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# How to Plan and Forecast with Total Confidence



# Introduction

The importance of planning and forecasting in finance can never be understated. It helps the business decide what direction it can afford to move in, and what can be trimmed or delayed should there be a downturn in future finances.

Whatever your business strategy, be it coping from month to month, or looking forward to a bright future, planning and forecasting tools help management to plot a path into an often uncertain future, using historic and current data to indicate trends and growth rates.

New technology throws AI into the mix, allowing businesses to utilise a wider set of data, but the end result is the same; providing an idea of future financial performance, both income and expenditure, on which to base your growth strategies.

Every business requires accurate forecasting if it aims to grow in an organised manner. With a sound budget forecast, the business can consider hiring, investing in new machinery or technology and other expansions, while planning how to act in leaner times rather than stumbling into future financial crises.



# Chapter 1

## What's the difference between planning and forecasting?

Business and financial planning and forecasting are two related but distinct activities. The plan is used to define the business goals and the tools (people, projects, products or equipment and other resources) you will use to get there.

The forecast is the basis of the financial assumptions that underpin the ability to fund and prepare the plan. A forecast is based on the company's historic performance, plus past trends, the wider economic and market conditions plus other relevant information such as future investment, repayments and so on.

Large businesses have whole departments working on financial forecasting, using corporate performance management suites and similar tools. But smaller companies can achieve the same result using SMB planning and forecasting tools and limited amounts of data to produce monthly or yearly forecasts. The more data you have, the more realistic those forecasts will be.

Planning and forecasting both impact the business in different ways. Many businesses create plans without a forecast and struggle to align their plans to reality, while others forecast but have no strategic growth goals in place with which to spend revenue or profits.

Without both a company can stumble from one period to the next, collapse badly during down periods or fail to take advantage of the good times. Making strong use of planning and forecasting will see any business better prepared for whatever market or economic turns transpire.

### Using modern planning and forecasting tools, companies can:

- Rapidly change or update plans and forecasts as new threats and opportunities emerge.
- Identify risk areas before they become serious
- Strengthen the links between operational and longer-term financial plans
- Work smarter using projected cash flows
- Build contingency plans ahead of predicted downturns
- Communicate better with clients and partners

**70%**  
of businesses say  
they rely heavily on  
spreadsheet reporting,  
with only **16%** using  
on-premise specialist  
software while **10%**  
using cloud software  
for planning.

Source: IBM

# Chapter 2

## How to create a solid plan/forecast

A financial forecast is an extension of your balance sheet and existing income and cashflow statements, creating a forward-looking document that indicates future performance. These are usually prepared for six months to a year ahead, with many larger businesses forecasting further into the future.

Global companies have the added complexity of currency fluctuations and multiple regional forecasts, providing FX neutral reports to stabilise prices. But most businesses can work in their native currency and plan around local tax changes, dates and other factors.

### Budget vs. Forecast

Your budget (as part of a business plan) is what you plan to do with available money. The forecast will tell you how much money the business should have in upcoming periods.

The forecast is based on existing records which can be used to create a forecast based on historical records, also utilising research-based forecasting data and ideas, based on wider market or financial observations.

With a historical forecast you can use software, such as spreadsheets or accounting and planning tools, to feed in the past data from as annual income and cash flow statements, and your balance sheets. This helps provide a picture of how fast the business has grown previously, and with a little forecasting from the software, it provides a view of how fast (or not) the business should grow in upcoming periods.

Research-based forecasting brings in data from wider market trends, such as general industrial growth, the benefits of automation to reduce costs or planned efficiencies that will improve business performance. Establishing the value of these inputs on your forecast can be tricky, and is often better done by experts, but the value is a more real-world view of the forecast and your prospects. It is also valued by investors who will want to see the real-world view of your business value.

## Chapter 2: Step-by-step forecast building guide



# Chapter 3

## Planning/forecasting mistakes you need to avoid

### Avoid relying on spreadsheets

**Why?** Despite their ubiquity, the likes of Excel are overly complicated and well past their sell by date for forecasting. Modern tools provide automated ways of generating forecasts without relying on user-created macros and other ways to get wrong inputs and outputs.

#### Solution

Cloud-based planning software tools are faster to work with and encourage collaboration among multiple users, while being more flexible and easier to use to create a variety of reports.

### Business stress with forecasts

**Why?** Among the many financial tasks of a business, forecasting is often considered a pain, despite the value it does well.

The volume of data can lead to stress in even getting to step one of building the report, which can lead to time delays and arguments over what types of report the business needs, while non-financial people within the business can also struggle to understand the implications of a report.

#### Solution

Adopting the right planning and forecasting tools can reduce the stress in compiling new forecasts, while teaching the business their value in plain language can highlight their value. For example, when a forecast is looking negative, the business can react to it earlier and make minimal impact changes ahead of time, rather than wielding the axe when it is too late.

## Forecasts get out of date

**Why?** Many finance departments are wedded to the concept of fixed period reports and forecasts which are of less use to the business and can soon appear out of date.

#### Solution

In an age of live dashboards and instant data access, the move to produce monthly or quarterly reports allows the business to react faster to changes.

According to independent accounts firm Grant Thornton and the ACPQ, just **37%** of CFOs and similar roles indicate that their organization's approach to annual budgeting is valuable, leaving almost two-thirds of businesses with room for improvement.

# Chapter 4

## Solutions for planning and forecasting

In the cloud era, there are many tools to support businesses with their planning and forecasting. They help companies work across the financial and planning cycles to produce a more realistic joined-up view of their prospects, while reducing the time it takes to create forecasts and improve company leaders' ability to plan ahead with confidence. It also helps provide a clear view for all leaders, not just those experienced in the world of finance reports.

Research indicates that **61%** of executives admit to cherry-picking accounting data that supports what they already believe.

To solve these issues, budgeting, planning and forecasting software is available off-the-shelf or as part of wider business and finance tools. Beyond the basic forecasting capabilities, they allow companies to measure and monitor performance, perform high-fidelity analysis of rich data sources and evaluate trends and make predictions faster.

These tools can also help with decision making through what-if scenario modelling, using a range of forecasts to help with better, more flexible, planning. Forecasting can also be extended to stock and supplies, raw materials or other resources that the company needs a firm understanding of for future plans.

Cloud tools that use dashboards also help move away from the notion of quarterly or other regular reports, allowing forecasting to become a daily part of the business conversation.

## The move to AI forecasting

In the AI-era these smarter tools will also be able to add in new sources of live data to help make forecasts more realistic, and highlight possible changes that might not be apparent to traditional tools. Some vendors are moving forecasting beyond the financial category and into science, but it can still be done without the need for expensive data scientists in your business.

As forecasting moves beyond the finance department, it will become a vital tool across the business, helping define how plans are formed and enabled. Along with improved collaboration and adaptive information, a world of timely and accurate forecasts can help make any business smarter.



## About

Mercur Solutions has 40 years of experience in delivering solutions for performance management and business intelligence.

We are market leaders in creating customer value by improving your financial and operational performance, and delivering greater efficiency through smart decisions. This has always been our focus which means that our experience and expertise are invaluable to our customers and partners.

Our solutions are based on our standard application, Mercur Business Control, which is implemented and configured to the needs of our individual customers and is used for; budgeting, forecasting, reporting, analysis and strategic target management. To further enhance the added value that we deliver to our customers, we work closely with a number of ERP vendors and suppliers of solutions in related areas.



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[www.mercur.com](http://www.mercur.com)

Mercur Solutions (UK) Limited  
Ocean House, The Ring,  
Bracknell RG12 1AX  
United Kingdom  
Phone: +44 (0) 1344 388 025  
E-mail: [demo@mercur.com](mailto:demo@mercur.com)