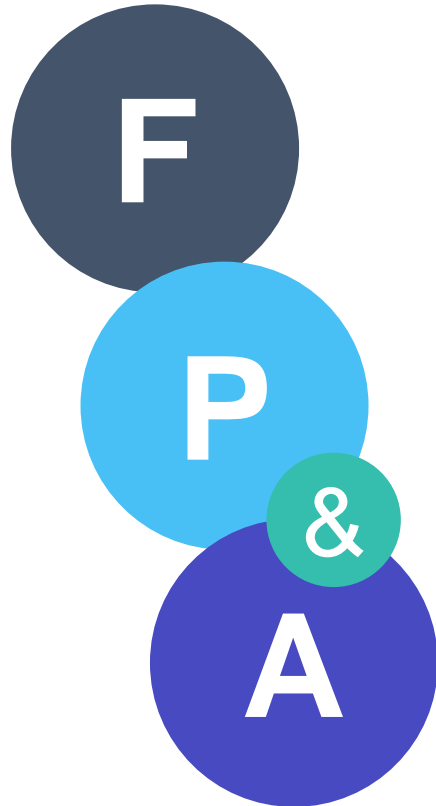


FPAMC[®] 1: Intro to Financial Planning & Analysis (FP&A)

Wall Street Prep
FPAMC[®]





FP&A stands for Financial Planning & Analysis

- Responsible for analyzing, understanding, and overseeing all aspects of financial operations and reporting
- Utilize financial AND operational data to plan the company's future financial performance, and how that affects headcount, costs, etc.
- Analyze both past results and current trends to develop insights necessary to support major operational, strategic, and financial decisions

Why do we need an FP&A function?



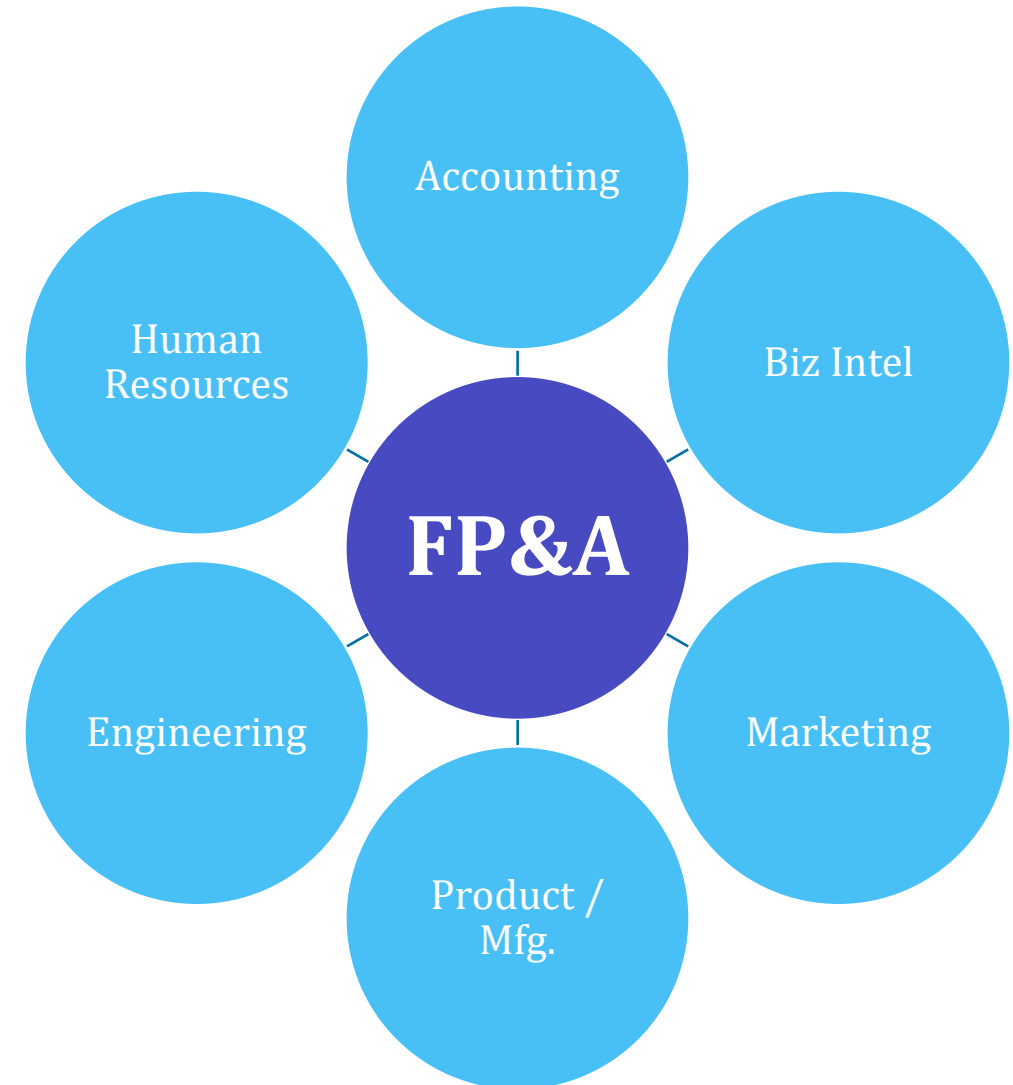
- Accountants know history, but what about the future?
- Business partners such as pricing, manufacturing, and human resources manage their own employees and budgets, but who monitors & supports them?
- Marketing knows total revenues and customer acquisition costs, but doesn't manage variable and fixed business costs
- FP&A connects all these dots to provide management with the insights necessary to effectively solve business problems



FP&A sits right in the middle of every other business function



- FP&A consolidates and coordinates all of this information
- Other functions have access to operational data, but not sensitive financial information
- FP&A is the only function in the business with access to both financial AND operational data
- FP&A partners with business leaders to provide valuable insights, add focus to financial decisions, and track progress towards goals



FP&A work is detective work!



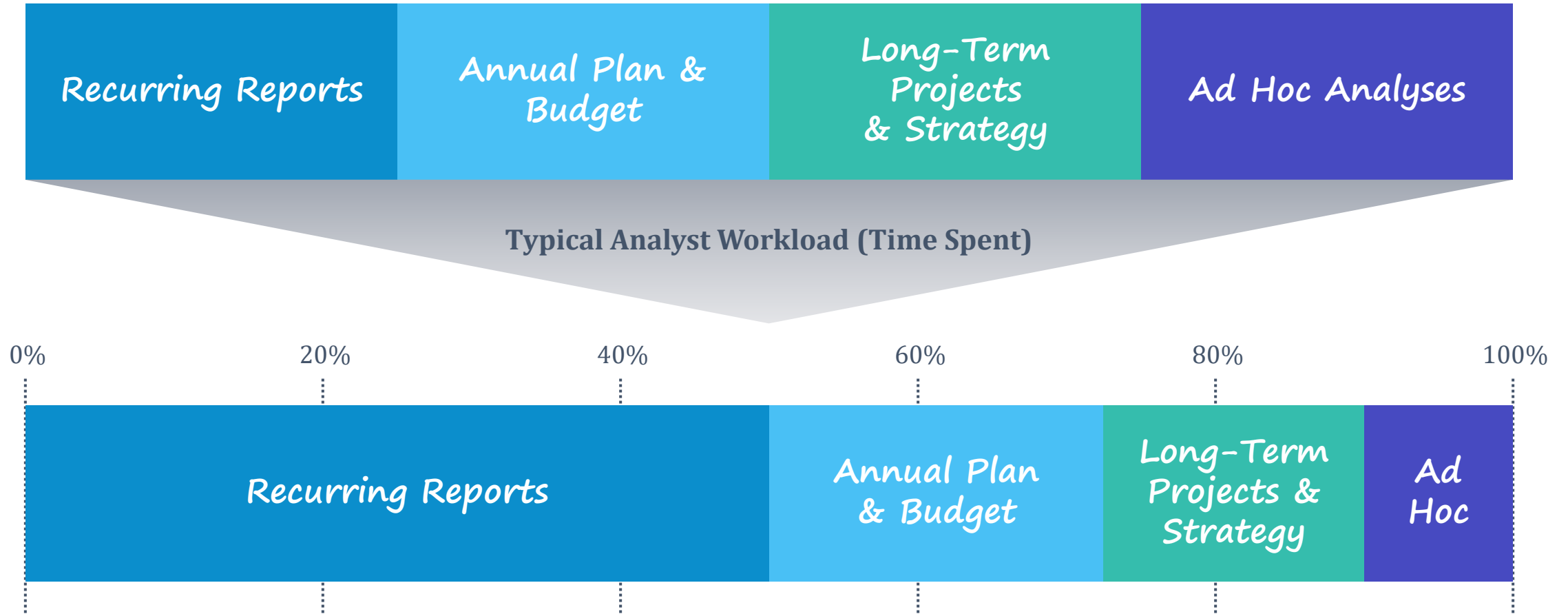
- As an FP&A analyst, you recently noticed that your company's overall revenue increased over the past few months.
- You investigate further by pulling data from the company's operational reporting system with a flag for product type.
- Turns out the change is happening primarily for a particular product, where data shows volume has increased but margins declined!

FP&A work is detective work!



- So, you run a SQL query to pull transaction and charge details; looks like the volume increase was driven by one marketing channel, so you reach out to marketing, who confirms they've been running a promotion that increased website visitors!
- You also notice that the average unit price has declined for another product, so you check data trends there as well as each transaction
- It turns out that the drop in margin corresponds with when the product team launched a new pricing system, and it's charging a lower-than-anticipated markup on each transaction

What types of work does FP&A entail?



Key Tasks in FP&A



Recurring Reports

Weekly, monthly, and quarterly-updated reports and forecasts

Annual Plan & Budget

Annually prepared, deep-dive plan and budget

Long-Term Projects & Strategy

Multi-period or multi-function projections

Ad Hoc Analyses

Short-term or individual projects and analyses





In order to be a great FP&A professional, you need to ...

- Be comfortable with **Accounting**, understand **financial concepts**.
- Be able to translate questions into flexible **financial models**, build persuasive **presentations** using **charts and graphics**.
- Be able to **connect and partner** with individuals throughout the organization.

A true
FP&A pro
understands
both the
numbers and
the narrative of
the business

... as you need to be knowledgeable across multiple skill sets



Accounting

Understand financial statements and interrelationship between accounts



Finance

Know key principles such as time value of money, profitability value drivers, etc.



Financial Modeling

Build clear, flexible, automated, and integrated financial models



Presentations

Present and persuade based on findings



Data Analysis & Visualization

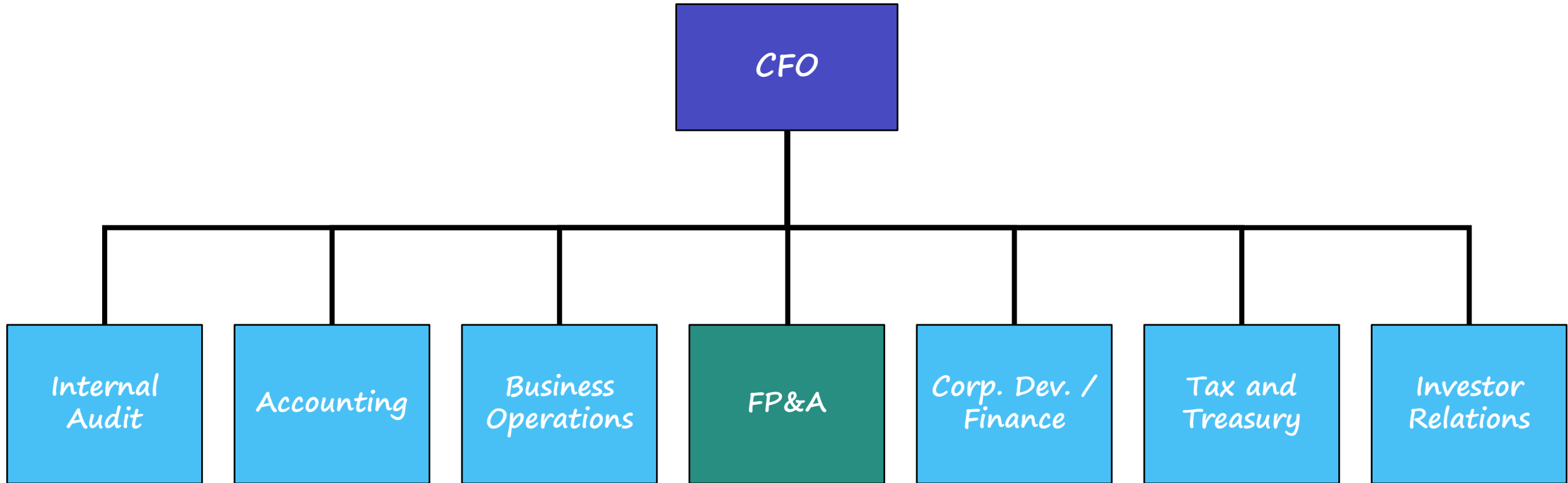
Data sourcing, cleaning, analysis, and visualization



People

Partner with, support, but also challenge key assumptions

Where does FP&A sit in the organization?



The size of the FP&A team varies between organizations



Structures can vary greatly by the size and strategy of the company. Teams range from:



One or two experienced finance professionals at an early-stage startup ...



... to 100+ professionals in large public companies

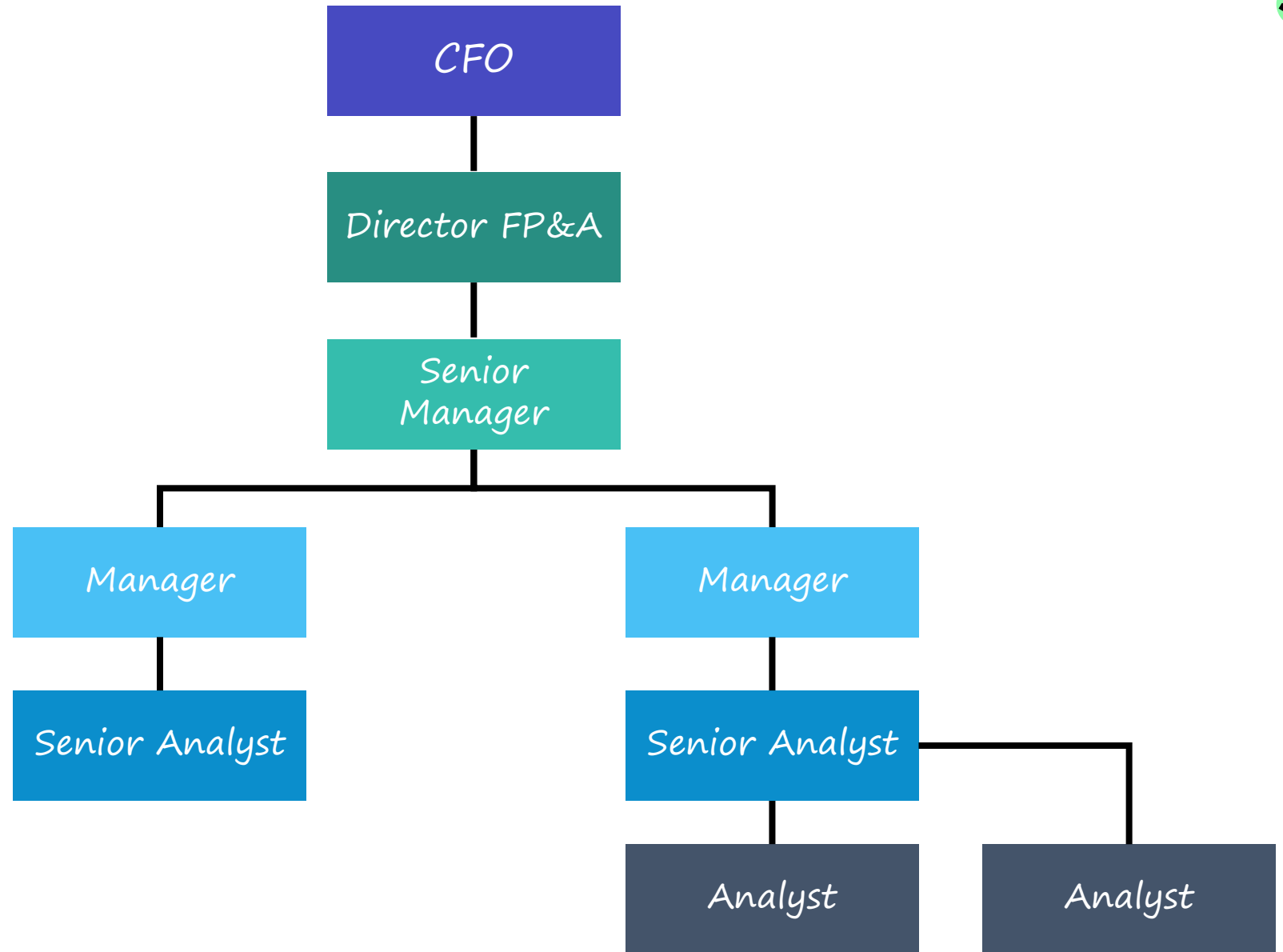
Finance Orgs are typically setup one of two ways

Structure is generally set up by function or division/product

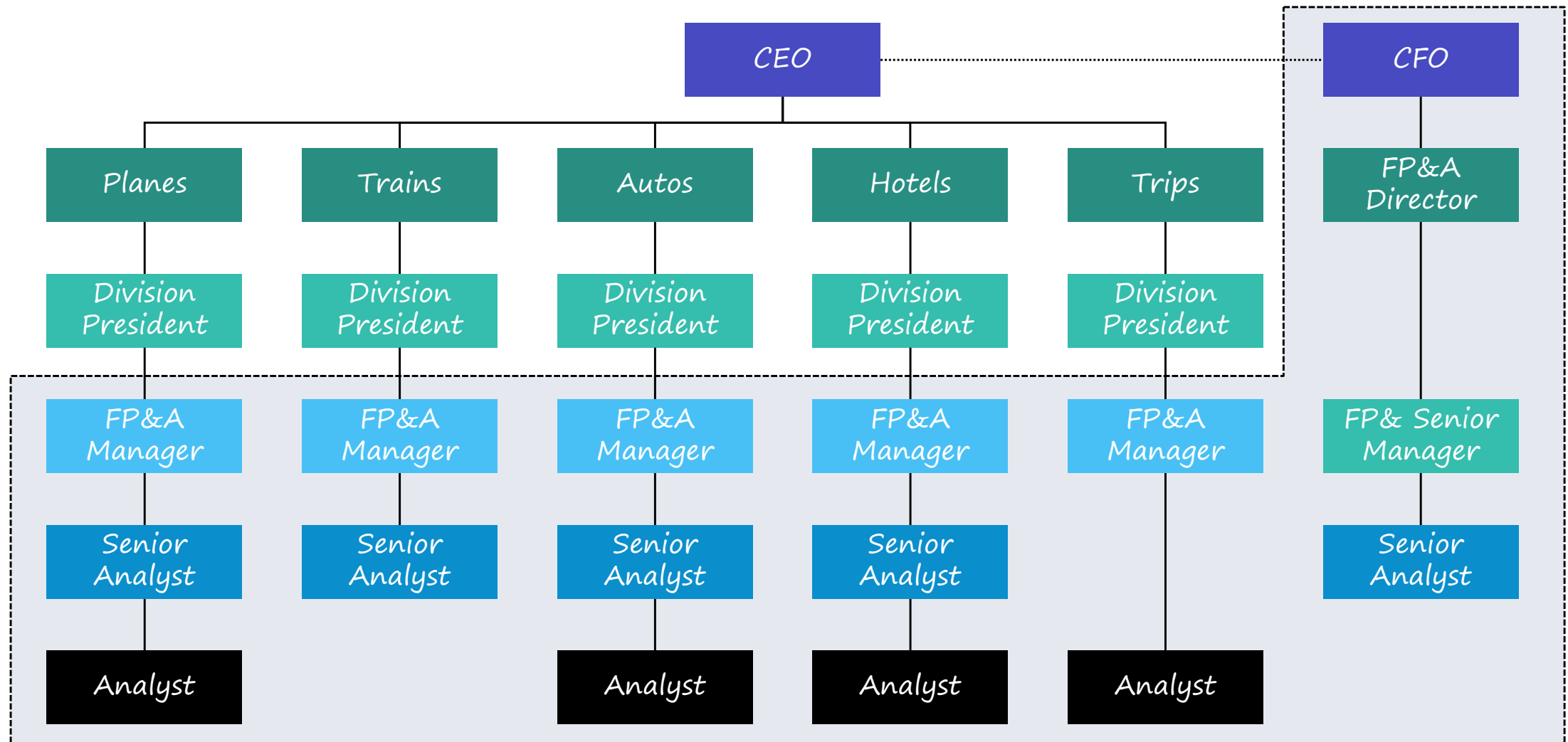


- **Function** – Most common, Finance is a separate support function, where all Finance individuals sit and work together, and responsibilities are assigned by a central head of Finance
- **Product / Division** - Finance professionals are assigned to a product line or specific business segment, and report to the heads of those products/segments directly, and tangentially to a central Finance team

Functional FP&A Organization Structures



Divisional FP&A Organization Structures

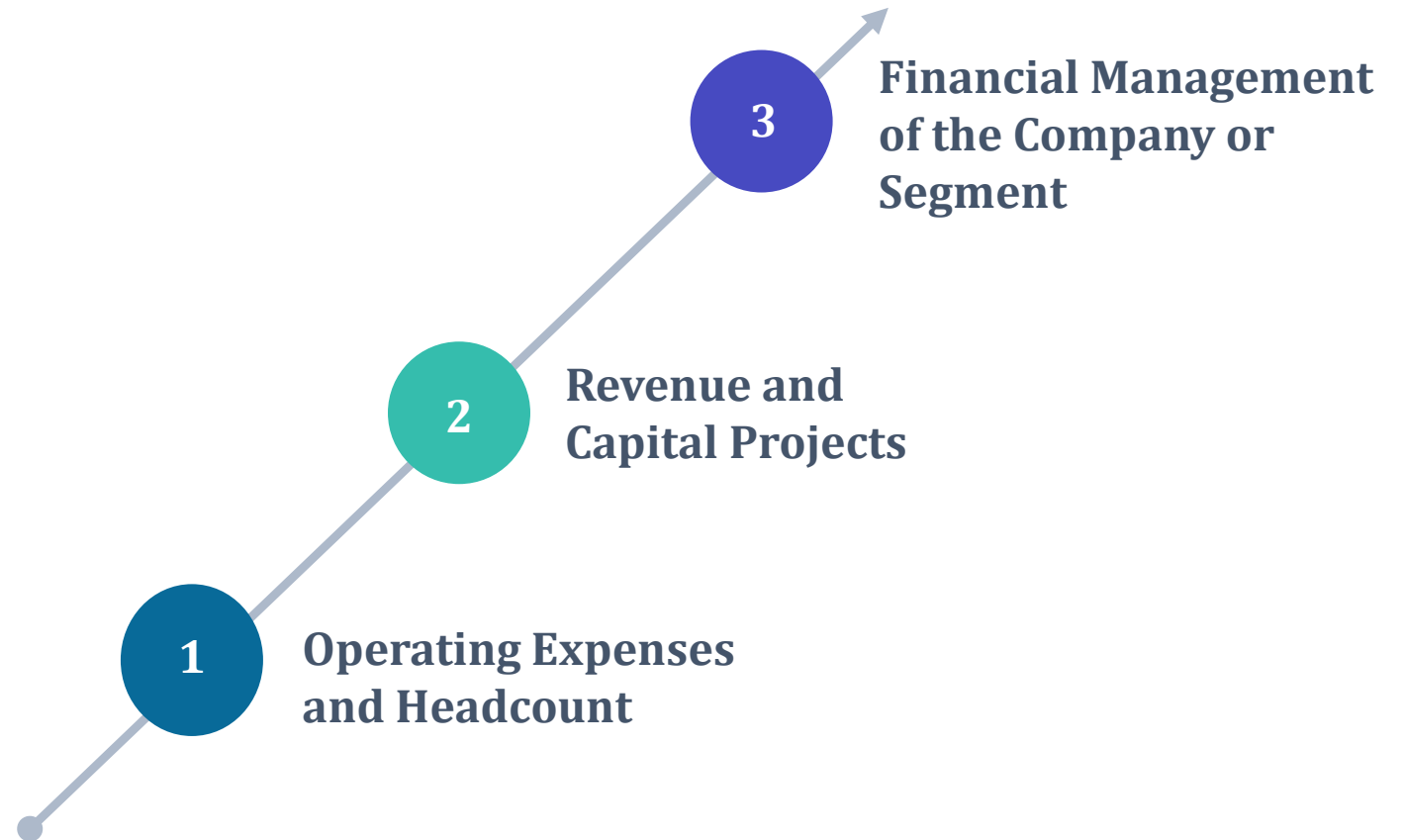


**While these examples can highlight
the most typical structures, the
right setup will be the one that best
suits your organization.**



The “Typical” FP&A Career Trajectory

- Responsibilities change and grow over time
- Pace of change dependent on size of organization, skill level, and interests





FP&A organization structure influences the specifics of each role

- Smaller organizations - more overlap, may support multiple areas at the same time
- Larger organizations - more specialized (e.g., might have a Sr Manager of Infrastructure R&D)
- Industry-specific - Oil & Gas companies might have entire Finance teams specializing in analyzing value of oil reserves, well development expenses & production capacity

The “Typical” FP&A Career Trajectory



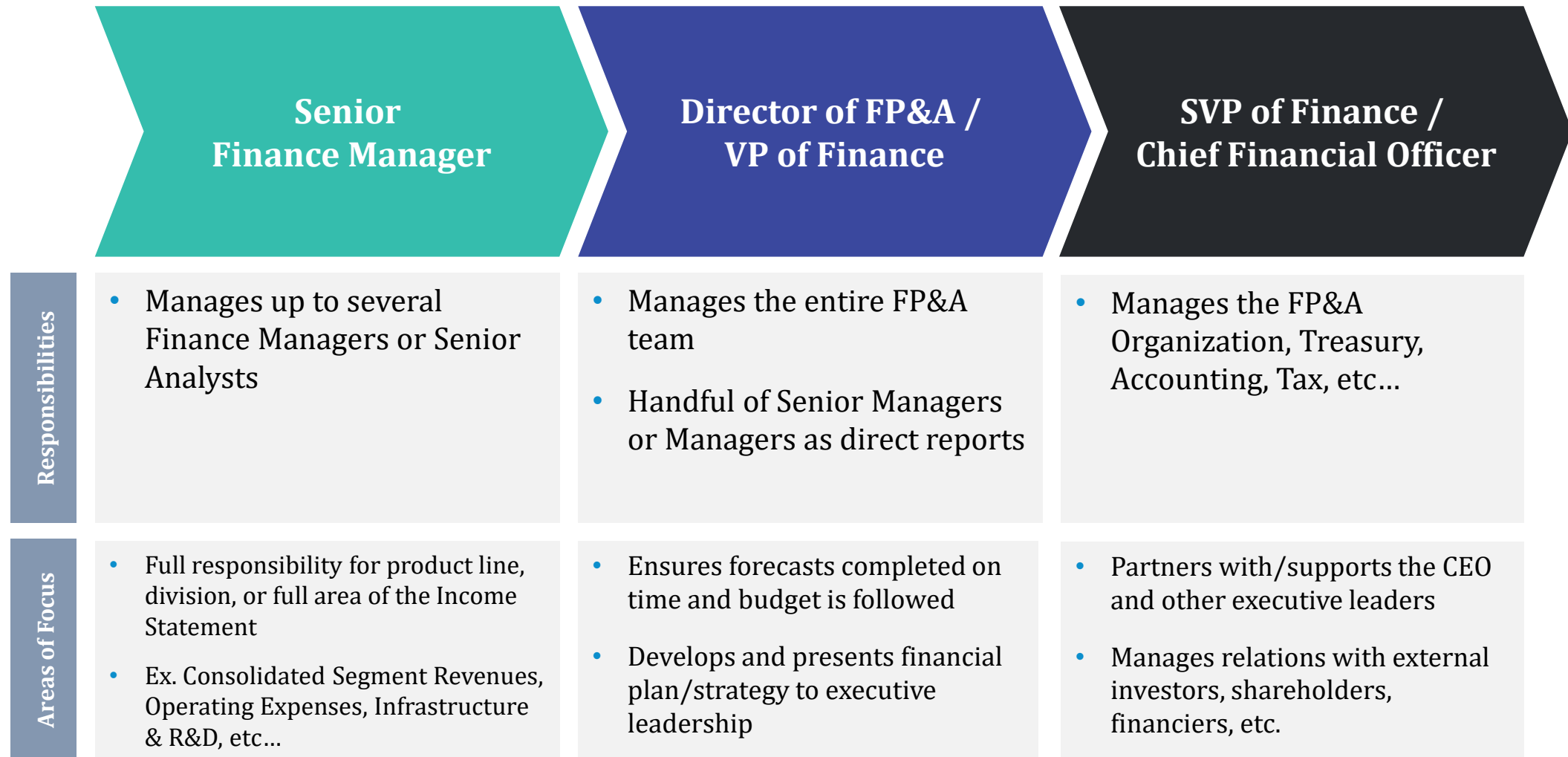
- **Entry-Level**
- 2-4 years as a Financial Analyst
- Typical entry point for ex-auditors and accountants
- 2-4 years as a Senior Financial Analyst
- Typical entry point for consultants and bankers
- 8-12 years in FP&A, or 3-5 years as a Finance Manager
- 12-15 years in FP&A, or 3-5 years as a Senior Finance Manager
- 15+ years in FP&A, generally 3-5 years as an FP&A Director

What is each role responsible for?

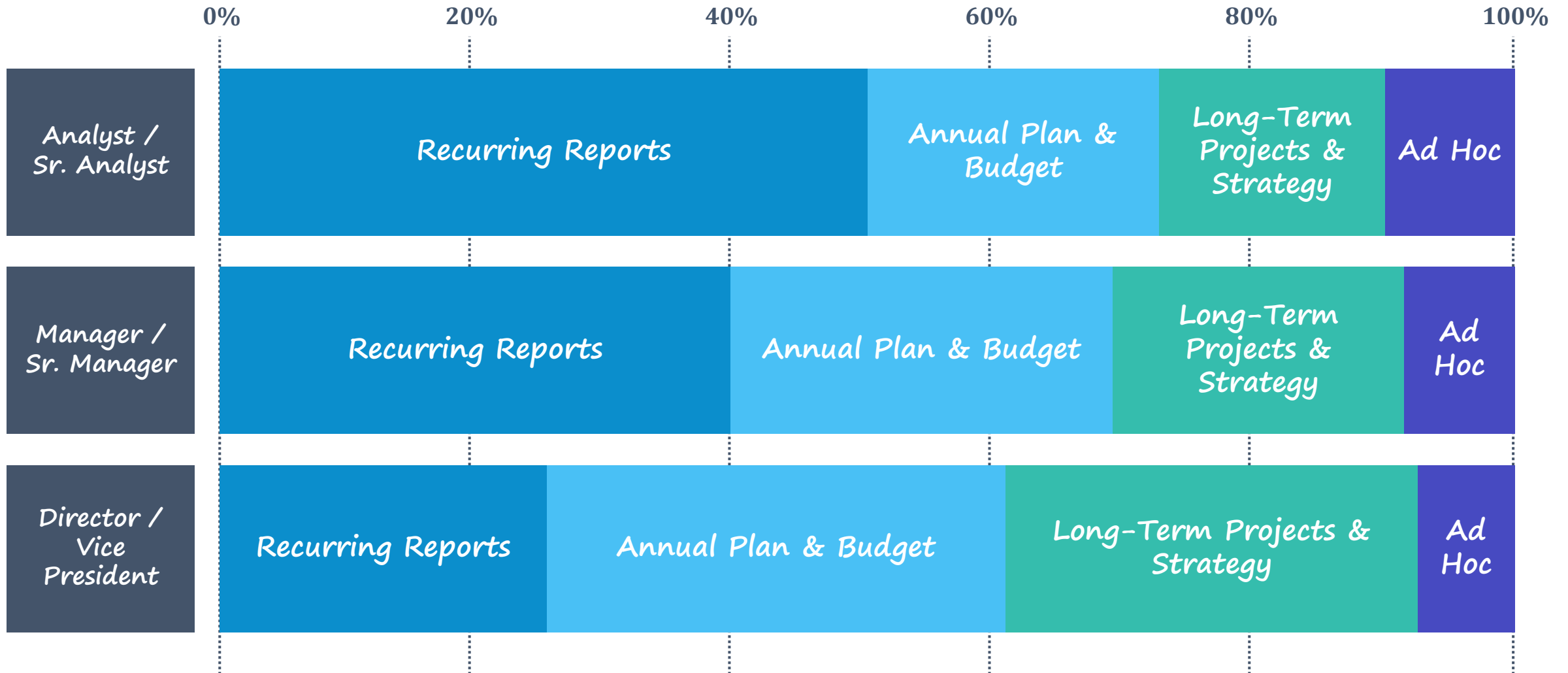


	Financial Analyst	Senior Financial Analyst	Finance Manager
Responsibilities	<ul style="list-style-type: none">• Able to work with guidance• Works closely with Senior Financial Analyst or Finance Manager	<ul style="list-style-type: none">• Able to work independently on projects• Limited supervisory responsibilities	<ul style="list-style-type: none">• Manages one to two Financial Analysts
Areas of Focus	<ul style="list-style-type: none">• Operating Expenses and Headcount	<ul style="list-style-type: none">• Complex expense forecasting• Revenue volume and profitability	<ul style="list-style-type: none">• Direct business partner• Ownership over an income statement area• Special project responsibilities• Consolidations and roll-ups

What do Senior FP&A Professionals focus on?



How do responsibilities change with the role?



The ability to execute is incredibly important early in an FP&A career; as time goes on the ability to explain, persuade, and influence other leaders in the business becomes increasingly critical

FP&A sits at the intersection of financial and operational data, providing the business with critical data and insights to make the right decision.

What is FP&A?



The CEO and CFO have a few questions about the business and need answers fast to the following:

- How are sales volumes and margins comparing to the forecast? (*Recurring Reporting*)
- How many new employees can we afford to hire and how much will it cost us? (*Annual Plan & Budgeting*)
- How much can we invest in expanding production capacity given our cash flow and profit goals? (*Long-Term Projects and Strategy*)
- Product A has seen declining margins over the past quarter. Can we dig into what is causing that? (*Ad Hoc Analyses*)

What do we do in FP&A?



*Recurring
Reports*

*Annual Plan &
Budget*

*Long-Term
Projects &
Strategy*

*Ad Hoc
Analyses*

Recurring Reports



Regular and recurring FP&A responsibilities

- **Recurring Reports** – Weekly or monthly reports created to answer questions such as:
 - How do sales and margins compare to the forecast?
 - What is the marketing spend run-rate for each channel?
- **Quarterly Forecasts** – Financial Statement projections, typically done quarterly, to get a view on what financial results might look like
- **Business Support** – Weekly or monthly reports to the heads of functional divisions or teams to track current expenses vs budget, progress on hiring goals, and anything else to support the business.

Recurring Responsibilities



Monthly Close Support

Work with Accounting to ensure entries are correct, and reserves and accruals are reasonable

Forecasting

Tie operational metrics to financial projections, forecast future revenues and expenses, headcount, and capital expenditures

Business Partner Support

Provide business partners with monthly operational and financial reports, deep-dive analysis where needed

Pacing & Performance Reporting

Project near-term business performance, monitor results against budget and forecast, and track progress toward financial goals in real-time

OKR/KPI Tracking & Reporting

Identify and track Key Performance Indicators of company operational and strategic performance

Monthly Close Support



- Work with **Accounting** monthly to ensure records and accruals are accurate, reasonable, and recorded properly in financial statements

Accuracy

- Accounting processes transaction entries; FP&A reviews for correctness
- Comparing actual results to forecast and budget to identify misallocated or missing entries

Reasonableness

- During Close, Accounting or FP&A develops estimates of Accrued Expenses, Sales Return Allowances, etc.

Irregularities

- Known irregular or non-recurring items categorized separately
- Allows for easy normalization of performance

Forecasting



- The most widely-known and universally-applicable FP&A responsibility
- Everyone in FP&A is involved to some degree, and in the best organizations, this is a **full company exercise**
- 1st (and most detailed) forecast of the year is called the **Plan Forecast**

What do we believe is going to happen?

- Generally, forecasts show monthly results, and are done once a quarter
- Best practice covers a rolling 12-18 month period (Rolling Forecast)
- Detailed forecasts, may not affect every individual account level but should cover all major driver variables and accounts (Pareto)
- Should avoid simply extrapolating near-term trends over the forecast period



Forecasting is an exercise for the entire business to target operating drivers and estimate impact on financial results. Forecasting should NEVER be considered a finance-only exercise (though it often is).



- Partner with business leaders at product or departmental levels
- Provide regular reports on business partner's operational and financial metrics
- Engage in ad hoc or deep-dive reporting of specific queries from the business partner
- Examples include monthly reports of expense and headcount vs budget, deep-dive on product-level unit economics, marketing spend and efficiency reports, etc.

Key Responsibilities

- In a Business Partner capacity, it is FP&A's responsibility to be a trusted financial advisor to the department or function
- This often involves both advocating for, as well as pushing back on business partner assumptions, budget and headcount requests, etc. in accordance with the needs of the overall business
- Actual responsibilities will vary a lot depending on which business function you support (Marketing vs. R&D vs. Product)

Pacing, Performance, and Operational Reporting



Pacing & Projections

- Progress against forecast and projections based on current trends
- Shorter-term view
- Used to identify risks or opportunities to forecast in real-time



Performance Reports

- Monthly or quarterly reports to top management on financial performance
- Summary financial view of business performance



Operational Reports

- Reports on non-financial metrics, such as customer conversion metrics, sales pipeline updates, clinical trial progress, etc.

KPI & OKR Tracking & Reporting



- Key Performance Indicators (KPIs) are quantifiable measurements used to gauge a company's overall long-term performance
- Objectives and Key Results (OKRs) is a collaborative goal-setting tool used by teams and individuals to set challenging, ambitious goals with measurable results

KPIs

- Determine company's strategic, financial, and operational achievements
- Often based on comparisons to competing businesses as a form of benchmarking

OKRs

- Used to track progress
- Create alignment
- Encourage engagement around measurable goals

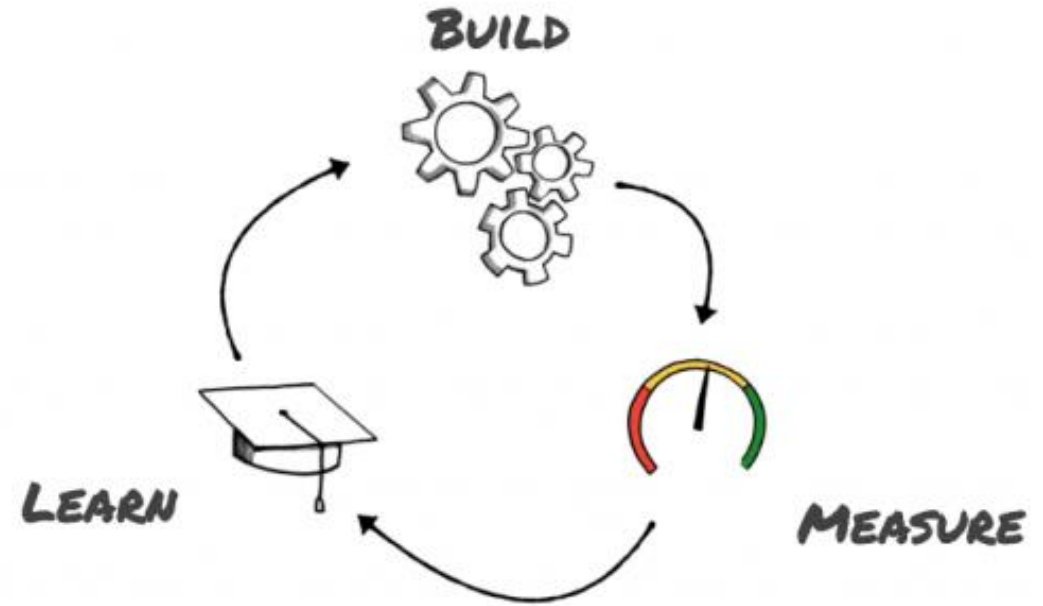


Building efficiency and “slack” in recurring work is increasingly important. Without continual focus on improvement, you won’t have time to get to more interesting and impactful analyses.

Areas for Increasing Efficiency



- Look for duplicative or overlapping reports
- Reduce or eliminate non-essential recurring reports
- Build easily-updated financial models to answer frequently-asked questions
- Build a portfolio of financial models for frequently used projects, to share among team members and save time
- Incorporate lean startup feedback loop to build products, measure impact, and learn to improve and streamline



What do we do in FP&A?



*Recurring
Reports*

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*Long-Term
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*Ad Hoc
Analyses*

Annual Plan & Budget

Annual Plan & Budgeting Responsibilities



- **Plan** – Typically the first, and most detailed forecast of a fiscal year, which sets goals and expectations for overall company performance
- **Headcount** – Headcount requirements for the business are set at the function and department level
- **Budget** – A specialized forecast used to set expectations for spend, not just at the company level, but at the individual function and department levels as well

Putting Together the Annual Plan and Budget



- September/October get started with Plan, due near end of November. Internal FP&A kick-off, and setup meetings with functional leaders in the business to go over assumptions and updates
- Start with high level, top-down view of business performance and momentum, while individual assumptions are explored and sensitized with functional leaders
- Context then informs the assumptions FP&A uses in building up the detailed forecast; Junior team members dig into account details for insights and prepare new assumptions

Putting Together the Annual Plan and Budget



- More Senior FP&A folks get involved in aggregating and synthesizing initial Plan results, and push challenge functions as needed to align with Strategic and Operating plans
- After any needed adjustments and initiatives are added, the new view is reviewed by senior business leaders and Board of Directors and/or Investors for alignment
- Final version is approved and becomes the basis for the annual operating expense and headcount budgets, while operating and financial metrics become targets for compensation, etc.

Headcount



- Partner with Human Resources and Business Leaders to determine Headcount needs
- New Hire / Termination tracker
- Estimate headcount costs (salary, health benefits, meals, travel & entertainment, etc.)
- Monitor departmental hiring progress versus budget

Insider Note

- Particularly important in early-stage companies that are growing quickly
- Likelihood to hire is important
- Tracking employee type (full-time employee, contractor, vendor) is important
- Beware! Internal hiring needs between different departments can get heated when trade-offs need to be made



- Formal process to set acceptable levels of spend
- Expected performance of the business drives allowable expenditures
- Can be done annually (most common) or quarterly
- Different approaches to budgeting:
 - Incremental
 - Activity-based budgeting
 - Zero-based budgeting

Insider Note

- Can be one of the most challenging tasks for an FP&A professional
- It is critical to develop strong relationships with budget leaders throughout the process to smooth the process
- Important to keep a skeptical mindset when determining reasonableness and necessity of budgetary requests

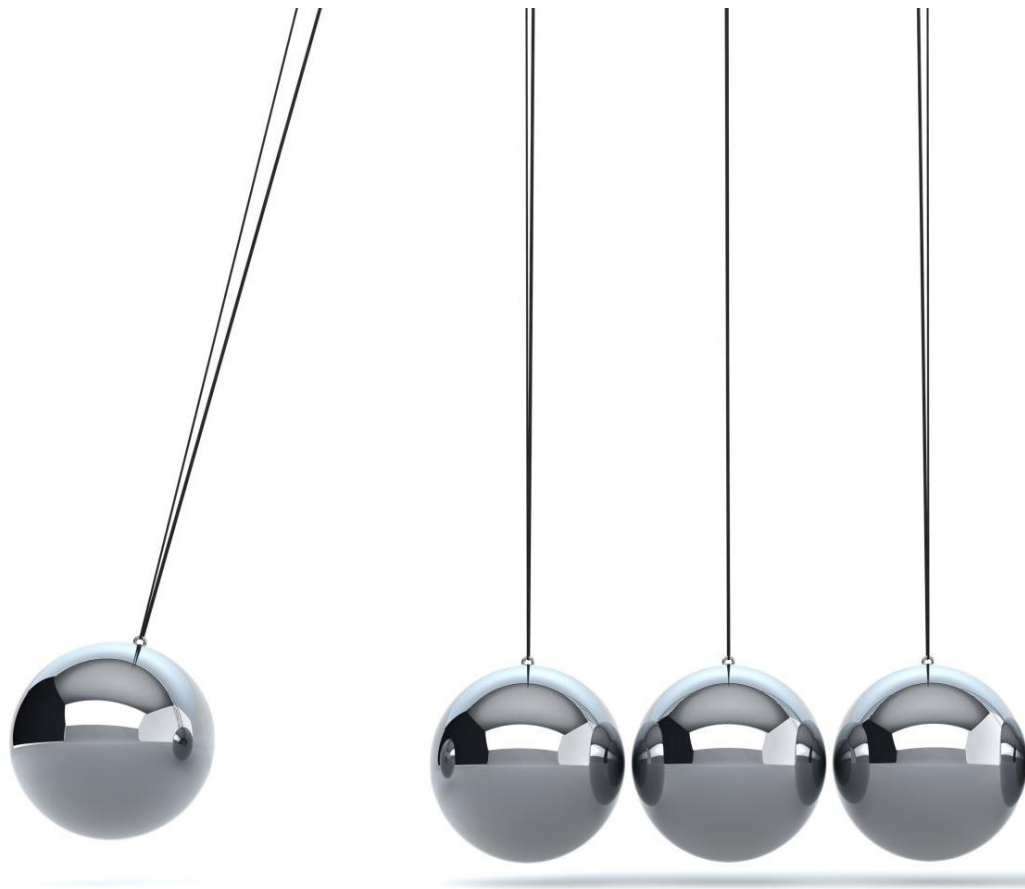
Budgeting Techniques - Incremental



- Easily the most common method due to its simplicity
- Starting point is the prior annual or quarterly budget
- Additions/Subtractions are made based on manager input to arrive at the current budget
- Appropriate when cost drivers do not change often
- Leads to budgetary slack



Budgeting Techniques – Activity Based



- Important in organizations who are subject to high volatility, such as early-stage startups or cyclical companies
- Top-down approach
- Looks at organizational goals and derives the level of activity necessary to support that
- Budget is a relationship to expected level of activity
- If results fall short, budget declines as well

Budgeting Techniques – Zero Based



- Incredibly useful when the company may have bloated expenses.
- Each budget cycle, budget starts at \$0 for all departments
- Budget leaders required to justify every requested expense
- Bottoms-up approach
- Extremely time-consuming, but works well at containing discretionary costs





The approach to budgeting can have a huge impact on where the final budget lands. The budgeting approach that was right for the organization in the past is not necessarily the right approach today. Use your judgement!

What do we do in FP&A?



*Recurring
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*Ad Hoc
Analyses*



As you advance towards the FP&A Manager role, you'll likely start to take on more:

- **Project Analysis** – Involves building out financial analysis and models to support specific business decisions
- Includes tasks such as whether to buy or build a new plant, NPV analysis of launching a new product, creating a new dashboard for a business line, or implementing a new reporting system
- **Strategic Analysis** – Typically consists of longer-term (3-5 year) forecasts and scenario building, as well as competitor and peer benchmarking
- Includes analysis of both financial (units, price) and operational metrics (sales conversion ratios, product development progress, etc)

Project Analysis



Implementation

- Building new reports or updating old ones
- Accounting system implementation work and review



Support Projects

- Data analysis
- Dashboard creation
- Finance and strategy support
- Competitor benchmarking



Capital Projects

- NPV and IRR analysis
- Ex. R&D, infrastructure investments, plant expansions
- Addressed in later chapter



Biz/Corp Dev

- Joint collaboration agreements
- Contract negotiations
- Sales go-to-market support

Strategic Analysis



- Strategic analysis covers all analysis performed to develop and monitor the company's forward-looking strategy along two dimensions:

Financial

- Centers around comparison of company financial ratios to peers
- Profitability (ex. Gross margin)
- Returns (ex. Return on assets)
- Efficiency (ex. A/R turnover) ratios

Operational

- Comparison of operational ratios to peers and internal goals
- Customer conversion, % of women in leadership roles, R&D project status, etc.