Financial Planning & Analytics Cheat Sheet

What is FP&A?

FP&A stands for Financial Planning and Analysis. It is a function within a company that is responsible for financial planning, budgeting, forecasting, and analysis to support decision-making and strategic planning.

Long Range Planning	Revenue and Opex Planning	Income Statement Forecasting
Compensation Modelling	Balance Sheet & Cashflow planning	Capex Planning
Sales & Operations Planning	Workforce Planning	Sales Forecasting

Key pain points in FP&A

Data Quality — Poor data quality can lead to inaccurate forecasts, incorrect analysis, and poor decision-making

Technology — It can be challenging to keep up with new technologies and to ensure that existing systems are optimized for the team's need

Time Constraints — Tight deadlines can lead to rushed analysis, errors, and incomplete reports.

Data Complexity — FP&A teams may struggle to manage large amounts of data and to integrate data from different sources

Collaboration — Need to align with sales, marketing, and operations, to ensure that financial plans align with business objectives

7 FP&A Approaches

1. Zero-Based Budgeting

This involves starting each budgeting cycle from scratch, rather than basing budgets on the previous year's spending.

2. Rolling Forecast

It involves regularly updating forecasts based on the latest data and trends, rather than relying on annual or quarterly forecasts.

3. Driver-Based Planning

It involves identifying the key drivers of business performance, such as sales volumes, pricing, or resource utilization, and using these drivers to build financial models and forecasts.

4. Activity-Based Costing

This involves allocating costs to specific activities or products based on the resources consumed by each of them.

5. Top-Down Planning

This involves starting with the overall strategic goals of the company and then breaking them down into specific targets for each department or business unit.

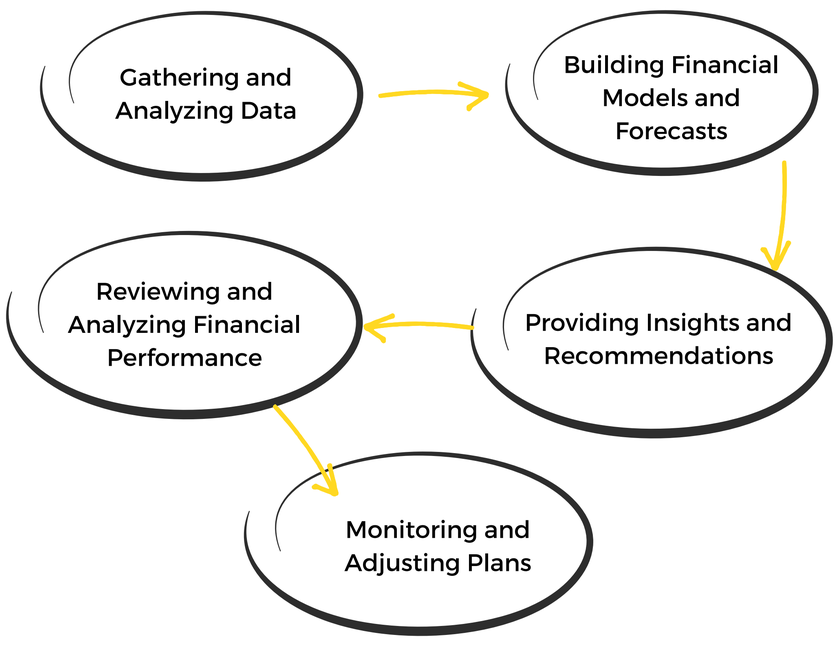
6. Bottom-Up Planning

It involves starting with individual departments/ business units and building up to an overall budget or plan for the company

7. Integrated Business Planning

This involves bringing together financial planning and operational planning into a single, integrated process

Process flow



Financial Terms explained

Variance
Difference between actual financial performance and budgeted or forecasted performance

Sensitivity Analysis
Testing the impact of changes to key assumptions, like changes in pricing or assumptions, on financial performance

Capex
Investments in long-term assets, such as property, plant, and equipment

Scenario Analysis
Testing the impact of different scenarios such as market conditions on financial performance

Forecast Accuracy
The measure of how closely actual financial performance aligns with forecasted financial performance

Opex
The day-to-day expenses of running a business, such as salaries, rent, and utilities

Do you know?

According to a survey conducted by Adaptive Insights, nearly 90% of companies use spreadsheets as a primary tool for budgeting and planning

KPIs for functions

Cash flow

- Operating Cash Flow (OCF) Ratio: = Operating Cash Flow / Revenue
- Cash Conversion Cycle (CCC): = Days of Inventory Outstanding + Days of Sales Outstanding - Days of Payables Outstanding
- Cash Flow Margin = Operating Cash Flow / Net Sales
- Cash Reserves in days = Cash reserves/ average daily expenses
- Cash Flow to Debt Ratio = Operating Cash Flow / Total Debt
- Free Cash flow = OCF + Interest Payments - Asset Purchase

Manufacturing

- Overall Equipment Effectiveness (OEE): OEE = (Availability) x (Performance) x (Quality)
- Production Yield = (Good Units Produced / Total Units Started) x 100
- Cycle Time = (Total Production Time / Total Units Produced)
- Cost per Unit = (Total Manufacturing Costs / Total Units Produced)
- On-Time Delivery = (Number of Orders Delivered on Time / Total Number of Orders) x 100
- Order Lead Time = (Time Taken from Order Placement to Delivery)

Supply Chain

- Order Fill Rate = (Number of Orders Filled in Full / Total Number of Orders) x 100
- Cash-to-Cash Cycle Time = Number of Days Inventory is Held + Number of Days Sales Outstanding - Number of Days Payables Outstanding
- Inventory Turnover = Cost of Goods Sold / Average Inventory Value
- Warehousing Cost as a Percentage of Revenue = (Total Warehousing Costs / Total Revenue) x 100
- Transportation Cost per Unit = Total Transportation Costs / Total Units Shipped
- Order Cycle Time = Time Taken from Order Placement to Delivery

Sales

- Sales Growth Rate = ((Current Sales - Previous Sales) / Previous Sales) x 100
- Sales Conversion Rate = (Number of Sales / Number of Leads) x 100
- CAC = (Total Sales and Marketing Costs / Number of New Customers Acquired)
- CLTV = (Average Annual Revenue per Customer x Average Customer Lifespan)
- Sales Win Rate = (Number of Won Opportunities / Number of Opportunities) x 100
- Sales-to-Forecast Variance = (Actual Sales - Forecasted Sales) / Forecasted Sales

IT& Tech

- IT Budget Variance = Actual IT Expenditure - Budgeted IT Expenditure
- Number of Security Incidents
- Mean Time to Detect (MTTD) and Mean Time to Respond (MTTR)
- IT SLA Performance = (Number of SLAs Met / Total Number of SLAs) x 100
- Technology Adoption Rate = (Number of Users Adopting New Technology / Total Number of Users) x 100
- IT Cost as a Percentage of Revenue = (Total IT Expenses / Total Revenue) x 100
- IT System Availability = (Total Uptime of IT Systems / Total Time) x 100

HR

- Employee Turnover Rate = (Number of Employees Separated / Average Number of Employees) x 100
- Compensation Ratio = (Total Compensation Expense / Total Revenue) x 100
- Employee Retention Rate = ((Number of Employees at End of Period - Number of New Hires) / Number of Employees at Start of Period) x 100
- HR Expense Ratio = (Total HR Expenses / Total Operating Expenses) x 100
- Diversity and Inclusion Metrics
- Cost per Hire = (Total Recruitment Costs / Number of Hires)