



Focus Workshop 'Rolling Forecasting'

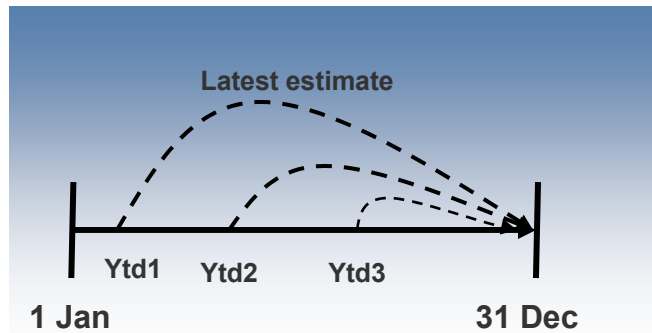
at the offices of Barclays, Canary Warf, London/UK
11-12 October 2007,

- Introduction, Objectives of the Meeting -

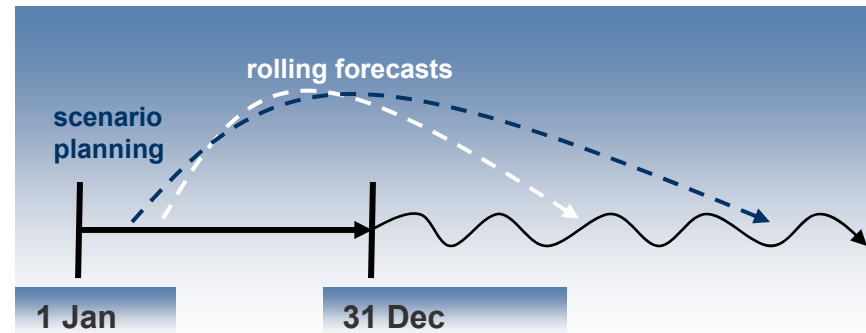
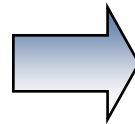
Juergen H. Daum,
Chief Solution Architect,
Business Solution Architects Group, BSAG, SAP

Purpose and Objective of Rolling Forecasting: Enabling for Dynamic Performance Management

Towards a more flexible and anticipatory performance management system

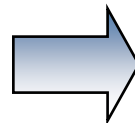


“managing the numbers
to meet the annual budget”



“managing the drivers of business
performance in an anticipatory way
and on a continuous basis”

from financial variance
analysis ex-post and
corrective actions to
achieve budget numbers



too strategy- and action-oriented
variance analysis ex-ante and
corrective actions that leverage
evolving risks and opportunities
to manage future performance

„The main objective for us, when we talk about Dynamic Forecasting, is to become more flexible in managing the performance of our company. [...]

[In] real life [...] things continuously evolve and change all the time. So you shouldn't just look out until the year-end. And this is, where rolling forecasting will help us to look in a rolling way several quarters out into the future, beyond the 31st of December.

These forecasts show the gaps between your targets or milestones and between your estimates according to the forecast, which show where you probably may end up, if you change nothing. It shows negative gaps but also positive gaps that may represent new opportunities.

Why should you stick to your budget, if new opportunities come up? You want to make use of them. So you have to be tolerant. You have to allow those gaps. And you even have to allow a gap, where you have no explanation for the moment.

As the responsible manager you are then going to work on it, you are analyzing the gap and you will decide, what you are going to do about it.”

Source: Daum, J.H., Beyond Budgeting – Breaking free from the Annual Fixed Budget. A Discussion between Experts from Borealis, Nestlé, Unilever und SAP, in: Measuring Business Excellence – The Journal of Business Performance Management, Volume 9, Number 1 2005, p. 64-70.
Also published in German: Daum, J.H./Gunz, R./Luthi J.-D/Morlidge, S., Auf dem Weg zu „Beyond Budgeting“, in: Controlling - Zeitschrift für erfolgsorientierte Unternehmenssteuerung, 16. Jahrgang, Heft 3/März 2004, S. 165-170

Example: Boots Healthcare International (BHI)*



- No fixed budgets

- No fixed plans

“... but the highly flexible performance management at Boots/BHI makes it easier to meet the group’s overall targets ”

Key Characteristics of the BHI Performance Management System:

- Top-Down target setting based on only 5 KPIs
- Target achievement is always questioned and discussed on all levels
- Operative plans and activities are constantly adapted to the market situation

Instruments:

- ➔ Continuous re-forecasting – periodically and if required also ad-hoc
- ➔ Institutionalized “trade-off”-management based on evolving opportunities and risks
- ➔ Focus is set on the management dialog / controllers act as “business support”

*As of 2005: BHI has been sold by Boots in 2006



Matthias Steinke,
CFO / Head of Finance
& Control,
Boots/BHI Germany
(at the time of the
interview)

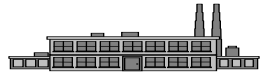
¹the healthcare division („BHI“)
has been sold by Boots in 2006

²Source: Daum, J.H./Steinke, M.,
Vom Controlling zum Business
Support - „Beyond Budgeting“
bei Boots/BHI, Ein Interview mit
Matthias Steinke, CFO bei BHI
Deutschland, in: Jürgen H.
Daum (ed.), Beyond Budgeting,
Munich 2005, pp 195-201

„One important change is that controllers look more toward the future. They no longer simply explain how yesterday’s figures turned out to be different from what we had predicted the day before yesterday.

I can’t change the past, but I can change the future. So now we focus more on monitoring risks and opportunities, since they indicate where you can affect the future by taking steps that help you reach your targets despite unfavorable developments, even in a dynamic environment where original assumptions and conditions are continuously changing.”

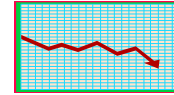
Example: Borealis



1994: foundation and first budget

RFF	BSC
ABM	InvestFC

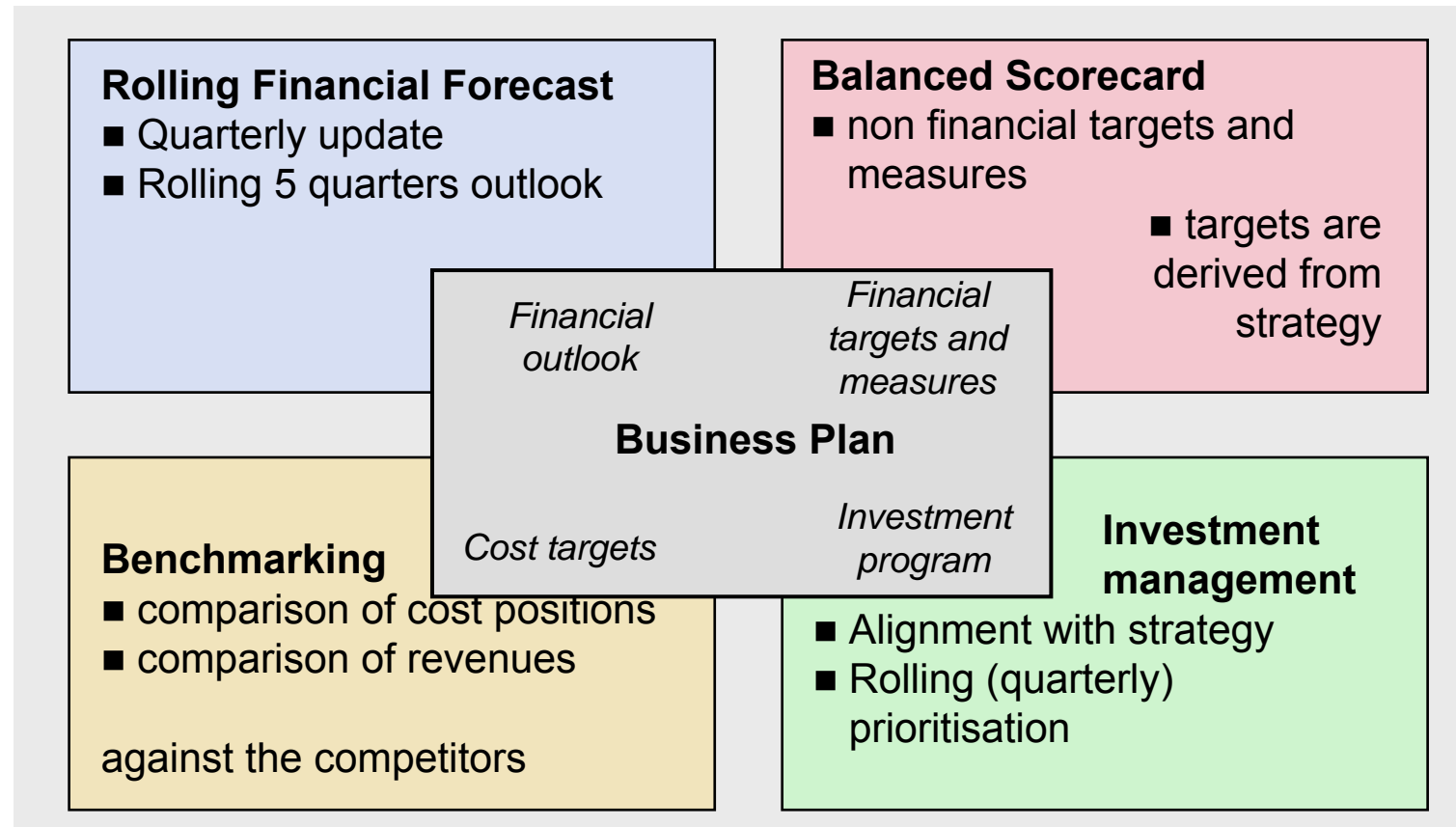
1995: Development of 4 alternative control tools; no budgets any more



1998: OMV Ownership and "Quasi Budgeting" in parallel to the 4 Beyond Budgeting tools



High level business plan + usage of the 4 tools



Source: Presentation of Dr. Rainer Gunz, Head of Controlling and Cost Accounting, Borealis GmbH Vienna, at the seminar „Beyond Budgeting“ at 18 March 2003 in Vienna, organized by the Österreichische Controller Institute and led and conceived by Juergen H. Daum



Thomas Boesen,
Manager Business
Planning und Investments,
Borealis A/S, Copenhagen

¹quoted from:
Beyond Budgeting bei Borealis
– Ein Interview mit Thomas
Boesen, Co-Architekt des
Borealis Beyond Budgeting
Steuerungssystems,
in: Jürgen H. Daum (ed.), Beyond
Budgeting, München 2005,
pp. 139-157

²quoted from the presentation
of Thomas Boesen at the
Stuttgarter Controller-Forum,
Stuttgart, Germany, Sep. 18, 2001

„One of the most critical things for us was, to separate forecasting from target setting/performance evaluation. [...] This gave us more objectivity in financial forecasting.

Another important objective for the new approach to financial forecasting was to make the process more relevant and up-to-date . Therefore we moved to a rolling approach [...]. This allowed us to adapt financial and tax plans to new business conditions more short term .

In addition we [...] decided to focus only on those items that are really relevant and to avoid too many details. This makes the process faster, more efficient and accurate [...].“¹

„The simplified 5 quarter rolling forecast, which gives us an updated view on cash flow and capital spending, in combination with rolling investment management, ensure flexible and reactive decision making allowing to tighten or free up funds during the year.“²

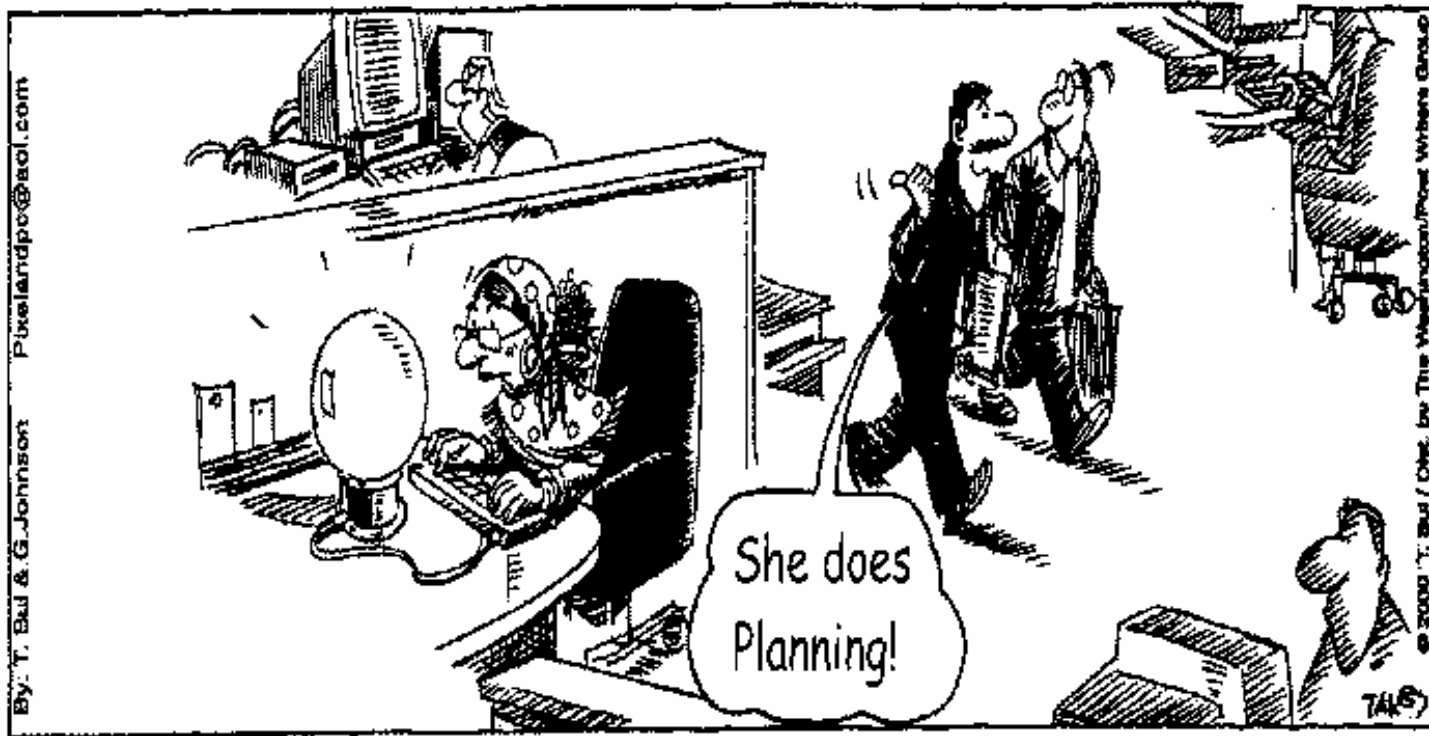
What is a forecast?

A forecast is an accurate as possible and unbiased estimate of the business development in a specific future time period for the purpose of managing the business (performance) towards a defined target. A forecast is therefore neither a plan nor a commitment: it is „what we think what will probably happen“ not „what we wish/want to happen“.

What is rolling forecasting?

Rolling forecasting is a formalized, i.e. institutionalized and standardized process to update the forecast in regular intervals / to move it forward to the next forecasting period. The forecasting periods usually overlap partly and extend beyond the current fiscal year.

... implicates to work with uncertainty and to handle uncertainties (=a range of possible outcomes with different probabilities), whereas finance people and accountants are used traditionally to work with 'precise' numbers



Objective: no guesswork, but forecasts based on reliable information that enable the organization to look in a systematic way beyond the current fiscal year



... should not be too complex and based on too much detailed information that create 'information overload' and thus disinformation

Changing successfully to rolling forecasting is often more a question of changing the thinking and the behavior, than a question of techniques

Context for rolling forecasting today: finance has to become a true business partner

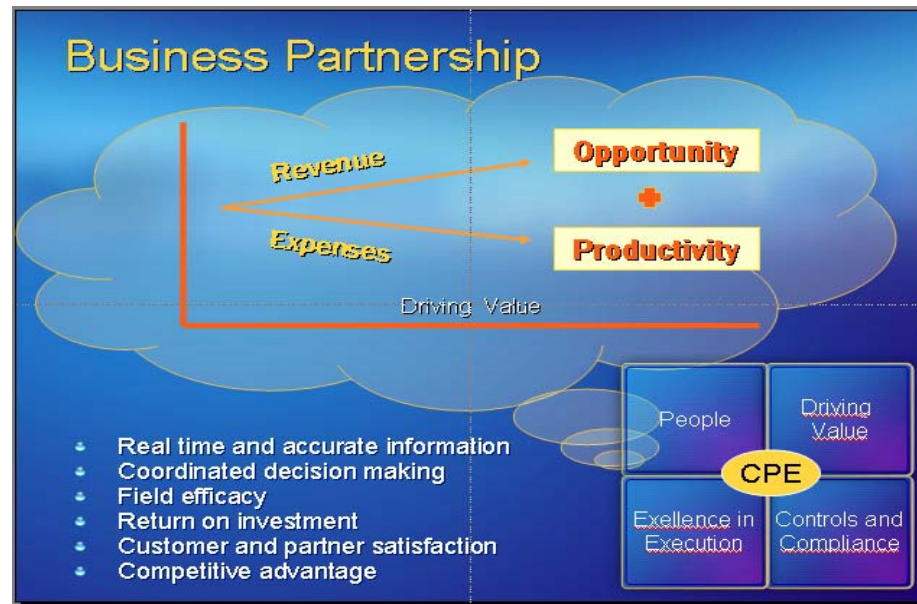


“One major issue [for finance is] to develop the role further to improve support to better manage the business – and not just leave it up to the CEO to drive the business, to drive results..”*

Michael Silbermann, CFO of Microsoft Germany, Munich, D

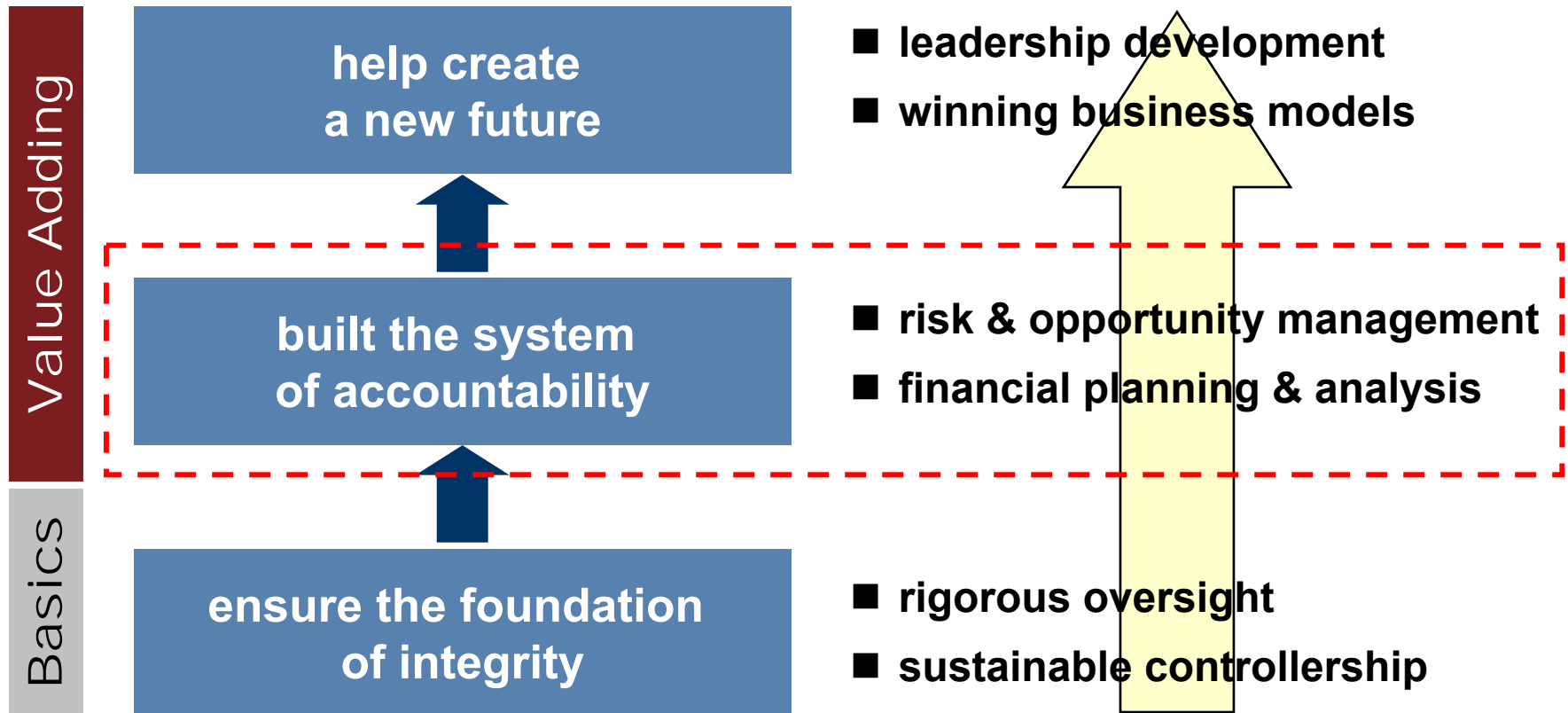
**„help to drive
the business“**

Microsoft



*Source: Daum, J.H. with Koppelman, P., Lévi, C., Silbermann, M., Managing for sustainable growth and the role of finance and of the CFO - A discussion with the CFOs and senior finance executives of BHP Billiton, Electricité de France, and Microsoft Germany, in: Daum, J.H. (ed.), Finance Transformation – Der CFO als Business Partner, München, 2008

Example: General Electric (Jeff Immelt's view)



Source: presentation of Björn Bergabo, CFO of GE Commercial Finance, at the SAP Finance Best Practice Workshop, 22 September 2005, Barcelona/Spain

Evolution of forecasting

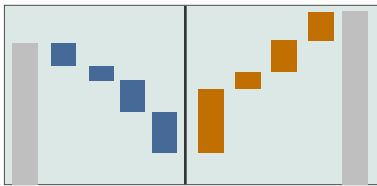
(Preview on my presentation on a IIOE-study later this morning)

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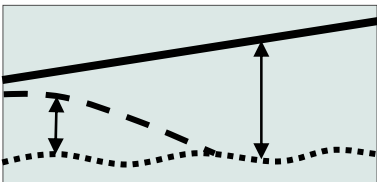
„Advanced Rolling Forecasting“: Integrated options-oriented rolling forecasting system that takes decision lead time into account

- ➔ advantage: Optimal support for „Dynamic Performance Management“ / for decision making
- ➔ disadvantage: represents a significant change of the planning / control and management culture as well as of processes and systems
- ➔ remaining challenges: ? ▶ Integration with strategic scenario planning

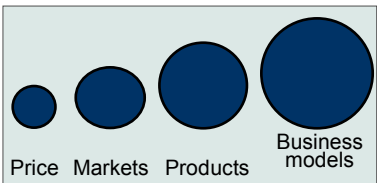
Possible Upsides/Downsides



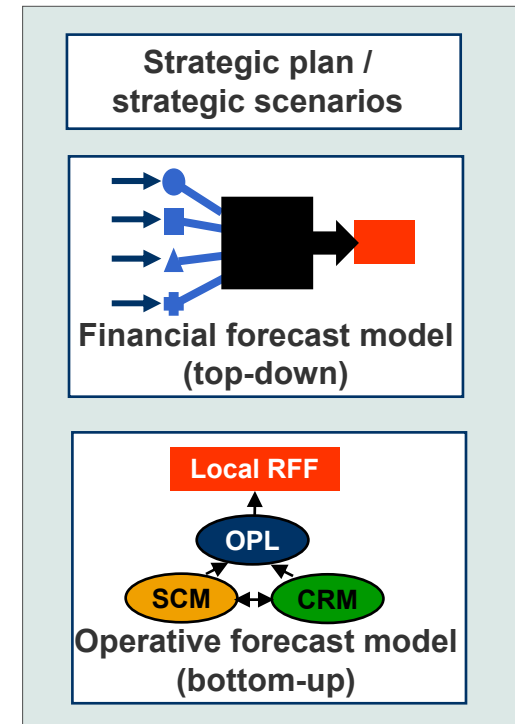
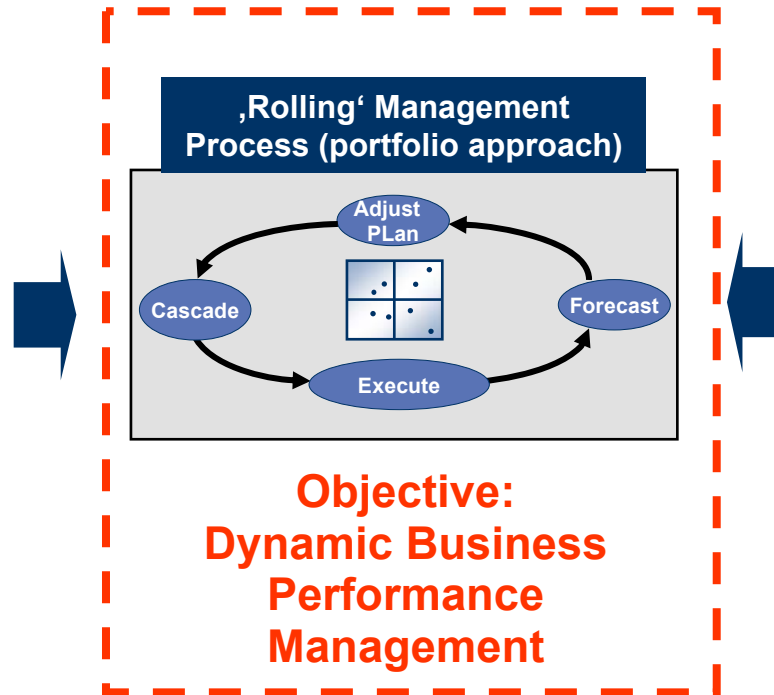
Commitments



Decision lead times



Data input



Forecast models

Questions to be discussed

- ▶ What are the drivers and objectives of the participants for implementing rolling forecasting? What is the business context? What are the constraints? Are we ready for it?
- ▶ How to run a large organization based on a performance management concept 'beyond traditional budgets'?
- ▶ How to make rolling forecasting work?:
 - How to 'generate' good forecast data?:
What level of detail? Integrated model for operational + corporate forecasting or separate corporate high level forecasting model? How to ensure forecast accuracy and reliability (how to get rid of the 'politics': are special accuracy incentives a solution)? How to select the appropriate forecast period / horizon?
 - How to organize the forecasting process?:
How to integrate it with planning and budgeting? What are the implications for target setting and the incentive system? What is the role of rolling forecasting in decision support / in the performance management process? How to speed up the process? How to standardize it (across different businesses)? What is the role of the business? Who / which functions should be involved? What is the role of finance?
 - How to create the 'case for change' and mobilize the organization? How to align the rolling forecast philosophy on a global basis and create enough transparency? How to implement a 'beyond budgeting' approach: 'big bang' or evolutionary approach? What are the behavioral success factors?
 - How do other companies approach rolling forecasting?
- ▶ How to use information systems (and the SAP tools) to support rolling forecasting?
How to set-up a standard IS infrastructure to support rolling forecasting?

- I. Exchange on the motivation of and objectives in moving to rolling forecasting and discussion of the preconditions for rolling forecasting and for moving beyond the traditional annual budgeting approach (the principles for performance management ‘beyond traditional budgets’).
- II. Exchange on how to make rolling forecasting work (concept, process, behavioral aspects) ? – from a group / center view
- III. Exchange on how to make rolling forecasting work (concept, process, behavioral aspects) ? – from the business / local view
- IV. Exchange on how to use information systems to support rolling forecasting? (+ an update on SAP’s product strategy)

- 10:00 Welcome and introduction to the meeting facilities**
Mark Thomas, Barclays
- 10:10 Objective of the meeting / introduction to the workshop topic**
Juergen Daum, SAP
- 10:40 Introduction of the participants / the participating companies**
(each 5 min)
- 11:10 Break**

Workshop block I: Business context and objectives for rolling forecasting + the principles for performance management ‘beyond traditional budgets’

Presentations (30 min + questions) from some of the participating companies on:

- **Objective/purpose/business context of implementing rolling forecasting / moving to a performance management approach ‘beyond budgeting’**
- **What are the major challenges/open issues**

- 11:40 “Beyond Budgeting” and “Rolling Forecasting” - From Best to Next Practice: Results of an IIOE-study**
Juergen Daum, SAP
- 12:20 Rolling Forecasting / “Beyond Budgeting” at Shell: drivers, objectives, major challenges**
Tony Lawrence, Shell

13:00 Lunch break

Workshop block I: Business context and objectives for rolling forecasting + the principles for performance management 'beyond traditional budgets'

14:00 Overview of forecasting at Barclays: objectives, major challenges
Gareth Davies, Barclays Finance – Group Centre

14:30 Discussion around 'Business context and objectives for rolling forecasting + the principles for performance management 'beyond traditional budgets' '

15:30 Break

Workshop block II: How to make rolling forecasting work (concept, process, behavioral aspects) ? – the group / center view

Presentations from some of the participating companies on:

- Rolling forecasting concept from the group / center view
- What are the major challenges/open issues

16:00 Intro (*Juergen Daum, SAP*)

16:05 The "Dynamic Forecast" at Nestlé: objectives, approach, status, major challenges
Tadashi Yamashita, Nestlé S.A.

17:05 BPM + Rolling Forecasting at Bank of Ireland: objectives, status, major challenges
Eugene McCarthy, Bank of Ireland

18:05 Discussion around 'How to make rolling forecasting work– from the group/center view'

19:15 Departure to the Plateau Restaurant for dinner

Workshop block III: How to make rolling forecasting work (concept, process, behavioral aspects) ? – the business / local view

08:30 Recap of day I and intro to block III
Juergen Daum, SAP

Presentations from some of the participating companies on:

- Rolling forecasting concept from the business / local view, how rolling forecasting is embedded in the local planning landscape + link to global process
- What are the major challenges/open issues

08:40 Rolling forecasting and planning in a Market at Nestlé: local vs. global process
Cliona Hannon / Steve Philips, Nestlé UK & Ireland

10:00 Break

10:30 Discussion around “How to make rolling forecasting work (concept, process, behavioral aspects) ? – the business / local view + open questions from day 1”

12:00 Lunch break

Workshop block IV: How to use information systems to support rolling forecasting? Update on SAP's product strategy

**Short presentations (20 min + discussion) from some of the participating companies on:
- their thoughts and concepts on using information systems for planning / RF**

12:30 Intro (*Juergen Daum, SAP*)

**12:35 Use of SEM-BPS at Barclays: concept, experiences, open issues
*Trevor Bailey, Barclays***

**13:30 Use of Information Systems to support planning + forecasting at Nestlé
*Tadashi Yamashita, Nestle SA + Cliona Hannon / Steve Philips, Nestlé UK & Ireland***

14:00 Break

**14:15 SAP's product strategy for planning and forecasting
*Santosh Takoor, SAP***

Summary and feedback:

15:15 Summary and feedback from the participants

15:30 End of workshop



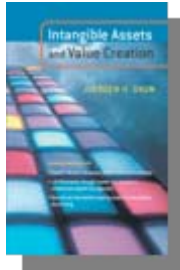
- ▶ **CFO adviser and Chief Solution Architect, Business Solutions Architects Group at SAP EMEA**
- ▶ **Author, lecturer and trainer in enterprise management, finance transformation, innovation management and entrepreneurship, and founder of the International Institute of Enterprise – Heidelberg (www.iioe.eu)**

Career background:

- ▶ CFO in a mid-sized German company before joining SAP in 1992
- ▶ Five years in SAP's field organization in Germany and Europe: sales, consulting, product management with the focus on financials and enterprise management
- ▶ Five years in SAP's product development: Product Manager SAP R/3 EC and Strategic Enterprise Management (SEM), Program Director for mySAP Financials
- ▶ Since 2002: advising CFOs, and finance professionals of European companies - current focus on finance transformation & enterprise performance management

Frequently publishing and speaking on enterprise management, finance transformation and other management topics; author of the books "Intangible Assets and Value Creation" (2003) and "Beyond Budgeting" (2005) - more at <http://www.juergendaum.com>

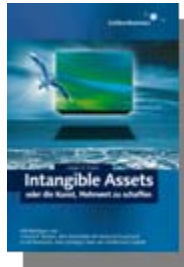
Books:



Intangible Assets and Value Creation
by Juergen H. Daum

John Wiley & Sons,
Chichester, 2003
ISBN 04708455120

More information at
<http://www.juergendaum.com/mybook.htm>



Intangible Assets oder die Kunst, Mehrwert zu schaffen
von Jürgen H. Daum

Galileo Press, Bonn, 2002
ISBN 3-89842-112-0

Mehr Informationen unter:
http://www.juergendaum.de/mybook_d.htm



Beyond Budgeting

von Jürgen H. Daum (Hg.)

Martin Meidenbauer Verlag,
München, 2005,
ISBN 3-89975-533-2

Mehr Informationen unter:
http://www.beyondbudgeting.de/bb-buch_d/bb_buch_d.htm

Upcoming:

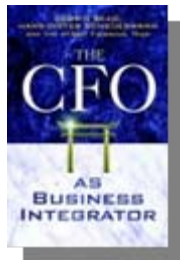


Finance Transformation – Der CFO als Business Partner

von Jürgen H. Daum (Hg.)

Martin Meidenbauer Verlag,
München, 2007,
ISBN 978-3-89975-105-5

Contribution to book's of others (selection):



The CFO as Business Integrator

by Cedric Read and
Dieter Scheuermann

John Wiley & Sons,
Chichester, 2003
ISBN 047085149X



Intangibles in der Unternehmenssteuerung

von Peter Horváth und
Klaus Möller (Hrsg.)

Vahlen, München, 2004
ISBN 3-8006-3035-4



Neugestaltung der Unternehmensplanung

von Peter Horváth und
Ronald Gleich (Hrsg.)

Schäffer-Poeschel,
Stuttgart, 2004
ISBN 3791021079

Business Performance Measurement – An Introduction

by Shyam Sunder
Kamberhammettu (ed.),

Le Magnus University Press,
Hyderabad, 2005
ISBN 81-89333-00-3

For the complete publication list see: <http://www.juergendaum.com/publications.htm>



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