Anaplan

EBOOK

Annual planning is running out of time: Transitioning to rolling forecasts

Background

Is it time to consider retiring the traditional annual plan to favor more agile processes like rolling forecasts? The traditional annual plan served a valuable purpose for decades. The question is, has the annual plan been enshrined in tradition but outlived its value and usefulness?

Business leaders focused on maximizing shareholder value must always be ready to adopt and adapt to new technologies and transformational practices. If we only focus on 'what's new,' we might overlook the transition from 'what is no longer useful.' How much of 'the new' should be adopted, and when? How much of 'the old' should be replaced? A better question to ask may be: what happens when an outcome has value, but the path to achieving that value is outdated, expensive, and limiting?

Traditional annual plan

- Historically dependent
- Quickly outdated
- Backward facing

Rolling forecasts

- Updated
- Adaptive
- Agile
- Focused forward

In this eBook, Frank Calderoni, CEO, Sara Baxter Orr, Head of CFO Practice, and Simon Tucker, Chief Planning Officer at Anaplan, discuss the benefits of rolling forecasts and explain why annual planning was broken even before the COVID crisis.

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CEO

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The challenges with traditional annual planning

Hardwired to a finite calendar, executed on outdated tools

Anaplan CEO Frank Calderoni lists three critical functions of annual planning: *(1) keeping track of performance; the historical and actual information on how the business is performing, (2) setting priorities and making plans that can be shared across the company to get everyone working together, and (3) gauging the success of the stated plan against shifting business dynamics.*

The functions satisfied by traditional annual planning remain. Still, the technology has outpaced the conventional means of execution like harvesting data from different business units, and countless spreadsheets with embedded discrepancies and errors.

The other issue is that the construction of traditional annual plans is typically hardwired into a finite calendar, limiting the view of information and the ability to make agile plans and adaptive management decisions.

Traditional annual plans are time-consuming, expensive, and limiting

How long does it take to assemble a traditional annual plan? Most estimates run between two and five months, framed more as an exercise in looking backward than making guesses about a variable or volatile future.

Calderoni points to the cost of creating comprehensive annual plans as a piece of proof that they have outlived their value. “The amount of resources required in large organizations is high. It’s people-intensive. There’s a cost associated with the finance staff. You need that staff to work around the clock for a couple of months, which drains resources from the rest of the company. People outside of finance are pulled into budgeting. And there’s a negative connotation to all of it: Another budgeting cycle? Didn’t we just go through this? It’s distracting.”

Building a traditional annual plan often allows for a single route, but no more than a few routes, because the process of assembling and organizing the necessary information required months-long effort each year.

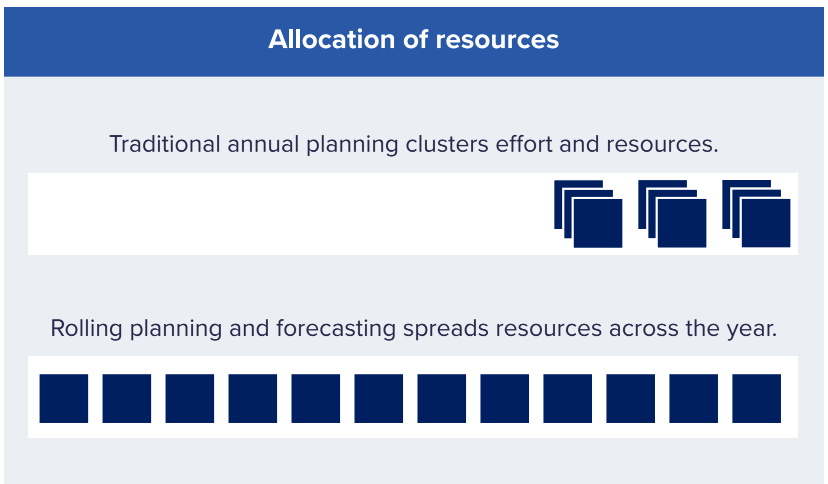
It was never easy to predict business environments. It’s even harder now.

The COVID-19 crisis has thrust massive amounts of uncertainty into business dynamics. And there is no way to predict when that uncertainty will end. An annual plan in the current business environment would be difficult, if not impossible to achieve; it would be quickly outdated and ultimately revised beyond recognition.

Solution: Rolling forecasts and scenario-based decisions

Planning throughout the year instead of planning for a year

In an environment of accelerated decision-making, what if the resources and brain drain required to assemble an annual plan could be dispersed evenly across the year, not stacked into a few months? Would that be more efficient? More effective? Could it allow for better decisions made more quickly and lead to greater profitability?



Traditional annual plans are by design incapable of the scope and scale of transformation required to harness the increasingly complex and continuously updated data and signals that flow in and out of an entirely digitized enterprise.

“The question is,” asks Sara Baxter Orr, Anaplan’s Head of CFO Practice, “can we do better? I say we can.” In the wake of the COVID crisis, Baxter Orr feels companies should carefully consider transitioning away from annual planning to rolling forecasts and scenario-based decisions. The rolling forecast takes full advantage of digitization benefits by building and accessing multiple scenarios from large and continuously updated data sets. An ongoing stream of increasingly accurate insights is produced as multiple forecast models update automatically with new data, supporting the analysis of scenarios with evolving viewpoints and directional recommendations. These rolling forecasts and scenarios could extend to 18 months and function both as an official system of record and prediction for many constituents as a powerful business performance tool that’s more capable of driving outcomes and achieving goals.

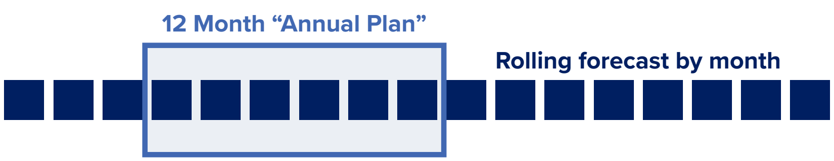
Making better decisions faster

The pace of business is accelerating. The scope and scale and frequency of variables are all growing. Companies have to be prepared to move fast to stay ahead of changes and competition. The cycle time between questions and answers must decrease, while accuracy and insight must increase. A crisis will never be averted with a traditional annual plan. Opportunities will never be seized 12 months in advance.

The secret of rolling forecasting is that it contains annual plans

A rolling forecast often extends 18 months or more; any 12-month time frame within the rolling forecast can serve as the annual plan. “Companies could still plan for a year,” explains Simon Tucker, Anaplan’s Chief Planning Officer. “It’s a sort of stake in the ground, a starting point… but now they’d have multiple different plans and scenarios.”

“This isn’t duplicating effort,” says Baxter Orr. “A year of planning is always ready and available to become the annual plan if needed. You pick a point in time each year, for example, October, and that becomes the plan for the next year.”



Flexibility is the key, says Tucker. “When they need to, for whatever reason, they switch over to a different plan. Now the journey to 50 percent revenue growth isn’t one road with one lane, it’s multiple routes, each with ten lanes, and they can quickly choose between them.”

Confidence through uncertainty

The multiple scenarios offered through rolling forecasting provide the most assured means of achieving success. Companies can create and evaluate a variety of options based on a range of data sets and assumptions. Scenarios can be constructed to address shifting priorities, for example, liquidity, cash flow, and the workforce.

Looking ahead and solving forward

“It forces a focus on the future,” according to Baxter Orr. “You’re always looking to the horizon. Your ability to plan is stronger because you flex those muscles more often.”

“When people change a business process because of new technology,” says Tucker, “you know that technology is disruptive. That’s what people are doing with Anaplan.”

“You automate the process, you apply systems and models,” says Baxter Orr. “You let the system work for you. And the five months you lost every year, you get a lot of that back.”

“The actions you took yesterday will not determine your success tomorrow. Your actions, your decisions, your leadership have to adapt because things are changing so rapidly.” Tucker sees a general interest in digitization evolved to a new urgent need for digitization. “It’s a race now. It couldn’t be more at the forefront of CEOs and CFOs’ minds.”

“Demand is shifting,” says Baxter Orr. “The law of averages doesn’t work anymore. Actual endpoints matter. The drivers matter. Change matters. Agility matters.”

Hard data for hard choices

A steady stream of current data allows business leaders to navigate based on reality, even uncomfortable realities. The dynamic shifts in consumer markets and internal business processes brought on by COVID-19 quickly moved companies from planning for success to pivoting for survival. Making difficult decisions rapidly can prevent the necessity of other choices later. Therefore, the need for timely, accurate information is critical. Rolling forecasting allows decision-making based on real-time information so that choices can be made with confidence.

Why pivoting from traditional planning is critical now?

Departing from tradition is never easy. Consider corporate culture baked into company calendars; the traditional annual plan is tightly woven into every enterprise's fabric from staffing and scheduling to budgeting for late-night pizza. Finance departments regularly allocate months each year to produce the annual plan, causing other projects and priorities to fit around the planning timeframe — even staff vacation time. Key questions to ask: what could be done with that same time and resources if available?

The race to digitize has begun. And it's moving fast.

In May of 2020, McKinsey suggested that immediately after the arrival of the COVID-19 crisis and shutdown, digitization achieved five years of progress in just eight weeks. Keep in mind that companies may have accelerated digitization plans to address sudden urgent needs brought on by COVID-19; the accelerated effort could also help position those same companies competitively.

Anaplan CEO, Calderoni, believes that now more than ever, companies need to move to adopt new technology and agile planning. "You need new technology as well as a different mindset to help capture more information, but most importantly view it through a general business lens rather than focusing on specific number analysis. It's creating a tighter alignment between your data and your actual business."

That alignment, says Calderoni, is where the power of digitization and the new processes it empowers can have the highest impact. "If you just take your existing technology and replace it with Anaplan, there are benefits. But you're not going to get the true benefits unless you start to think about how to change your process." One such example is rolling forecasting.

Scenarios are best suited to address current economic turbulence

The potential and impact of digitization are changing processes. Baxter Orr and Tucker both see a surge of interest in rolling forecasting, especially after COVID — the control offered by planning replaced by scenarios' flexibility. Baxter Orr asks, "Who's going to make the annual plan for 2021? How would you even start? The baseline has shifted and continues to shift."

Calderoni says, "When you do planning based on historical trends, you get one answer. What happens in 2020 when there are no historical trends? You bring in other factors rather than just historical trends. That allows you to make decisions about the future that are more adaptive and more relevant. With Anaplan, you can bring in other factors that allow you to forecast more effectively, to do different types of analysis, and tie that analysis to your business so you can monitor to make sure you achieve the results you expect."

Conclusion: An annual plan is a map. A rolling forecast is a GPS.

The economic crisis caused by COVID-19 had two significant impacts on traditional annual plans around the globe. First, current plans were rendered useless. Next, future planning could not rely on past information or assumptions. The old maps were worthless, and the landscape was all new.

Anaplan CEO Calderoni says it's time to consider how business decisions are made, and what can and should be done within the decision-making process to make better decisions faster. "How long does it take you as a CEO to make a decision? And are you happy with that? And what I mean by that is if you were to ask anyone in your organization, or a team of folks in the organization, 'Listen, we want to move in this direction. Let's figure out how best we do that.' And if the answer that you get back isn't fast enough or good enough, you need to then look at a different approach."

As Head of Global Solutions & CFO Practice at Anaplan, Sara Baxter Orr believes it's time to transition away from the traditional annual plan. "If 2020 has taught us anything, it's that things change," says Baxter Orr. "Does the annual plan still serve its purpose? In its current format, does it meet the most relevant business planning needs? Is it optimized to achieve a company's short-term and long-term goals?"

Tucker, Chief Planning Officer at Anaplan, describes the traditional annual plan as a paper map with a one-lane route drawn from a departure point to a destination. The route is based on information and assumptions believed to be accurate at the start of the journey. In mid-March of 2020, many of the 'routes' described by Tucker were suddenly impassable. The only way for companies to navigate forward and still achieve existing goals — including simple survival — would be exploring multiple potential changes and building various scenarios to prepare a range of decision-making paths through newly uncertain terrain. Such scenario building and agility is the foundation of the rolling forecasting.

About Anaplan

Anaplan, Inc. (NYSE: PLAN) is a cloud-native enterprise SaaS company helping global enterprises orchestrate business performance. Leaders across industries rely on our platform—powered by our proprietary Hyperblock® technology—to connect teams, systems, and insights from across their organizations to continuously adapt to change, transform how they operate, and reinvent value creation. Based in San Francisco, Anaplan has over 20 offices globally, 175 partners and approximately 1,500 customers worldwide.

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