

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

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