

Wiley Finance Series

Financial Planning & Analysis and Performance Management

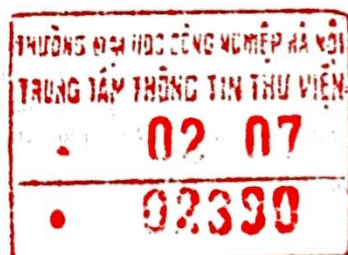
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WILEY

FINANCIAL PLANNING & ANALYSIS AND PERFORMANCE MANAGEMENT

Jack Alexander



WILEY

CONTENTS

Preface	xv
About the Website	xix
1 Financial Planning & Analysis and Business Performance Management	1
The Problem with Traditional Measurement Systems	1
Objectives of Financial Analysis and Performance Management	3
Preview of the Book	6
Summary	9
Part One Fundamentals and Key FP&A Capabilities	
2 Fundamentals of Finance	13
Basics of Accounting and Financial Statements	13
Financial Ratios and Indicators	19
Summary	42
3 Key Analytical Tools and Concepts	43
Basic Statistical Tools	43
The Business Model	59
Summary	69
4 Developing Predictive and Analytical Models	71
What Is a Financial Model?	71
Summary	81
Appendix: Illustrative Model	81

5 Building Analytical Capability	89
For the Individual	90
For the Organization	94
Summary	108
6 Communicating and Presenting Financial Information	109
Laying the Foundation for Success	110
Developing Effective Presentations and Reports	117
Delivering the Presentation	120
Data Visualization and Presentation: A Picture Is Worth a Thousand Words	121
Summary	134
Part Two Performance Management	
7 Business Performance Management	137
What Is Business Performance Management?	138
Developing or Enhancing BPM in an Organization	144
Summary	155
8 Dashboards and Key Performance Indicators	157
Objectives of Dashboards and Key Performance Indicators	157
Selecting Appropriate Performance Measures and Key Performance Indicators	160
Creating Performance Dashboards	166
Sample Dashboards for Selected Industries	175
Summary	175
9 Institutionalizing Performance Management	179
Gaining Traction	179
Integrating Business Performance Management with Other Management Processes	183
Avoiding Common Mistakes	189
Summary	191

10 Measuring and Driving What's Important: Innovation, Agility, and Human Capital	193
Innovation	194
Measuring and Driving Business Agility	204
Human Capital Management	214
HCM Dashboard	226
Summary	226
11 The External View: Benchmarking Performance and Competitive Analysis	227
Analysis of Markets, Customers, and Competitors	228
Benchmarking to Evaluate Performance	232
Using Benchmarks to Set Enterprise Goals for Performance and Value Creation	242
Summary	243
Part Three Business Projections and Plans	
12 Business Projections and Plans: Introduction and Best Practices	247
Overview of Business Planning and Projections	248
Best Practices in Projecting Future Financial Results	252
Summary	266
13 Budgets, Operating Plans, and Forecasts	267
The Budgeting Process	267
The Operating Plan	272
Business Forecasts and Outlooks	277
Summary	301
14 Long-Term Projections	303
Unique Challenges in Estimating Long-Term Performance	304
Applications of Long-Term Projections	305
Developing Long-Term Projections	307
Presentation of Long-Term Projections	319
Summary	325

**Part Four Planning and Analysis for Critical Business
and Value Drivers**

15	Revenue and Gross Margins	329
	Revenue Growth: Key Drivers	330
	Key Performance Measures: Revenue Growth	343
	Revenue Dashboard	351
	Gross Margins and Relative Pricing Strength	351
	Measures of Relative Pricing Strength	356
	Summary	359
16	Operating Expenses and Effectiveness	361
	Drivers of Operating Effectiveness	362
	Key Performance Indicators: Operating Effectiveness	365
	Tools for Assessing and Improving Operating Effectiveness	382
	Summary	387
17	Capital Management and Cash Flow: Working Capital	389
	Critical Success Factors	391
	Operating Capital Management	393
	Understanding the Dynamics of Operating Capital	394
	Unleashing the Value Trapped in Operating Capital	396
	Accounts Receivable	398
	Key Performance Indicators for the Revenue Process and Accounts Receivable	401
	Inventories	410
	Summary	420
18	Capital Management and Cash Flow: Long-Term Assets	421
	Capital Intensity	421
	Tools for Improving the Management of Long-Term Capital	424
	Projecting Capital Investments and Depreciation	428
	Key Performance Indicators for Capital Intensity	431
	Intangible Assets	433

Contents

Key Performance Indicators: Goodwill and Intangible Assets	434
Excess Cash Balances	436
Long-Term Capital Dashboard	437
Summary	439
19 Risk, Uncertainty, and the Cost of Capital	441
The Time Value of Money	441
The Cost of Capital	449
Performance Measures	458
Summary	461
 Part Five Valuation and Capital Investment Decisions	
20 Capital Investment Decisions: Introduction and Key Concepts	465
The Capital Investment Process	466
Evaluating the Economic Merits of Capital Investments	469
Illustrations	478
Summary	484
21 Capital Investment Decisions: Advanced Topics	485
Dealing with Risk and Uncertainty in Capital Investment Decisions	485
Presenting Capital Investment Decisions	499
Capital Budgeting and Rationing	500
Evaluating the Effectiveness of the Capital Investment Decision Process	502
Summary	505
22 Business Valuation and Value Drivers	507
Estimating the Value of a Business by Discounting Future Cash Flows	508
Estimating the Value of Firms by Using the Valuation of Similar Firms: Multiples of Revenues, Earnings, and Related Measures	517
Building Shareholder Value in a Multiples Framework	521

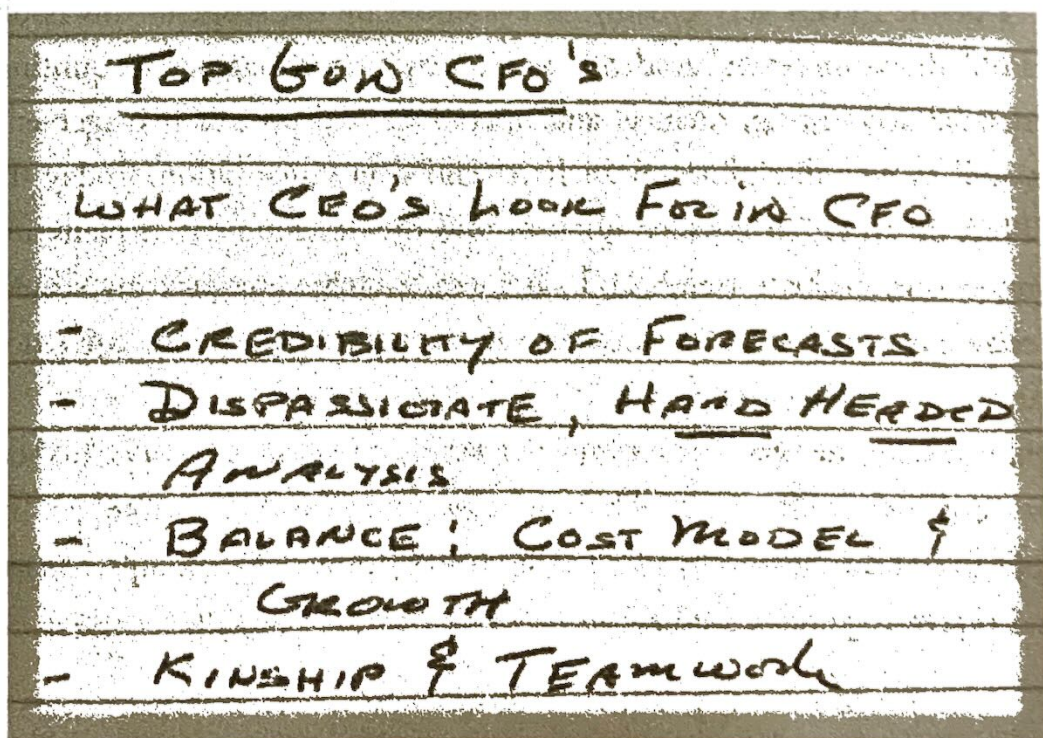
Contents

Integrated Valuation Summary for Roberts Manufacturing Company	525
Value Drivers	528
Summary	533
23 Analysis of Mergers and Acquisitions	535
The Acquisition Challenge	535
Key Elements in Valuing an Acquisition	537
Methods and Metrics for Valuing an Acquisition	539
Common Mistakes in M&A	554
Best Practices and Critical Success Factors	557
Understanding Seller Best Practices	560
Key Performance Indicators for M&A	562
Dashboards for M&A	564
Summary	564
Part Six Summary	
24 Summary and Where to from Here?	569
Key Takeaways	569
Where to from Here?	572
Glossary	575
Acknowledgments	585
About the Author	587
Index	589

PREFACE

WHY THIS BOOK?

In the late 1970s, as I was starting my career, I came across an article that identified the traits a chief executive officer was looking for in a chief financial officer. Since I had already set my sights on becoming a CFO, I jotted down the key takeaways from the article, something that I developed a habit of doing over my career and continue to this time. Unfortunately, I did not note the article, publication, or CEO to give them credit here or to recognize the soundness of the points articulated in the article. Here is a copy of my notes, that I have retained to this day:



Each of these recommendations has proven to be true in my experience. Of course, this assumes that financial controls and reporting are also well executed. CFOs and finance teams must be able to develop, evaluate, and assist in achieving planned and forecast results. The phrase “dispassionate, hard headed analysis” struck and stuck with me. Financial planning and analysis (FP&A) must be impartial and objective. Finance teams must be prepared to identify and expose both problems and opportunities, often in a hardheaded way. CFOs and their teams must strike a balance between focusing on the cost model and directly and indirectly contributing to growth. “Kinship” refers to a trusted adviser and partner relationship with the CEO. And of course, finance must be viewed as a member of the team, supporting and executing to achieve the organization’s objectives.

It is interesting that three of the four characteristics speak directly to FP&A. Throughout my 40-year career, I have found that FP&A is one of the most important roles the finance team plays. I became a student of financial analysis early in my career and can directly attribute attaining my goal of becoming a CFO in large measure to a strong focus and emphasis on FP&A throughout my career.

I define FP&A very broadly, as evidenced by the scope of this book. FP&A draws on several academic areas, including managerial accounting, financial accounting, finance, and operations and process management, as well as new disciplines in analytics and data visualization. Today the FP&A organization is called upon to lead the development of plans and projections, evaluate trends and variances, evaluate complex investment decisions, and value and increase the value of the enterprise and acquisition candidates, among many others.

Even with the broad scope and increasing importance of FP&A, there are very few resources available to analysts and FP&A departments. The objective of this book is to address that void by providing a comprehensive and practical guide to FP&A.

USING THIS BOOK

The book can be utilized in three ways. First, it can be read from cover to cover by those deeply involved in all facets of FP&A. Second, many readers may peruse the entire book and then focus on a couple of specific areas of interest. Finally, my hope is that the book will be retained for use as a future reference.

This book is organized into five parts:

Part One: Fundamentals and Key FP&A Capabilities

Part Two: Performance Management

Part Three: Business Projections and Plans

Part Four: Planning and Analysis for Critical Business and Value Drivers

Part Five: Valuation and Capital Investment Decisions

Part One: Fundamentals and Key FP&A Capabilities

Part One provides a review of fundamentals of finance and key analytical tools. It also covers important FP&A capabilities, including developing models, building analytical capability, and presenting and communicating financial information.

Part Two: Performance Management

Part Two provides an introduction to performance management and best practices in developing key performance indicators and dashboards. It also provides guidance on institutionalizing performance management – that is, integrating it with other management processes. Additional topics include the measurement of innovation, agility, and human capital, as well as applying performance measurement to external forces, including benchmarking and competitive analysis.

Part Three: Business Projections and Plans

Part Three covers best practices in developing projections and plans. Topics include budgets, operating plans, rolling forecasts, business outlooks, and long-term projections. Special attention is given to techniques to deal with the uncertainty and rapid change that exist in the twenty-first century.

Part Four: Planning and Analysis for Critical Business and Value Drivers

Part Four covers techniques for planning, analyzing, and improving on key performance drivers: revenue growth and margins, operating effectiveness, capital management, and the cost of capital.

Part Five: Valuation and Capital Investment Decisions

Part Five addresses business valuation, value drivers, and analysis of mergers and acquisitions. In addition, the evaluation of capital investments is covered, from basic concepts through advanced topics such as dealing with risk and uncertainty.