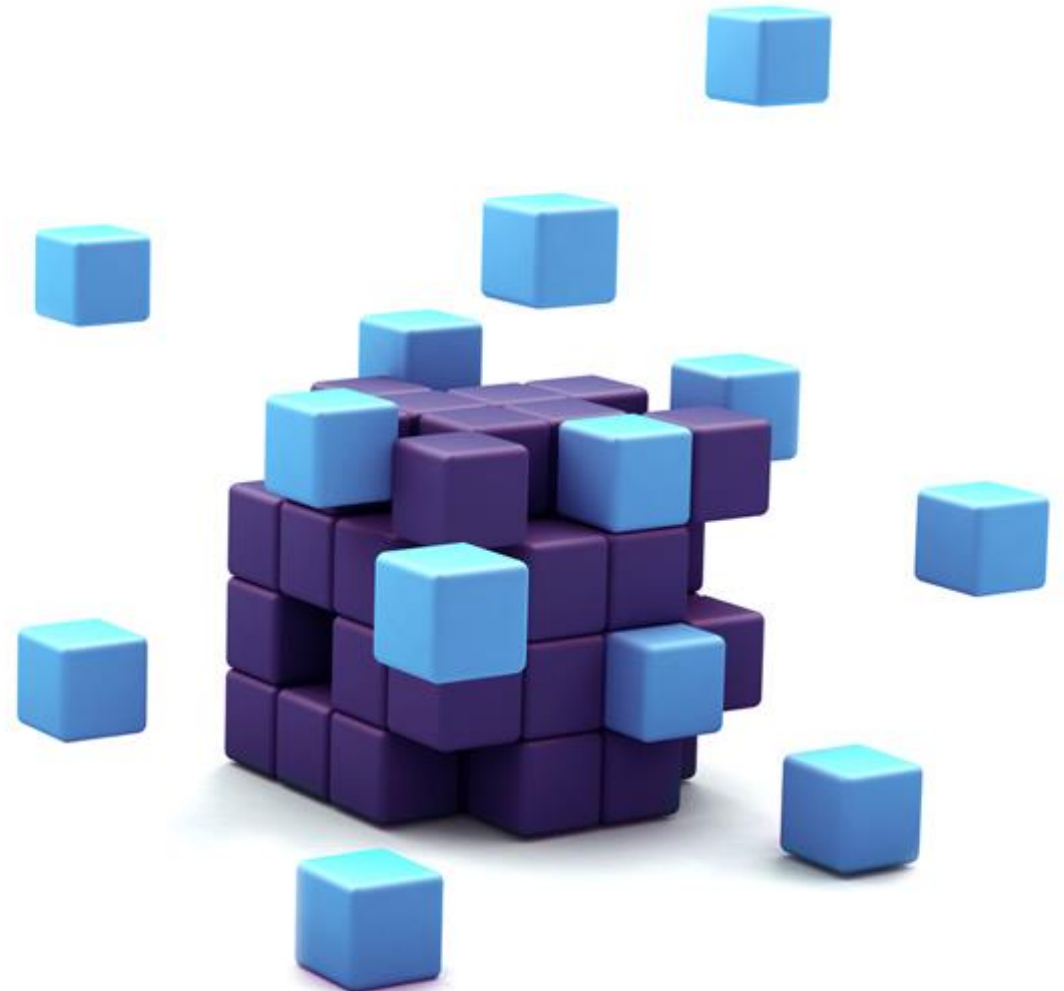


PLANNING, BUDGETING AND FORECASTING 101

SEPTEMBER / NOVEMBER 2018 - 6 CFU

LESSON 3



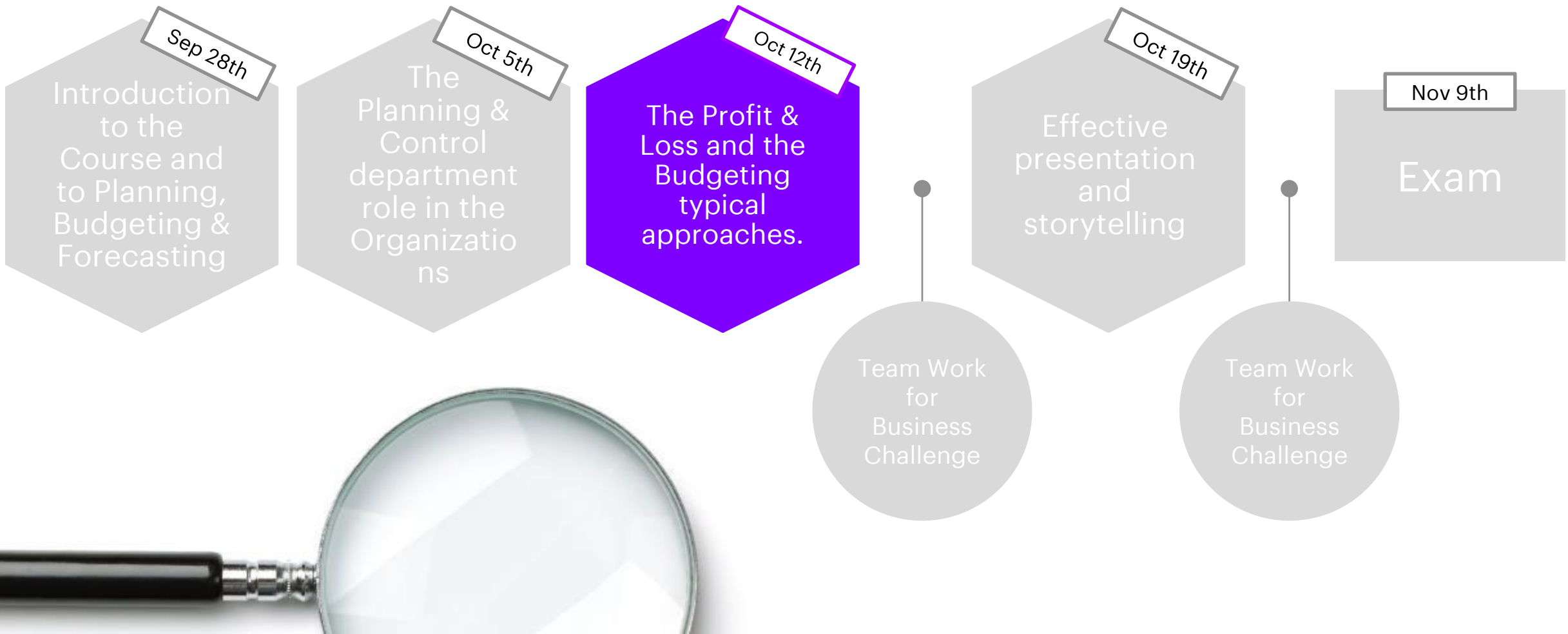
ICE BREAKER

DESERT ISLAND PICKS



COURSE TARGETS AND STRUCTURE

The aim of this course, which includes a **Business Challenge**, is to **bring students closer to the real working life within the Planning and Control departments**.



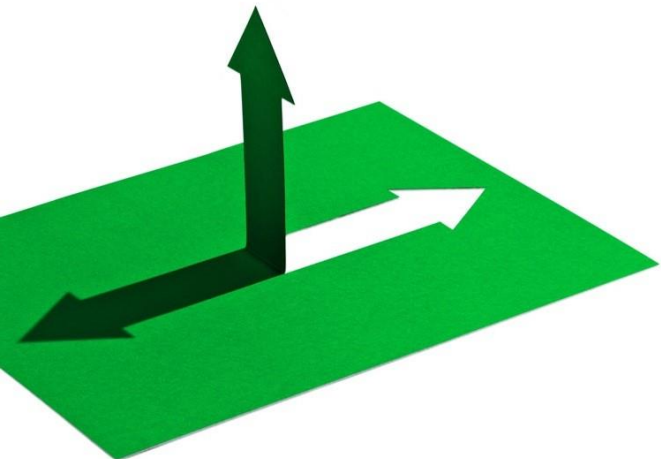
FOCUS ON – TEAM WORK/BUSINESS CHALLENGE

1st Group	
Name	Surname
Irene	Furlani
Edoardo	Meridiani
Erica	Siragusa
Silvia	Pinna
Atreya	Chaturvedi
Riccardo	Simonetti

2nd Group (Dystopia)	
Name	Surname
Carlo	Sforza
Elena	Parisi
Francesco	Vincenzi
Maria	Bollas
Matilde	Maggio
Serhiy	Gaeta Shumak

3rd Group (Star Catchers)	
Name	Surname
Mehrzaad Jafari	Ranjbar
Emadallah	Ghadiri
Otilia-Gabriela	Agapie
Ludovica	Tomassacci
Anna Maria	Pistoni
Claudia	Pennesi
Thi Ngoc	An Tran

4th Group (Starbucks PBF)	
Name	Surname
Luis Felipe	Racedo
Jane	Nyamu
Lamiya	Sevdimaliyeva
Anisa	Avdulaj
Julielly	Almeida
Dodou	Jammeh



**ANY
QUESTIONS
?**

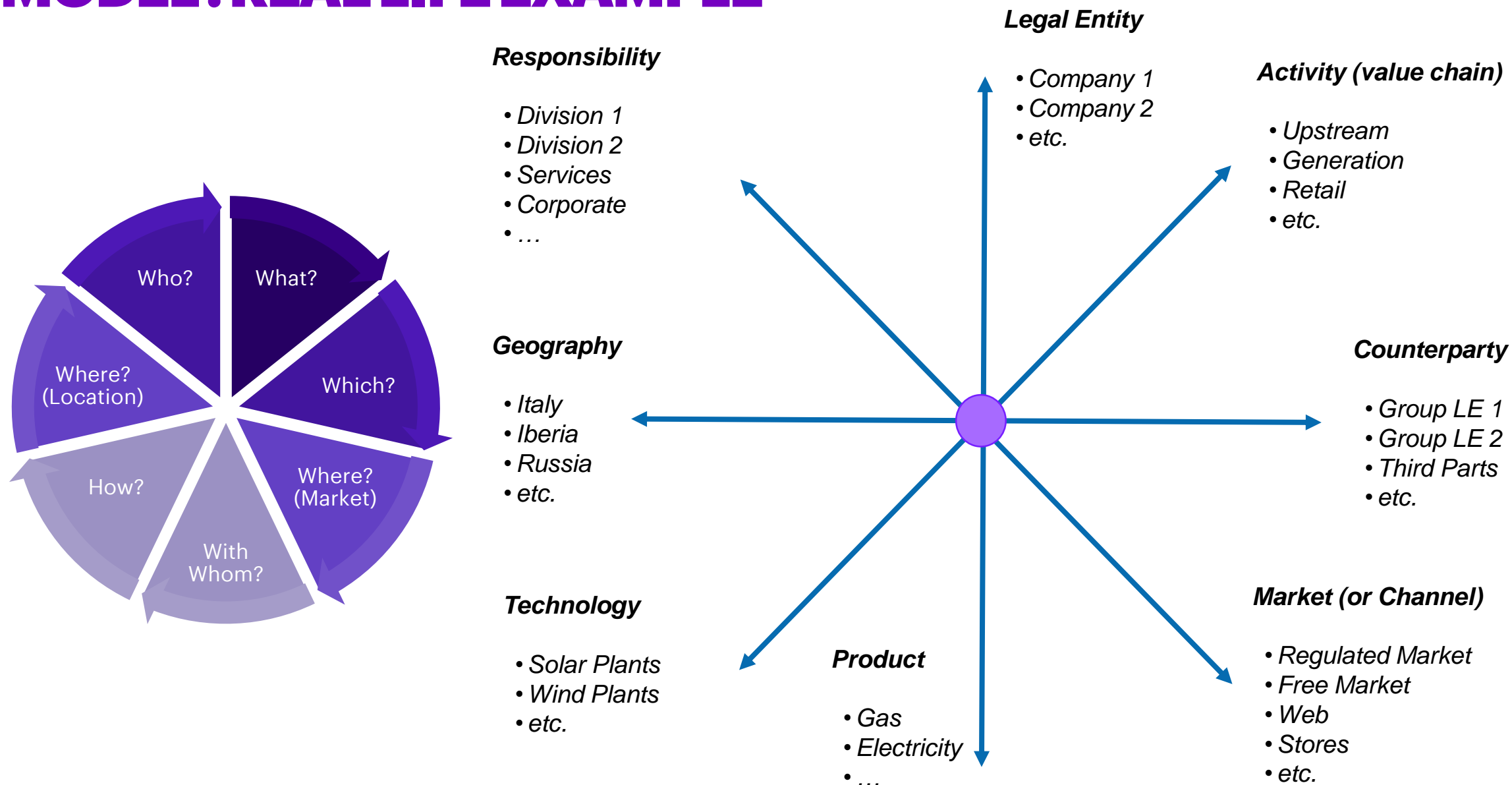


ARE YOU READY?



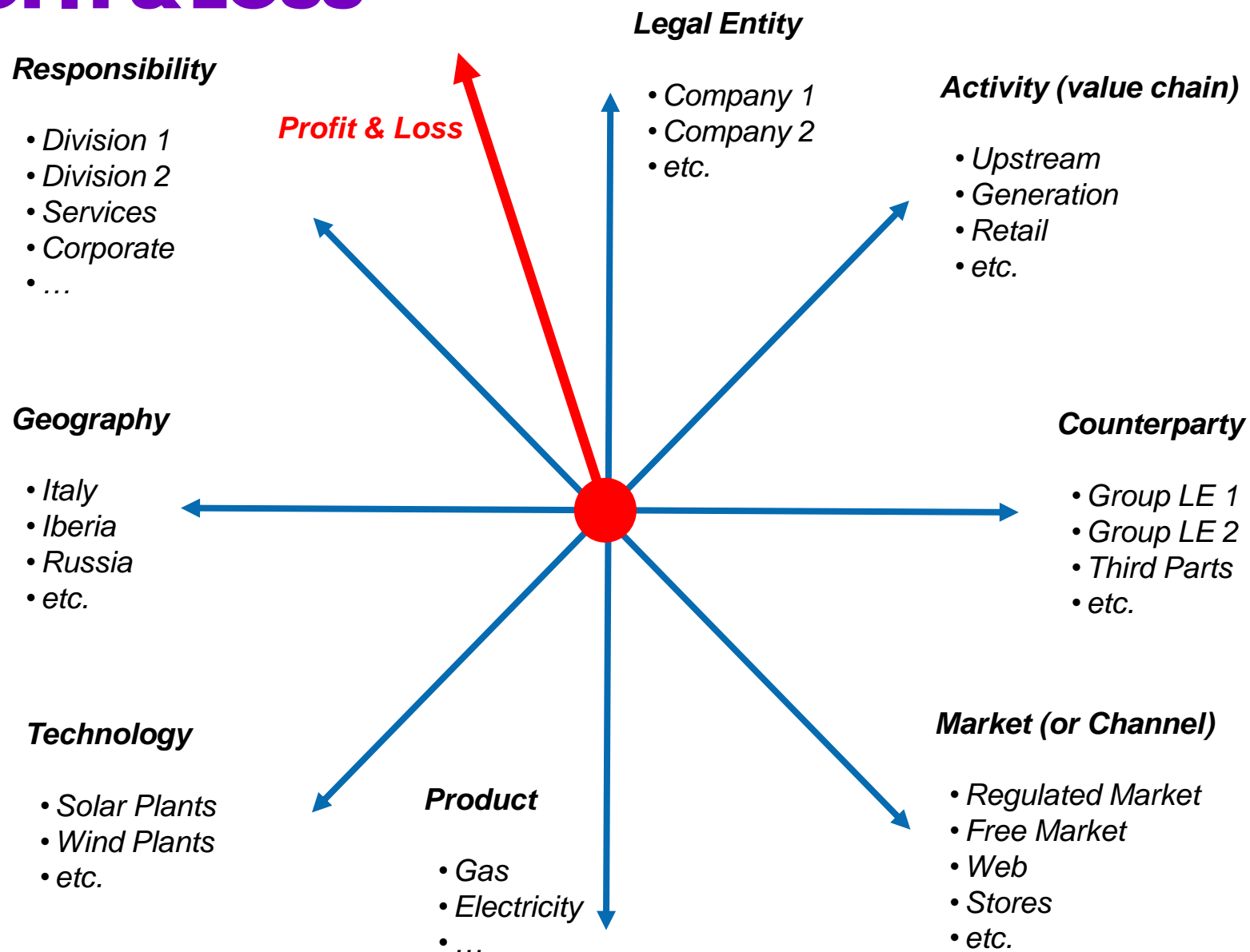
THE MANAGEMENT PROFIT & LOSS – AN HIGH LEVEL OVERVIEW

KEY QUESTIONS ADDRESSED BY THE CONTROL MODEL: REAL LIFE EXAMPLE



A KEY DIMENSION OF THE COMPANY CONTROL MODEL IS THE PROFIT & LOSS

The **attribution** of the Control Model **Dimension of Analysis elements** to each line of the **Profit & Loss** translates **organizational responsibilities** into **economic responsibilities**



STATUTORY AND MANAGERIAL PROFIT & LOSS REPORTING

Management
Profit & Loss



Statutory
Profit & Loss

STATUTORY AND MANAGERIAL PROFIT & LOSS REPORTING

Mandatory (law) for certain classes of Companies

1

Break down and showcase financial actions taken by the company in that year

2

Prepared for a specific time and only completed once a year

3

Used both **internally** and **externally**

4

Specific/Mandatory Structure and Formatting

5

Statutory
Profit & Loss



STATUTORY AND MANAGERIAL PROFIT & LOSS REPORTING

Management Profit & Loss

1

Not Mandatory, at the **discretion of the Company**

2

Allow management team in a business to **make decisions** based on the financial position of the Firm

3

No need to be completed to official time frames (law). **Deadlines decided by the Firm**

4

Used **only internally**

5

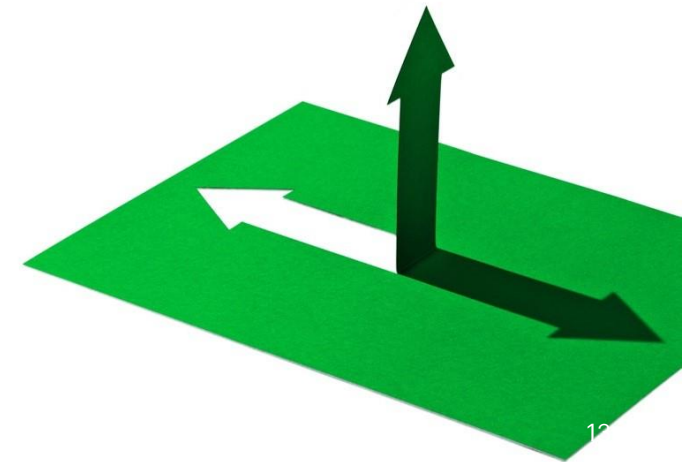
No set format or data requirements. **Can look and include whatever the Firm you decides.**



FOCUS ON – TEAM WORK / BUSINESS CHALLENGE

Management
Profit & Loss

**THE TEAMS WILL FOCUS THEIR
WORK ON A MANAGEMENT
PROFIT & LOSS**



MANAGEMENT PROFIT & LOSS EXAMPLE – GROSS MARGIN

ILLUSTRATIVE

Revenues
Cost of goods and services sold
Trade fees and commissions
GROSS MARGIN
Cost to Acquire
MARGIN FROM SALES
Cost to Serve
MARGIN FROM OPERATIONS
General and Administrative
Other Indirect opex
EBITDA
Depreciations and amortizations of contract-specific CAPEX
Depreciations and amortizations for trade fees and commissions
Other depreciations and amortizations
EBIT

Revenues

Revenues from product sale

Revenues from services

Revenues from electricity sale

...

PRODUCT MARGIN



MANAGEMENT PROFIT & LOSS EXAMPLE – GENERAL & ADMINISTRATIVE

ILLUSTRATIVE

Revenues
Cost of goods and services sold
Trade fees and commissions
GROSS MARGIN
Cost to Acquire
MARGIN FROM SALES
Cost to Serve
OPERATIONS MARGIN
General and Administrative
Other Indirect OPEX
EBITDA
Depreciations and amortizations of contract-specific CAPEX
Depreciations and amortizations for trade fees and commissions
Other depreciations and amortizations
EBIT

PRODUCT MARGIN

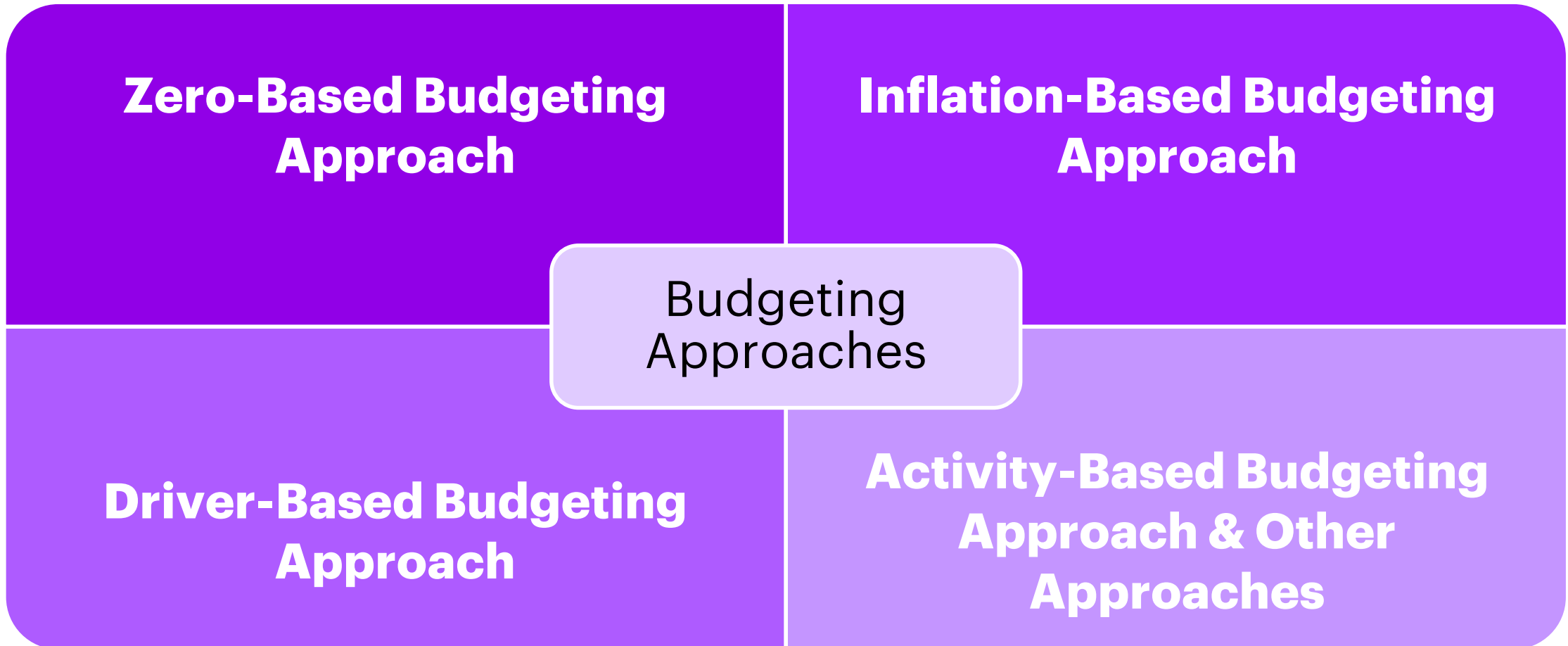


G&A personnel
Security
Facilities
Real Estate
...



BUDGETING APPROACHES

THE TYPICAL BUDGETING APPROACHES - OVERVIEW



THE TYPICAL BUDGETING APPROACHES - DETAILS

Zero-Based Budgeting Approach

- Re-evaluate in detail the expenditure groups starting **from scratch each year**.
- **Bottoms-up budget justification at each period**, typically annually.

Driver-Based Budgeting Approach

- Planning models **incorporate key business drivers** (financial and non-financial) to predict resource needs.

Inflation-Based Budgeting Approach

- Prior period budget is **simply adjusted** to account for inflation or revenue growth.

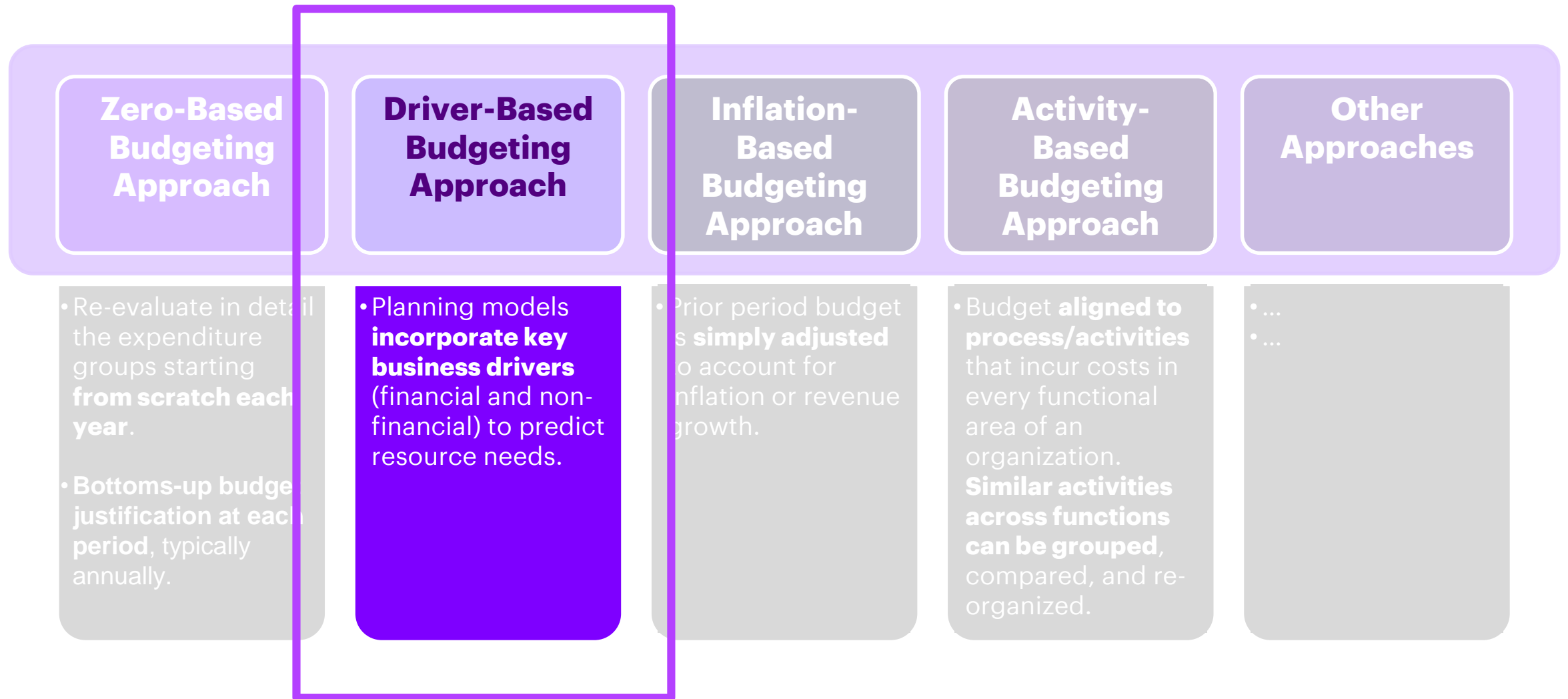
Activity-Based Budgeting Approach

- Budget **aligned to process/activities** that incur costs in every functional area of an organization. **Similar activities across functions can be grouped**, compared, and re-organized.

Other Approaches

- ...
- ...

THE TYPICAL BUDGETING APPROACHES - THE DRIVER BASED APPROACH



THE TYPICAL BUDGETING APPROACHES - THE DRIVER BASED APPROACH

Description

Planning models incorporate **key business drivers** (**financial** and **non-financial**) to predict resource needs. Typically coupled with “**what-if**” **capability** to allow for comparison of **alternative strategies** and simultaneously show probabilistic outcomes to revenue projections and cost budgets.

Benefits

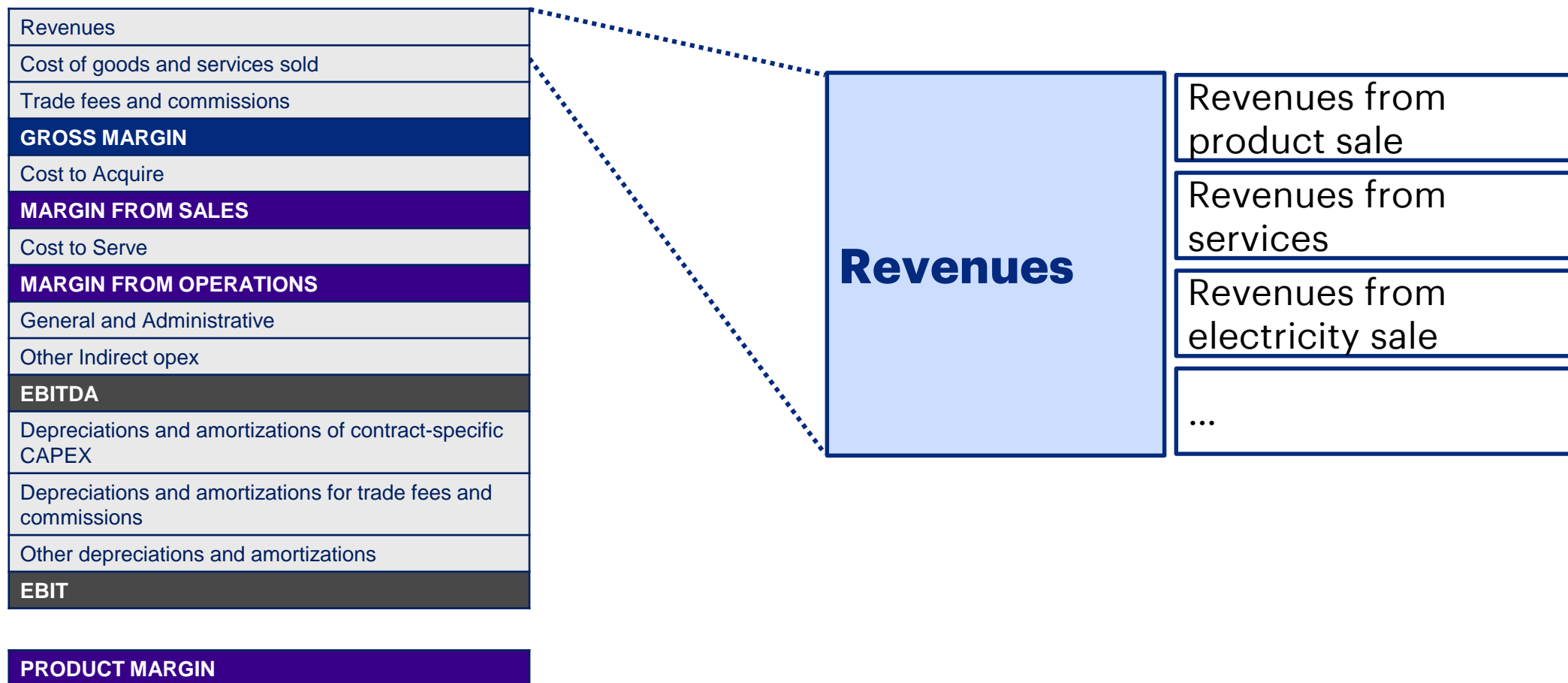
1. **Financial budgeting linked to operational metrics** by using the same key drivers allowing for cause and effect linkages
2. **Drivers run across organizations**, forcing alignment on expected business outcomes over time periods
3. Flexibility to **use assumptions**
4. Monitoring of external environment leads to **event-triggered re-forecasting**, saving time and iterations

Issues/Risks

1. Continual discipline to **modify cost structures as drivers fluctuate**
2. Requires maturity to have visibility to and **alignment** on **key inter-departmental cost drivers**
3. Necessitates more robust system to support driver assumptions, scenario modeling, and approval workflow
4. **Requires access and linkage across financial and operational data** – e.g. integrated data warehouse

THE TYPICAL BUDGETING APPROACHES - THE DRIVER BASED APPROACH

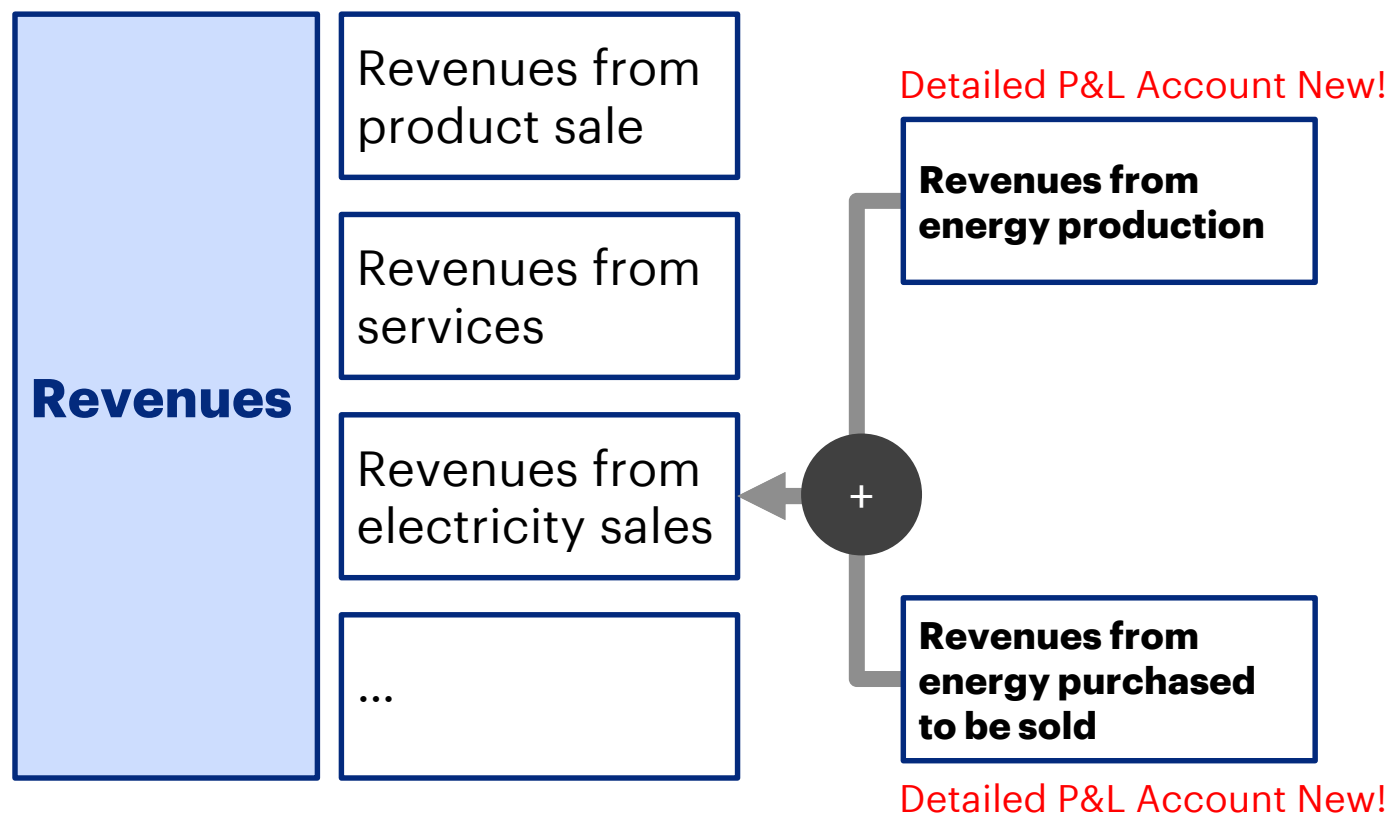
ILLUSTRATIVE



THE TYPICAL BUDGETING APPROACHES - THE DRIVER BASED APPROACH

ILLUSTRATIVE

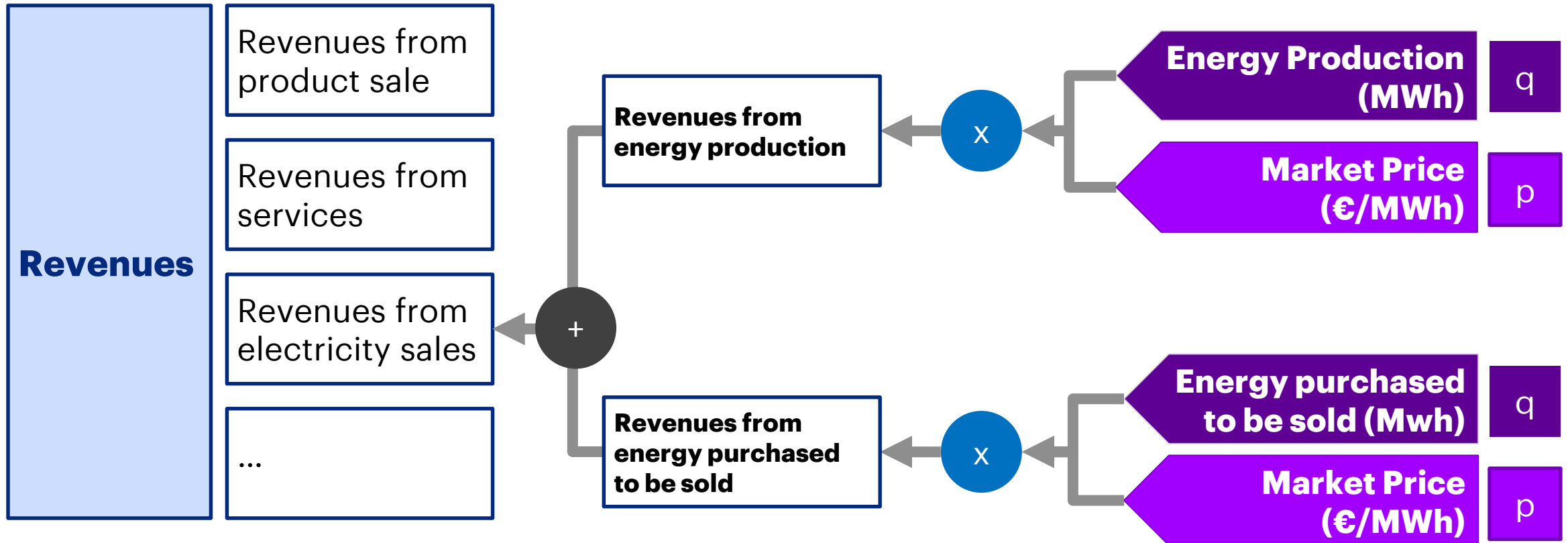
Example: Revenues from Electricity Sales



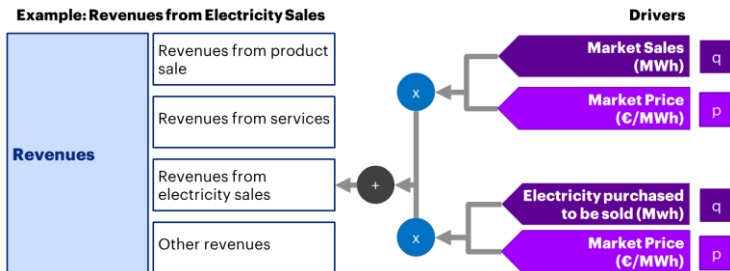
THE TYPICAL BUDGETING APPROACHES - THE DRIVER BASED APPROACH

ILLUSTRATIVE

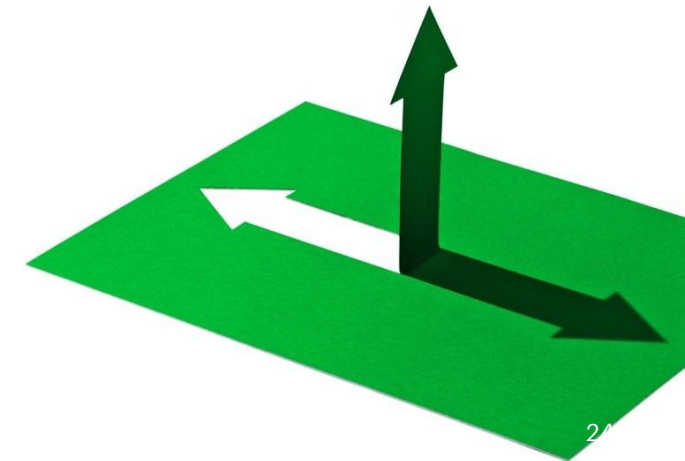
Example: Revenues from Electricity Sales



FOCUS ON – TEAM WORK /BUSINESS CHALLENGE



**THE TEAMS WILL FOCUS THEIR
WORK ON A DRIVER BASE
BUDGETING**



- **Management Profit & Loss reports** are produced to **allow the management team** in a business to **make decisions** based on the financial position of the company. Management P&L is exclusively used for internal decision making. Many corporations opt to create Management P&L reports quarterly, monthly, or even weekly as methods of tight financial control.
- **Driver Based Planning models** incorporate **key business drivers** (**financial** and **non-financial**) to predict resource needs. They are typically coupled with “**what-if**” **capability** to allow for comparison of **alternative strategies** and simultaneously show probabilistic outcomes to revenue projections and cost budgets.

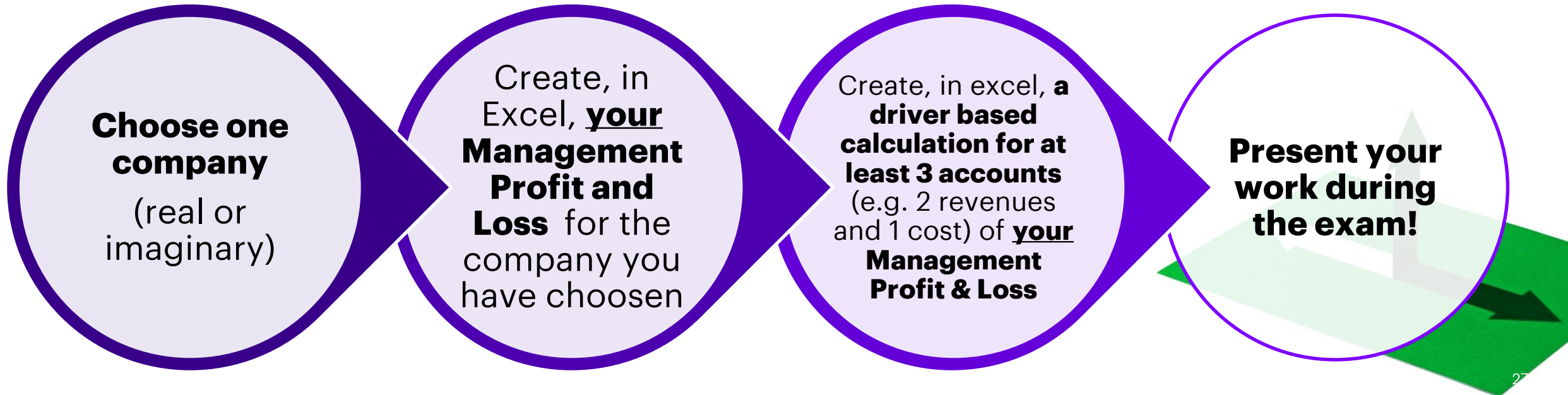
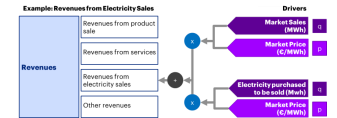
TEAM WORK /BUSINESS CHALLENGE

FOCUS ON – TEAM WORK / BUSINESS CHALLENGE

WHAT YOU NEED TO DO!



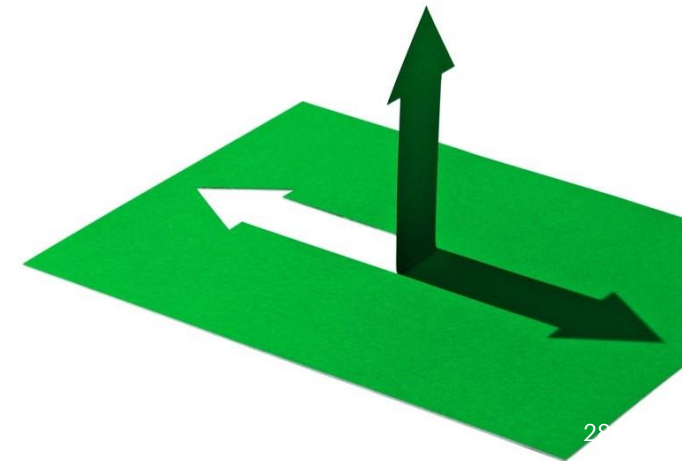
Revenues
Cost of goods sold
Trade Commission
GROSS MARGIN
Costs of sales
MARGIN FROM SALES
Costs of operations
MARGIN FROM OPERATIONS
General and Administrative
Other income/exp.
EBITDA
Depreciation and Amortization of Contract specific assets
Other Depreciation and Amortization
EBIT
PRODUCT MARGIN



FOCUS ON – TEAM WORK / BUSINESS CHALLENGE WHAT YOU NEED TO DO!

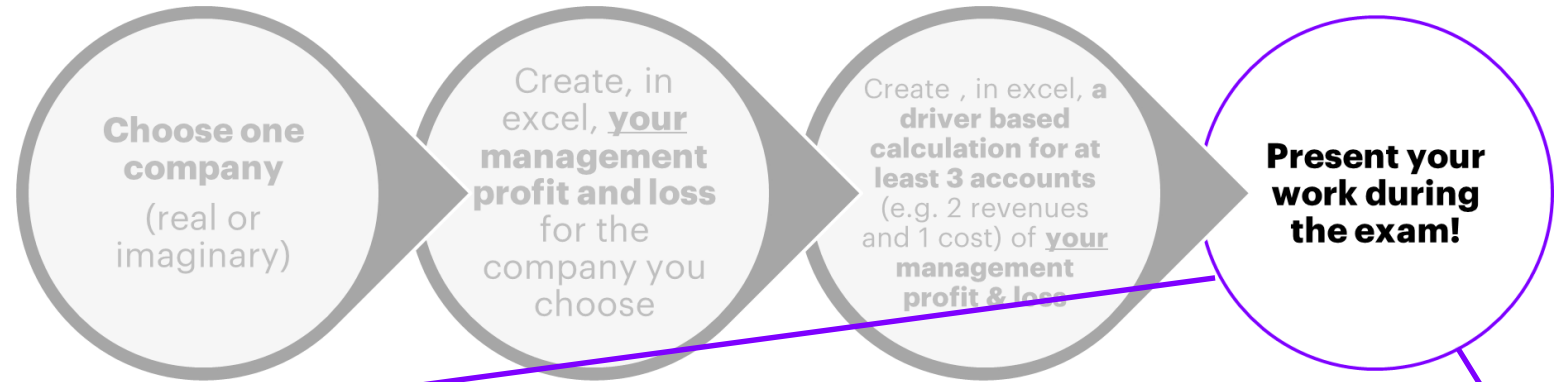


EXCEL PROFIT & LOSS DRIVER BASED BUDGETING EXAMPLE



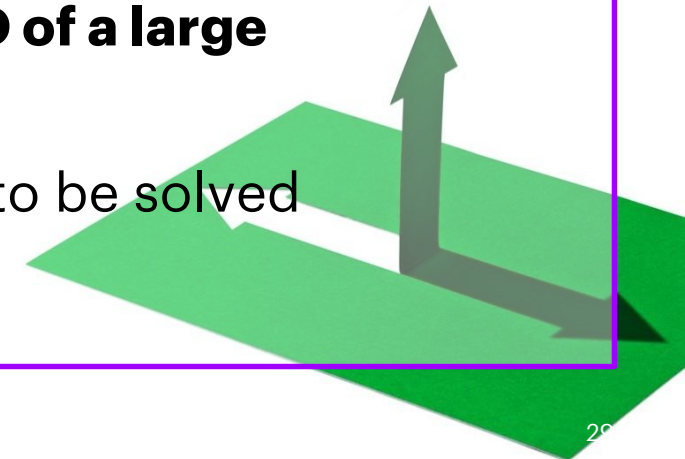
FOCUS ON – TEAM WORK / BUSINESS CHALLENGE

WHAT YOU NEED TO DO!



Students, in team, will make **a presentation for the Exam** (e.g. Power Point, Prezi, etc.), **imagining** that they have to **present their P&L Model to the CFO of a large company**. The presentation **must include at least**:

- The description of the chosen Company and the Target/Problem to be solved
- The Profit & Loss driver based Planning Model
- The Excel Profit & Loss Model with all the calculations



NEXT FRIDAY, OCTOBER 19TH TIMETABLE

14.00 – 16.00:

**LECTURE - EFFECTIVE PRESENTATIONS AND
STORYTELLING**

16.00 – 17.00:

**Q&A TIME - EACH TEAM WILL HAVE 15
MINUTES TO INTERACT WITH THE FACULTY
TO SOLVE SPECIFIC DOUBTS ABOUT THE
BUSINESS CHALLENGE.**

**IF NEEDED, TEAM REPRESENTATIVES MUST
BOOK A 15 MINUTES TIME SLOT BY WRITING
TO SILVIA.TABUANI@UNIROMA2.IT**



**ANY
QUESTION?**





**HAVE A NICE
WEEKEND!**