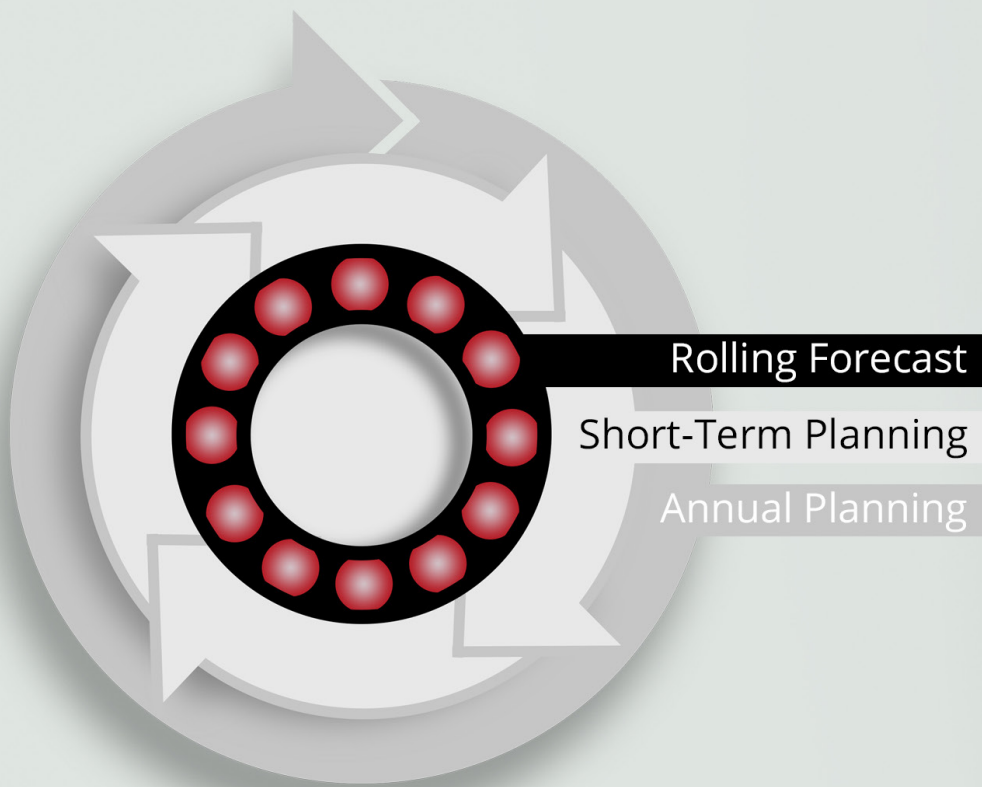


WHITEPAPER



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Let's Roll: How Rolling Forecasts Enable Agile Financial Management

The goal of financial management is to use financial resources efficiently in line with the corporate strategy. The basis for this is a transparent and integrated view of control-relevant data. Often, this perspective has to be created in a manual and time-consuming manner. As a result, avoidable expenses are incurred and reaction speed decreases. However, the increasing speed of change in today's markets requires a high reaction speed in order to facilitate an agile reaction to the constantly changing environment. Rolling forecast, as a transparency-creating, integrative and flexible cornerstone of financial planning, meets the requirements. This paper describes how rolling forecast can be used as a core element in different financial planning horizons and how it enables increasing agility of financial flows.

Challenges in Financial Management

The goal of financial management is to use financial resources efficiently in line with the corporate strategy. Transparency about current and planned activities, the required resources and about the strategic goals of the company is a prerequisite for this to work. In practice, transparency is often not given. The effort required to establish a suitable planning basis leads to unnecessary costs. Furthermore, the lack of transparency can encourage bad investments. For example, suppose a company wants to minimize the quality variance of its production processes globally through standardization. If this goal is not known, the probability is high that regional processes will be further developed and optimized until the global goal is achieved. As a result, unnecessary efforts and costs are incurred.

The increasing speed of change in the markets demands the use of agile approaches. A rigid financial control instrument that only allows long-term planning does not meet the demands of today's environment; the learning effects in the course of implementing agile projects are too great. If these learning effects cannot be taken along and implemented due to rigid internal control mechanisms, the agile approach cannot function.

A cornerstone is needed that allows active and planned projects to be analyzed transparently in the light of available resources, funds and strategic initiatives. Then these variables should be regularly, agilely, and flexibly aligned with business and market needs. This cornerstone is called the rolling forecast.

Rolling Forecasts: The Foundation for Financial Management

Rolling forecasts provide a consistent overview of planned and ongoing activities and required resources at all times. Additionally, they strengthen the fit between the use of funds and the strategic orientation of the company. By taking a short cyclical approach and creating a consistent perspective, rolling

forecasts facilitate the dialogue towards a common goal. Rolling forecasts enable efficient and effective goal-oriented planning, which can react agilely and flexibly to constantly changing requirements.

In the course of financial decision-making processes, rolling forecast transforms uncertainty into planning precision. To achieve this precision, different degrees of uncertainty must be taken into account and interpreted in a goal-oriented manner. In particular, a distinction must be made between ongoing operations and change initiatives. On the one hand, an established area is considered; on the other hand, new goals are pursued, the achievement of which is not always clearly defined in advance. In this article we look at rolling forecast from two perspectives: *Run the Business* and *Change the Business*.

Run and Change the Business: Different Targets, Different Approaches

Different types of IT activities are handled differently due to their characteristics. For example, activities aimed at maintaining operations are associated with greater planning reliability than activities aimed at change and transformation. For this reason, these different activities are managed differently in practice and often considered in isolation. In reality, however, there are many interactions between the different types of activities; all projects draw on a common pool of resources, such as financial resources or internal and external capacities. Furthermore, operational requirements lead to changes in the existing architecture and projects for change influence the operation.

An isolated consideration of the different types of activities is therefore not conducive in terms of holistic financial management. In order to arrive at a holistic view, it is nevertheless necessary to know the differences and understand the interactions between the two types of activities.

In financial management, we distinguish between *run* and *change* activities. *Run* includes all activities and expenses that are necessary to ensure that the IT operations of the

company run smoothly. *Change* contains all activities and their expenditures that change the company, e.g. to make the operation more efficient or to generate new sources of income.¹

The *run* area is characterized by high planning reliability. Good empirical values from the past are available; the responsible internal and external employees, current contracts and the scope of the services to be delivered are known.

The *change* area is characterized by lower planning reliability. Something existing is changed or something new is created. The necessary resources, scope, work packages, milestones and run times cannot be determined with the same degree of precision as in the *run* area. The project becomes more concrete as the runtime progresses. A financial planning instrument must be able to adapt to these conditions in an agile way.

In the following, we will first take a closer look at rolling forecast in order to then use this as a basis for controlling during the year and planning for the entire year. In both cases, we distinguish between *Run the Business* and *Change the Business* to take into account the different degrees of uncertainty.

Rolling Forecast: The Heart of Financial Management

Rolling forecast is continuously adjusted and non-centrally-collected planning. This means that those responsible, such as project managers or service managers, immediately record new findings in the planning documentation. Only control-relevant information, such as scope and scope changes, required financial and personnel resources, risks or effects on the existing enterprise architecture are recorded. Stakeholders are involved in the approval processes at regular intervals. This not only fulfills the dual control principle and ensures the quality of the planning data, but also enables close stakeholder involvement.

Decentralized rolling forecast ensures the best possible planning status at all levels and at all times. It is a strong basis for making well-founded decisions at any time and for reacting flexibly to new requirements and market developments.

Rolling forecast in an integrated approach, which saves considerable effort. In most companies, the necessary data

¹ see Gartner “*Toolkit: How to Present Your IT Budget to the Board of Directors*”, Published: 12 March 2020

Run the Business:

Different types of IT Activities are handled differently. Activities aimed at maintaining operations are summarized under the term *Run the Business*. These activities are characterized with a high degree of planning certainty. Relying on prior planning data, the rolling forecast provides an efficient and reliable basis for extrapolation.

Change the Business:

Activities aimed at change and transformation are summarized under the term *Change the Business*. These activities are characterized by a high degree of uncertainty. The short-cycle rolling forecast provides an agile basis for exploring new endeavors and adapting budgets as required.

are already collected, but in different systems and with different structures. For example, the resource planning for *run* and *change* is often in different systems and the effects on the finances are only visible in the regular plan statuses. Comprehensive planning rounds such as fiscal year planning then require considerable effort, as the data have to be merged and their structures standardized. Moreover, the effects on the settlement receiver only become clear after the data have been merged, which leads to additional iteration. If the rolling forecast is carried out in an integrated system, the effort required for controlling and fiscal year planning during the year is minimal. Only one planning status at a given time has to be frozen, validated and approved. This also eliminates the often-nerve-wracking effort of creating status reports. Automated status reports can be generated in a uniform structure at the push of a button.

Short-Term Planning with Rolling Forecast

During the year, it must be ensured that the financial resources are used to generate added value despite changing circumstances (both internal and external). In order to be able to make well-founded decisions at short notice, transparency about resources already consumed and about the changed environment (e.g. changes in scope) is required. Rolling forecast, which automatically integrates the required information, creates the foundation for this ability.

On the basis of this information, the company can check to what extent cross-portfolio measures are necessary. For example, it is possible that higher expenditures on current topics may lead to the need to stop or pause other topics. For planned and not yet started projects, it can be checked on the

basis of the updated planning and the existing transparency whether they can start with the existing capacities or whether they have to be brought forward or postponed. For ongoing projects, it is checked to what extent unforeseen influences and new findings affect the course of the project. If necessary, individual projects may have to be stopped due to identified risks. For all projects, the extent to which they support the existing strategic initiatives is to be examined.

The effects of changing circumstances on existing capacities are directly visible. Measures can be taken to solve them. Thus, it is not only necessary to solve the capacity bottlenecks of individual employees, but also to enable the best possible utilization of the IT organization. For employees who are absent or already working to capacity, it is necessary to check to what extent other internal resources can be used. With the help of the existing transparency regarding partners and external employees, it can be checked whether this newly identified need can be satisfied externally at short notice.

Focus of Control During the Year in *Run the Business*

In the context of projects assigned to *Run the Business*, the main objective of controlling during the year is cost efficiency. Operations must be reliable and cost-efficient. For this reason, control is primarily performed in a decentralized manner against the budget defined in the fiscal year planning process. If deviations in planning occur – due to a change in business

demand or changing market conditions – rolling forecast can be used to react to these deviations at an early stage. If, for example, half of the agreed annual budget is used in the first quarter with linear consumption, a change request can be made in the first quarter and not only when the entire budget has been used up halfway through the year.

With rolling forecast, an organization can react quickly and appropriately to changes during the year, be it renegotiation or a change of suppliers.²

² see Bee4IT Spotlight: “Contract & Suppliers: Balancing Efficiency and Innovation”

Focus of Management During the Year in *Change the Business*

The area of *Change the Business* is characterized by a high degree of uncertainty. Therefore, the aim of management in this area during the course of the year is flexible re-orientation to the changing needs of the environment and adapted planning based on the learning effects increasingly gained over the course of the year.

Rolling forecast as a core element enables planning and control along a scope that changes over time. Required resources and capacities can be iteratively adjusted to ensure the efficient and goal-oriented progress of agile projects without any planning overhead caused by rigid planning and its revision.

Annual Planning with Rolling Forecast

It is customary for most companies to plan and discuss the coming fiscal year once a year. Fiscal year planning serves the goal of effectively using funds in line with the corporate strategy. The budget agreed upon in this planning round is the basis against which a control during the year runs (see previous section). In order to determine the need for financial resources for the coming fiscal year, transparency is needed regarding current and planned projects and strategic initiatives. The former is available with rolling forecast through aggregation without additional effort. This eliminates a significant amount of effort compared to the usual process of fiscal year planning, where this information is only gathered with great difficulty. Those responsible for various corporate functions can work out the strategic initiatives and their effects on IT.

Which Decisions Are Necessary?

The findings from the strategy meeting are incorporated into IT planning and are further specified. On this basis, it is necessary to examine how planned projects from the pipeline and, if necessary, new projects, should be prioritized. The direction for the coming year is determined and the existing IT budget is allocated to the functions, taking internal and external circumstances into account.

At the portfolio level, it is examined to what extent the projects can be implemented with existing internal resources and competencies. If missing capacities and competences are discovered, they are covered elsewhere. Here, age fluctuation and strategically important core competencies must be taken into account. Based on the planning, the decision to build up competencies and capacities or to use external capacities can be made.

The participation of partners and suppliers is made concrete in the planning. This is to be used for the renegotiation of prices for quantities and services. The effects of the planning on the settlement recipients are immediately visible and must be coordinated at an early stage. Late involvement leads to subsequent corrections and increased planning effort.

The Special Features of Fiscal Year Planning in *Run the Business*

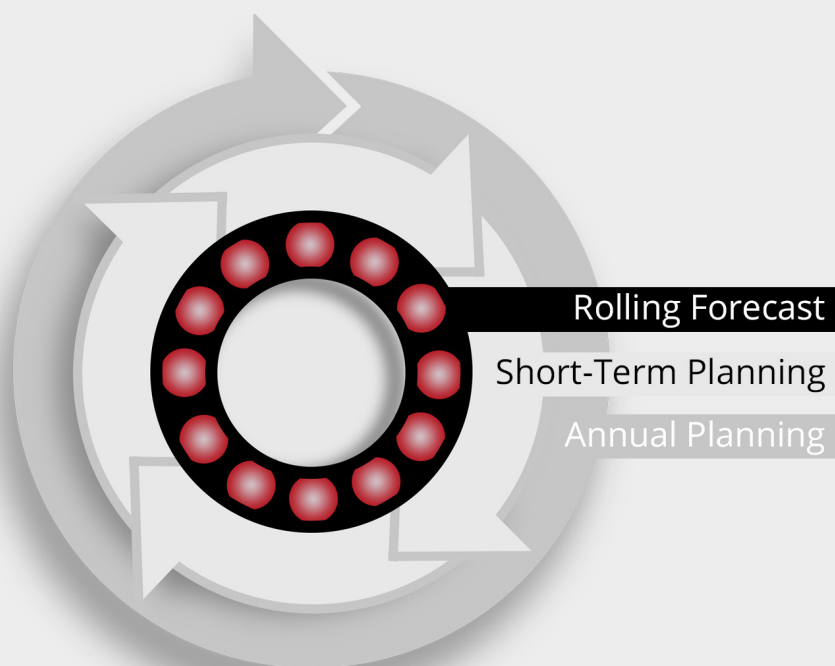
For the *run* area, the following questions, among others, have to be answered with regard to the provision of IT services. For assets that have to be replaced due to technical or economic aspects, an investment decision has to be made taking into account the strategic orientation of IT. The development of costs for certain IT services must also be considered. For example, it is possible that the costs for the company's own IT provisions will increase and that the services provided on the market will become attractive. Business requirements and demand may also have changed, so that service levels must be adjusted, or certain services may no longer be required to the same extent. The freed capacities must be adjusted and

integrated into other projects. Based on the changed business architecture and the target architecture, services and provided applications can be merged and thus synergies can be used. The required resources and the corresponding competencies can be identified early and with high planning reliability in the *run* area. Therefore, the identification of conflicts on the employee level is definitely appropriate here.

The Special Features of Fiscal Year Planning in *Change the Business*

In the context of fiscal year planning, the low level of planning security must be accepted when determining the use of financial resources in the *change* area. Decisions must be made at the level of the different portfolios, as the necessary

data are not always available at the level of the individual projects. For example, it is not possible to make a decision based on the net present value for all planned projects because the output cannot always be measured in monetary terms or the planning for future projects is not concrete. The concretization of the projects and a decision between two projects can be made in the course of the year. For the *change* area, it is not expedient to solve potential capacity bottlenecks at employee level. Due to the high dynamics in the *change* area, the enormously high planning effort compared to the low planning reliability is not justified.



Rolling Forecast:

The rolling forecast is a transparency-providing, integrative and agile cornerstone of financial planning. Its aggregation over a given timeframe efficiently provides the basis for short-term planning and annual planning.

Short-Term Planning:

The aim of the short-term planning is to enable short-term financial adjustments that are required if, e.g., the scope of a project changes. The typical cadence is quarterly but can also be as short as monthly.

Annual Planning:

Based on strategic input, the annual planning defines budget frames for initiatives for a given year. The annual planning therefore defines the thresholds against which the short-term planning can make adjustments.

Answer the Right Questions at the Right Time

Rolling forecast, as presented in this article, enables a holistic control on all levels of the organization and supports the control at any time. The shown levels *run* and *change* and the levels of detail at different points in time help the organization to answer the right questions at the right time. This minimizes the planning effort in IT and in the business department – regardless of whether the goal is efficiency or agility.

About the Authors:



Sergej Neumann

Sergej is a walking financial management dictionary. He has developed and maintains a holistic perspective on all financial matters within organizations. His experience in various industries and his sharp mind allow him to guide everyone precisely through all levels of abstraction and maturity of financial management. He is able to adapt quickly to any organizational context and can work out the relationship between a given management approach and the available technological solutions in an instant. Powerful knowledge meets excellent communication skills.

Katharina Flesch

Katharina is an empathic mastermind. Years of cross-industry consulting experience and degrees in economic and social areas pave her the way to pinpoint and scrutinize root causes from different perspectives. With a clear picture of integrative and holistic IT management in mind, she pursues realizing this vision persistently in order to guarantee her clients only the best results.





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