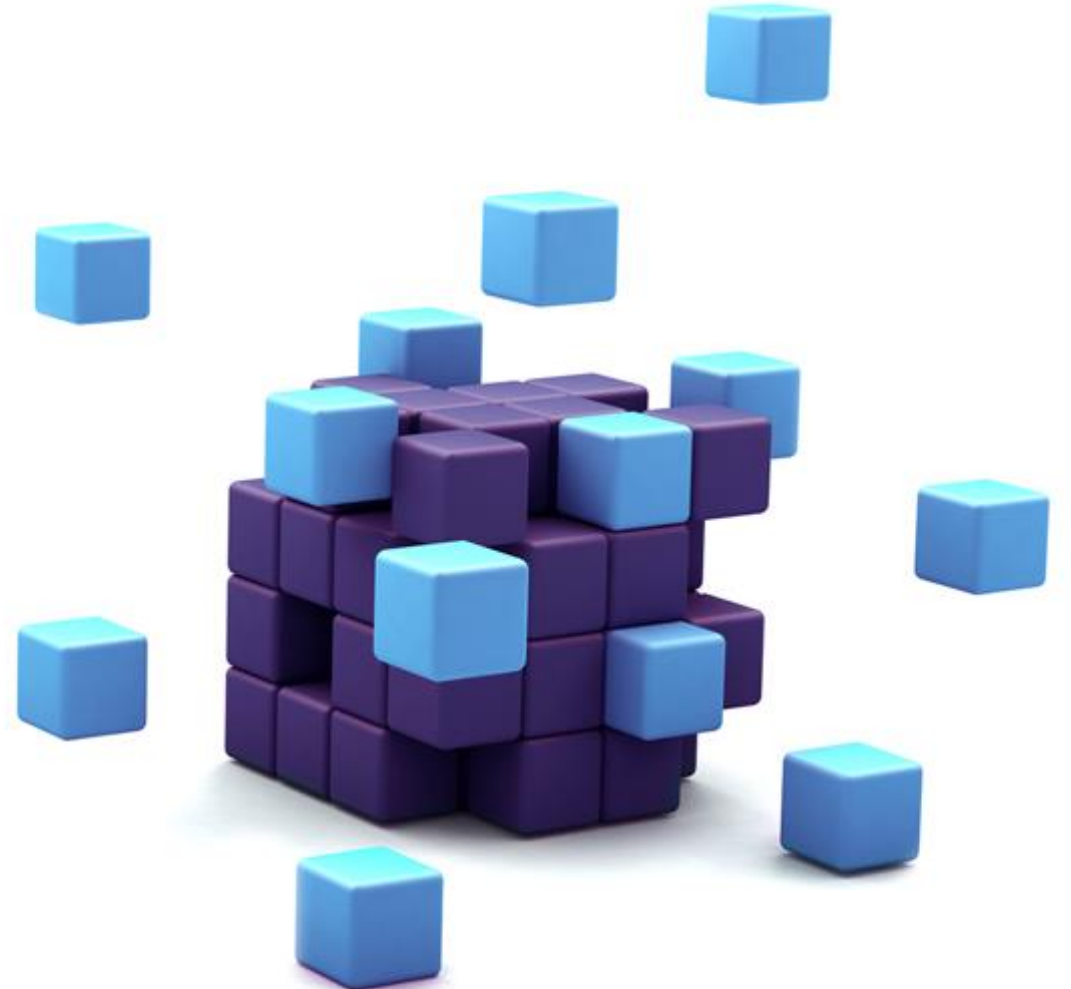


PLANNING, BUDGETING AND FORECASTING 101

FEBRUARY / MARCH 2020 - 6 CFU

LESSON 3

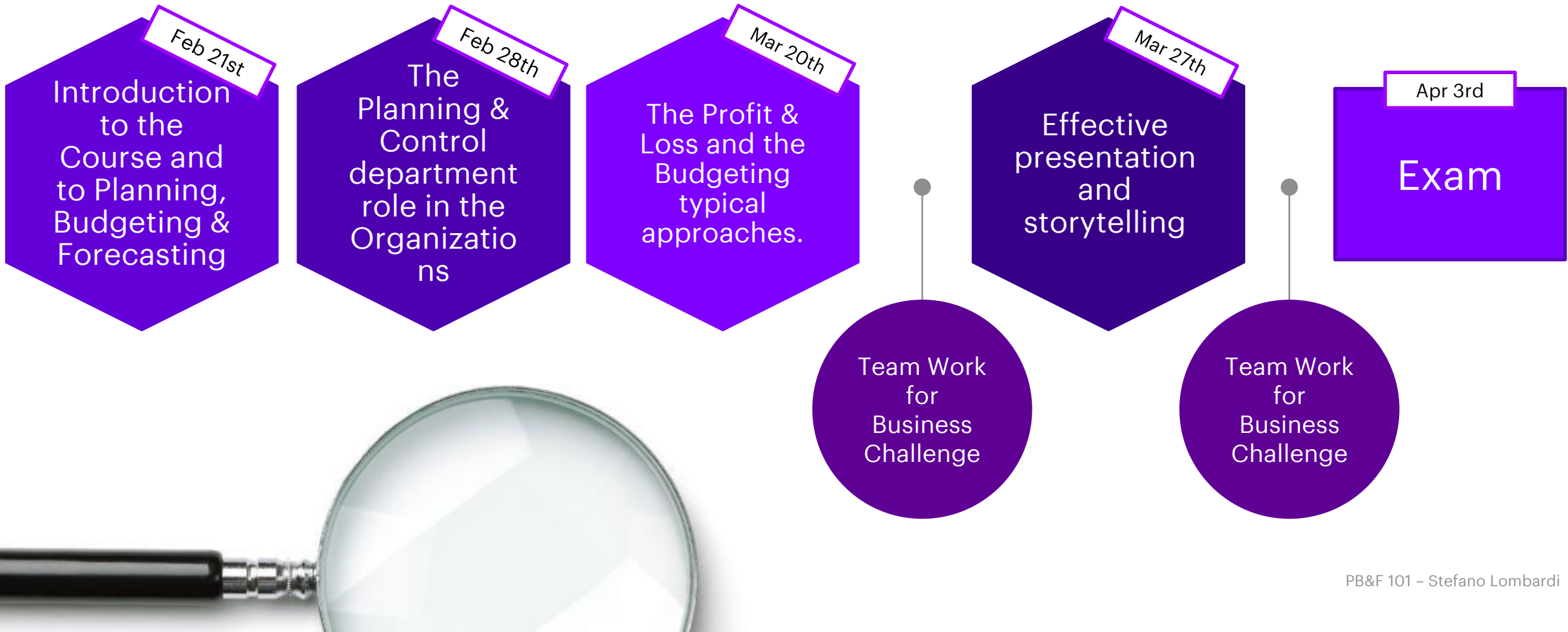




#STAYATHOME

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.**



COURSE TARGETS AND STRUCTURE

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PB&F 101 - TEAMS

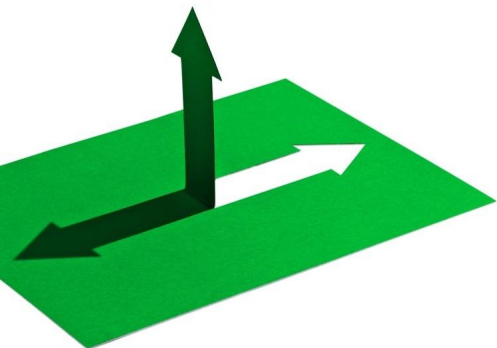
Matricola Number	Name and Surname	Group Name
0240816	Yilin Dong	Group 1 - "Unplanned Planning"
0215986	Marina Manuale	Group 1 - "Unplanned Planning"
0258558	Wanqiu Huang	Group 1 - "Unplanned Planning"

Matricola Number	Name and Surname	Group Name
0279588	Isabell Link	Group 2 - "4 girls and a guy"
0281846	Izabella Segovia	Group 2 - "4 girls and a guy"
0278753	Jean Malie Anis Manibo	Group 2 - "4 girls and a guy"
0278718	Federica Gentile	Group 2 - "4 girls and a guy"
2788824	Maurizio Panzarino	Group 2 - "4 girls and a guy"

Matricola Number	Name and Surname	Group Name
0252094	Nii Odai Quaye-Kumah	Group 3
0266326	Nicolas De Matteo	Group 3
0266132	Anna Cursi	Group 3
0265886	Leonardo Scarantino	Group 3

Matricola Number	Name and Surname	Group Name
0253049	Sandrino Said Saber Abdelmalek	Group 4
0283122	Amir Rezkalla	Group 4
	Gamze Kartal	Group 4
	Humira Khan	Group 4

Matricola Number	Name and Surname	Group Name
0287357	Fuad Hasan Jon	Group 5
0287669	Githin Abraham Mathew	Group 5
0280028	Derril Ecclesia	Group 5
0284096	Sarpay Eksi	Group 5
0251417	Syeda Sabrina Asad	Group 5



THE MANAGEMENT PROFIT & LOSS – AN HIGH LEVEL OVERVIEW

WHAT IS A CONTROLLING MODEL?

... is a multidimensional “detection system” of Corporate phenomena based on industrial accounting

...translates organizational responsibilities into economic responsibilities

...ensures the correct attribution of costs and revenues, assets and liabilities to the various dimensions of control

KEY QUESTIONS ADDRESSED BY THE CONTROL MODEL: REAL LIFE EXAMPLE



Responsibility

- Division 1
- Division 2
- Services
- Corporate
- ...

Geography

- Italy
- Iberia
- Russia
- etc.

Technology

- Solar Plants
- Wind Plants
- etc.

Legal Entity

- Company 1
- Company 2
- etc.

Activity (value chain)

- Upstream
- Generation
- Retail
- etc.

Counterparty

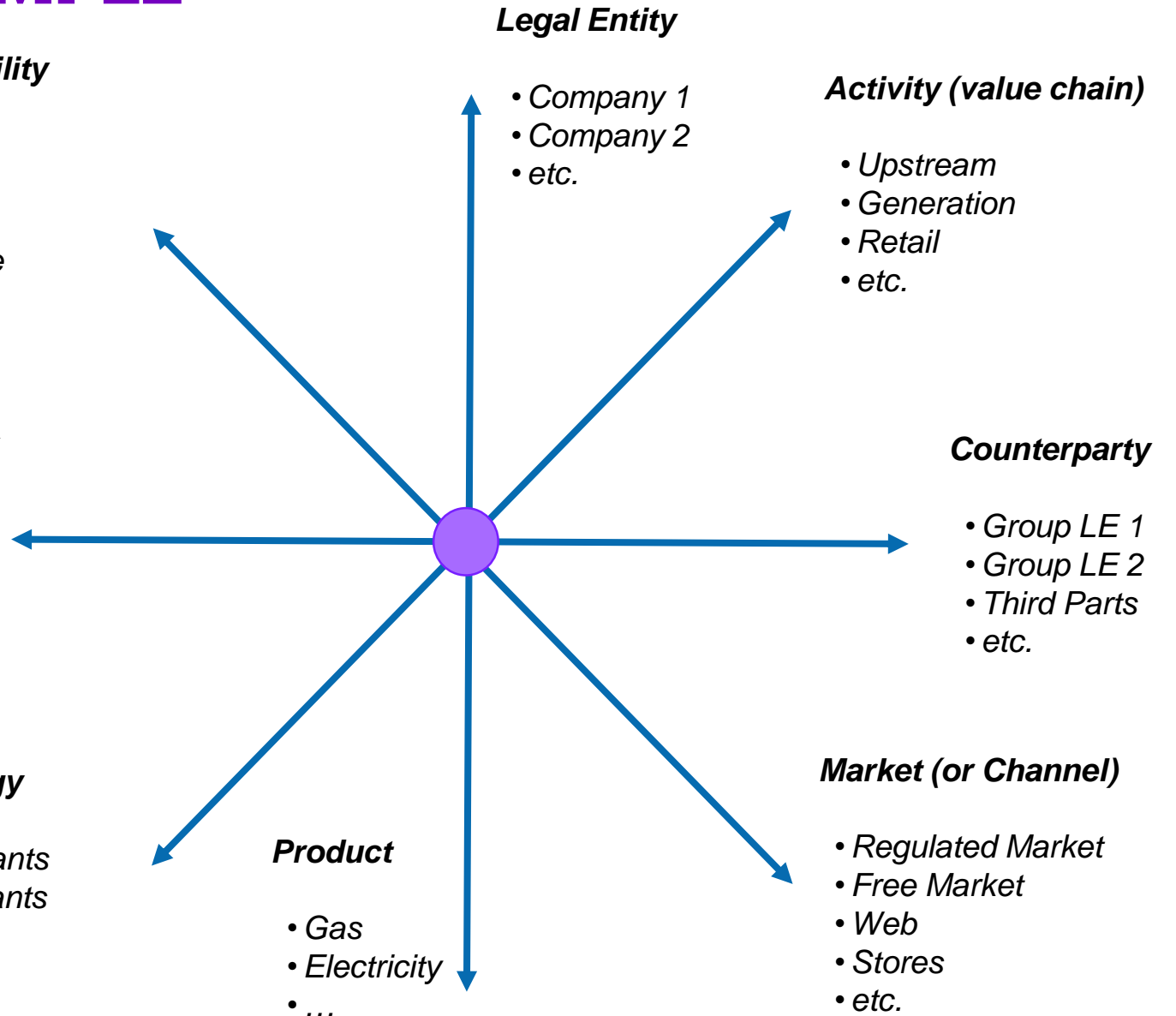
- Group LE 1
- Group LE 2
- Third Parts
- etc.

Market (or Channel)

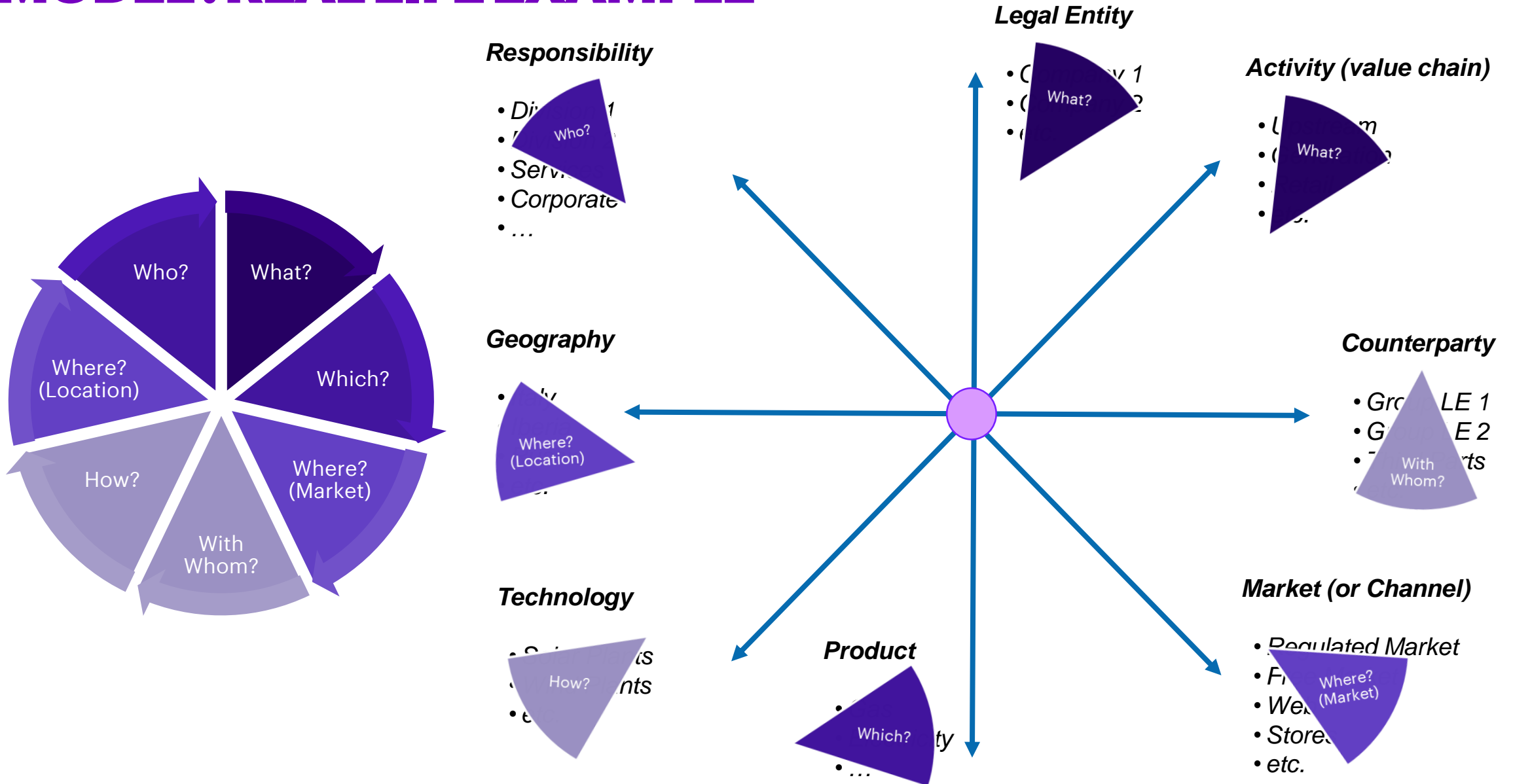
- Regulated Market
- Free Market
- Web
- Stores
- etc.

Product

- Gas
- Electricity
- ...



KEY QUESTIONS ADDRESSED BY THE CONTROL MODEL: REAL LIFE EXAMPLE



THE TOOL TO “READ” THE CONTROL MODEL IS THE COMPANY REPORTING

Year: 2018 Quarter: ... Month: Jul

Report Filters

Geography
Global
Italy
Where? (Location)

Product
Electricity
Gas
Which?

Legal Entity
All
What?

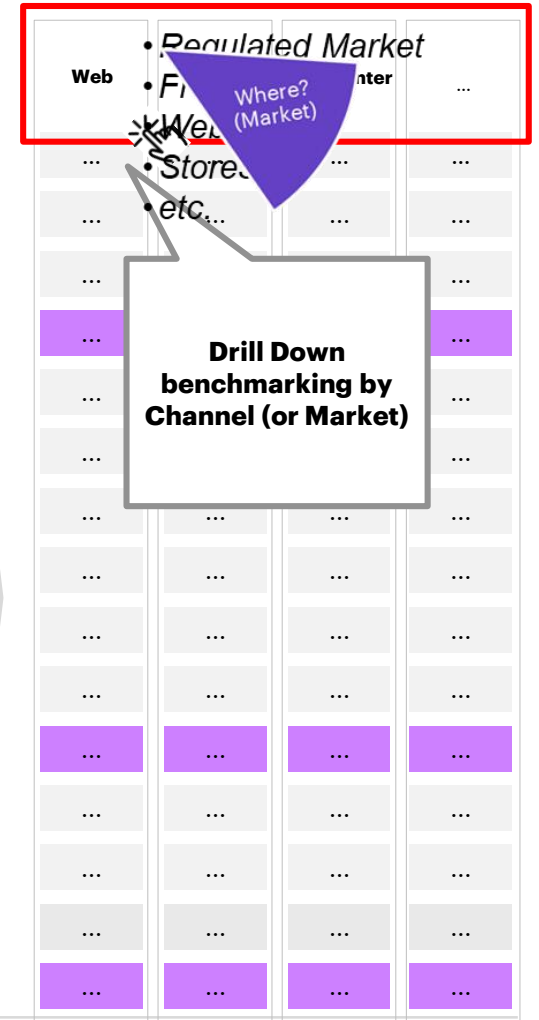
Profit & Loss

	Division 1	Division 2	Division N	...
Revenues
Cost of goods and services sold
Trade Fees and Commissions
GROSS MARGIN
...
MARGIN FROM SALES
...
OPERATION MARGIN
General and Administrative
Other Indirect OPEX
EBITDA
...
Other Depreciations and Amortizations
EBIT
...

Responsibility



Market (or Channel)



THE TOOL TO "READ" THE CONTROL MODEL IS THE COMPANY REPORTING

Year: 2018 Quarter: ... Month: Jul

Report Filters

Geography

- Global
- Spain**
- Italy
- ...

Product

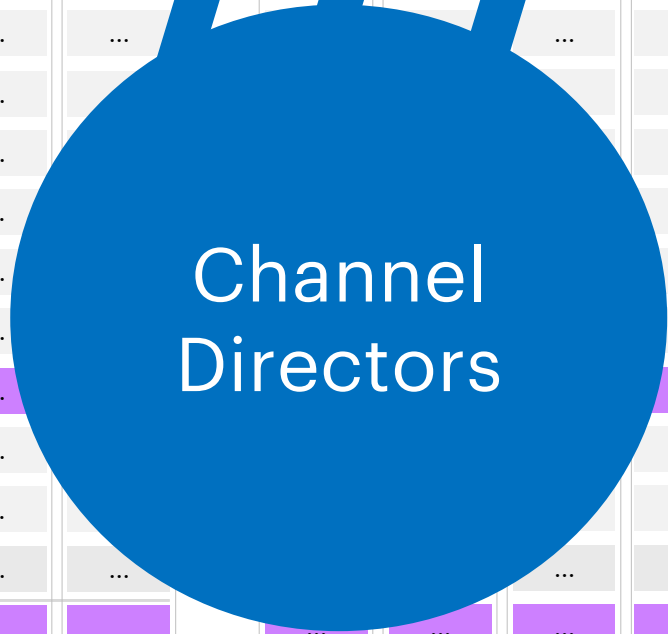
- Electricity
- Gas**
- ...
- ...

Legal Entity

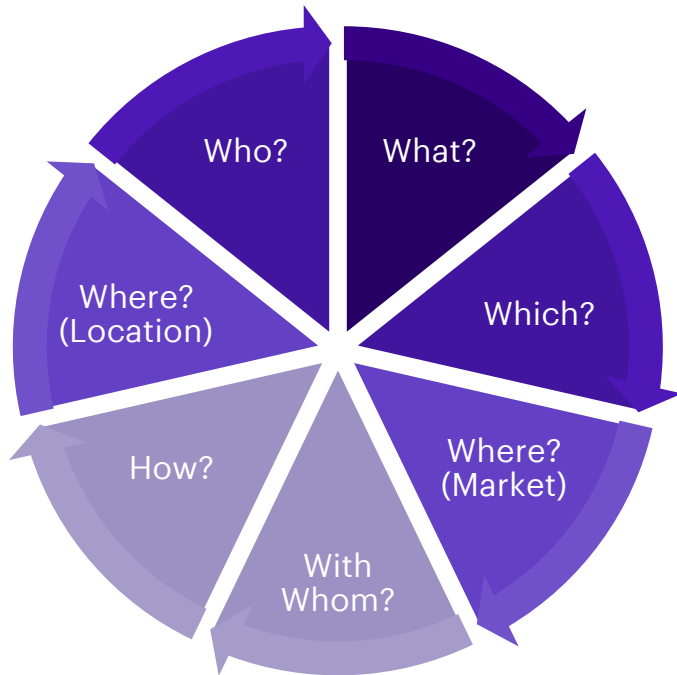
- All**
- Direct
- Indirect
- ...

Profit & Loss

	Division 1	Division 2	Division N	Web	Stores	Call Center	...
Revenues
Cost of goods and services sold
Trade Fees and Commissions
GROSS MARGIN
...
MARGIN FROM SALES
...
OPERATION MARGIN
General and Administrative
Other Indirect OPEX
EBITDA
...
Other Depreciations and Amortizations
EBIT
...



KEY QUESTIONS ADDRESSED BY THE CONTROL MODEL: REAL LIFE EXAMPLE



Responsibility

- Division 1
- Division 2
- Services
- Corporate
- ...

Geography

- Italy
- Iberia
- Russia
- etc.

Technology

- Solar Plants
- Wind Plants
- etc.

Product

- Gas
- Electricity
- ...

Legal Entity

- Company 1
- Company 2
- etc.

Activity (value chain)

- Upstream
- Generation
- Retail
- etc.

Counterparty

- Group LE 1
- Group LE 2
- Third Parts
- etc.

Market (or Channel)

- Regulated Market
- Free Market
- Web
- Stores
- etc.

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**

Responsibility

- Division 1
- Division 2
- Services
- Corporate
- ...

Geography

- Italy
- Iberia
- Russia
- etc.

Technology

- Solar Plants
- Wind Plants
- etc.

Product

- Gas
- Electricity
- ...

Legal Entity

- Company 1
- Company 2
- etc.

Activity (value chain)

- Upstream
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Counterparty

- Group LE 1
- Group LE 2
- Third Parts
- etc.

Market (or Channel)

- Regulated Market
- Free Market
- Web
- Stores
- etc.

Profit & Loss

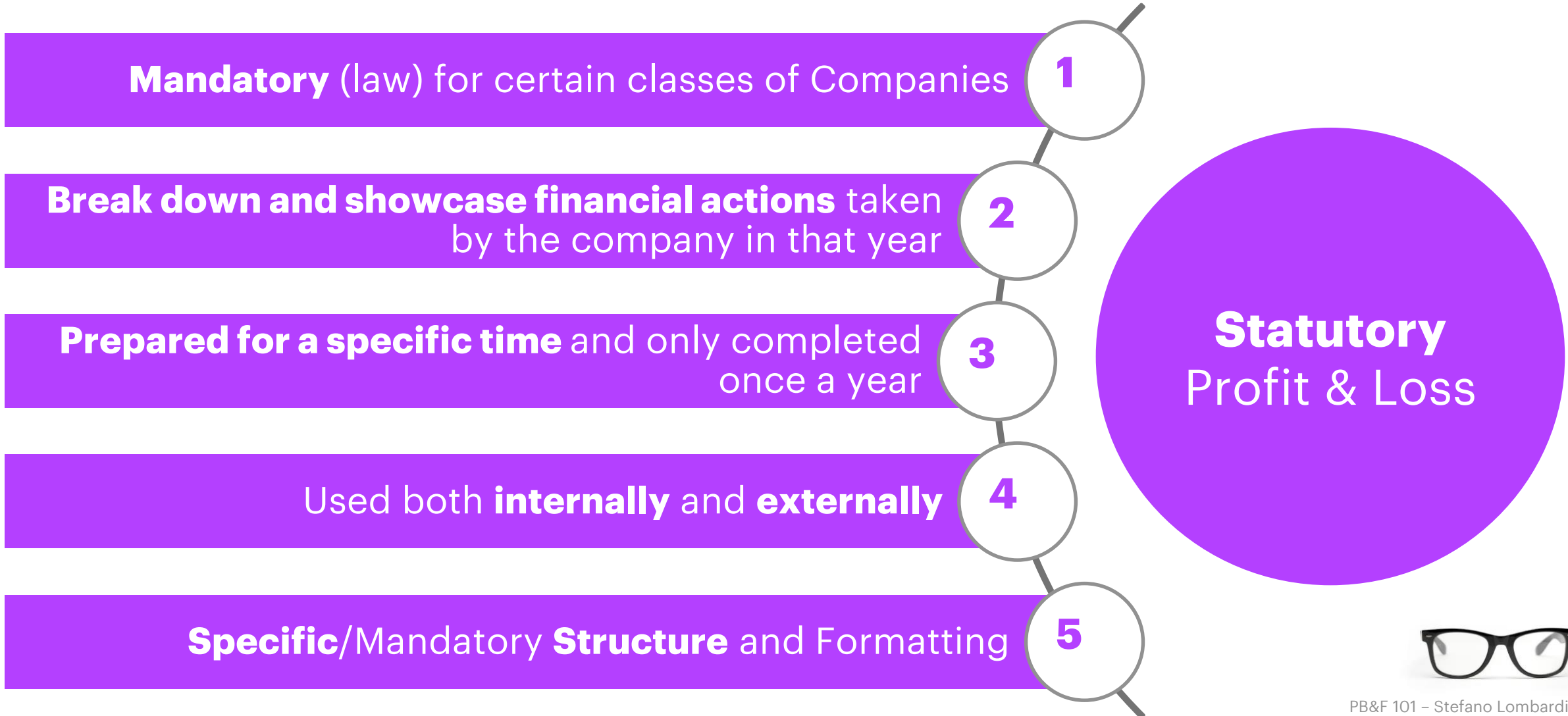
STATUTORY AND MANAGERIAL PROFIT & LOSS REPORTING

Management
Profit & Loss



Statutory
Profit & Loss

STATUTORY AND MANAGERIAL PROFIT & LOSS REPORTING



STATUTORY AND MANAGERIAL PROFIT & LOSS REPORTING



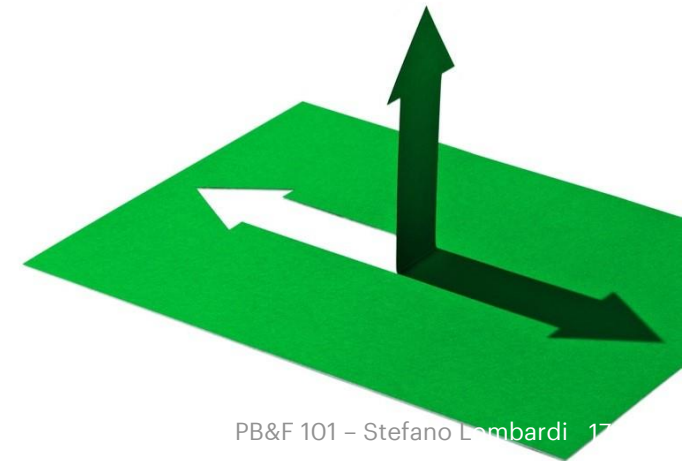
- 1** Not Mandatory, at the **discretion of the Company**
- 2** Allow management team in a business to **make decisions** based on the financial position of the Firm
- 3** No need to be completed to official time frames (law). **Deadlines decided by the Firm**
- 4** Used **only internally**
- 5** No 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

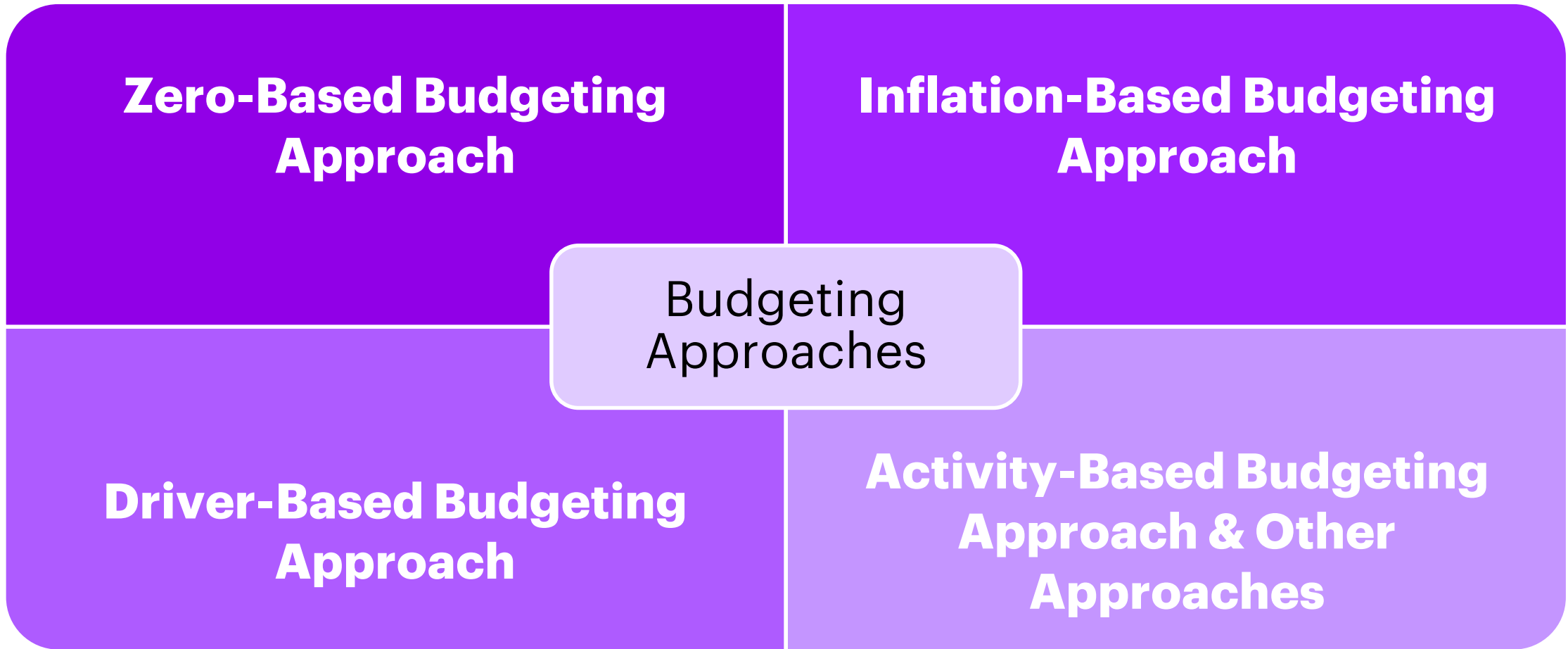


- G&A personnel
- Security
- Facilities
- Real Estate
- ...



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.

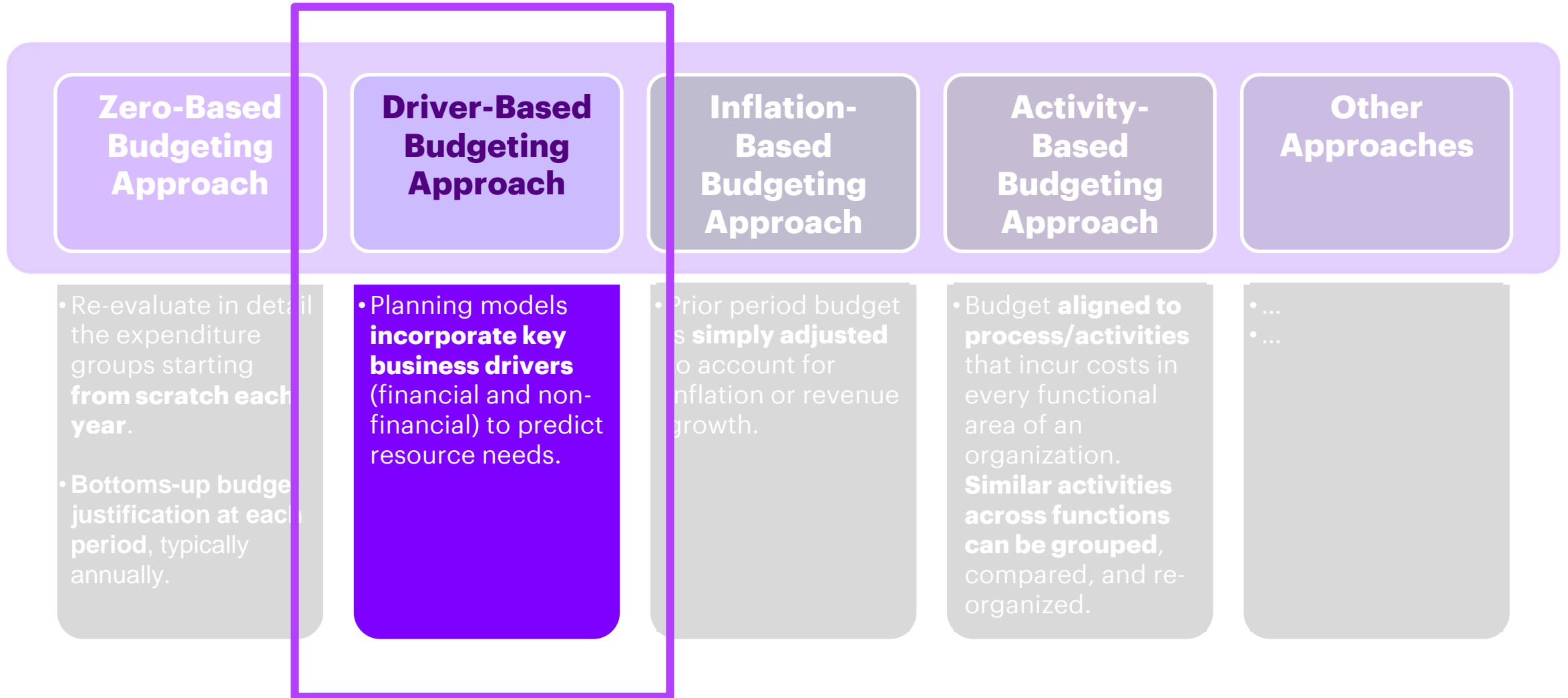
Activity-Based Budgeting Approach

- 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

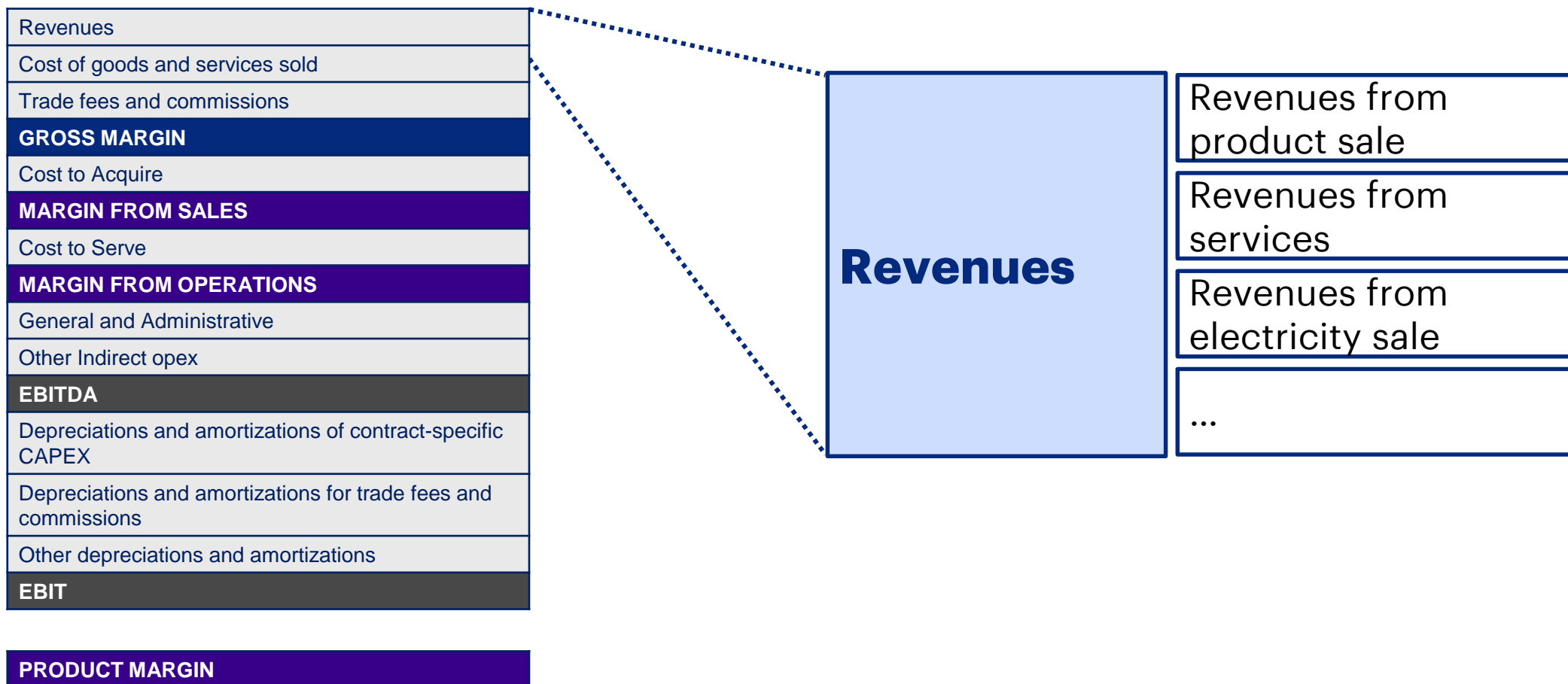
- 1. Financial budgeting linked to operational metrics**
by using the same key drivers allowing for cause and effect linkages
- 2. Drivers run across organizations**, forcing alignment on expected business outcomes over time periods
3. Flexibility to **use assumptions**
4. Monitoring of external environment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

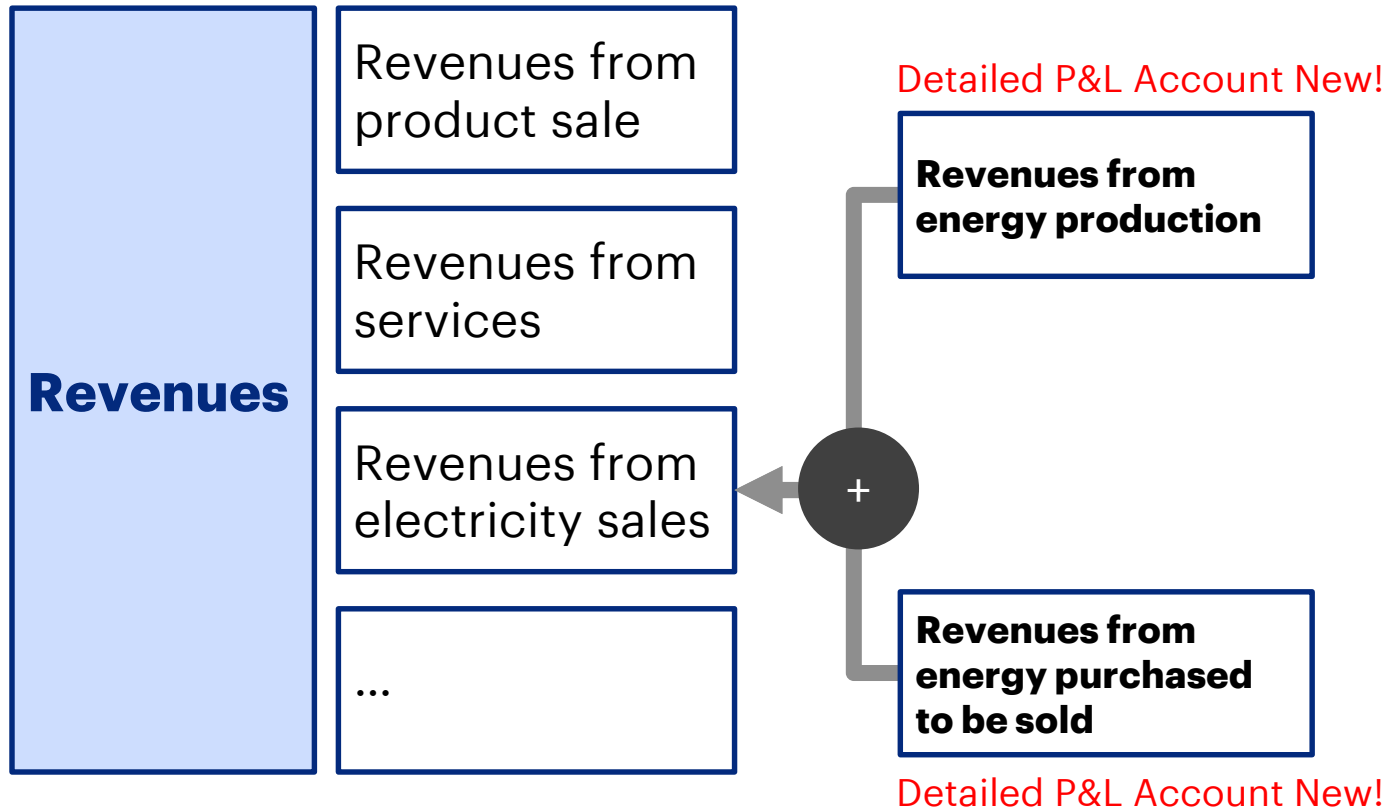
ILLUSTRATIVE



THE TYPICAL BUDGETING APPROACHES - THE DRIVER BASED APPROACH

ILLUSTRATIVE

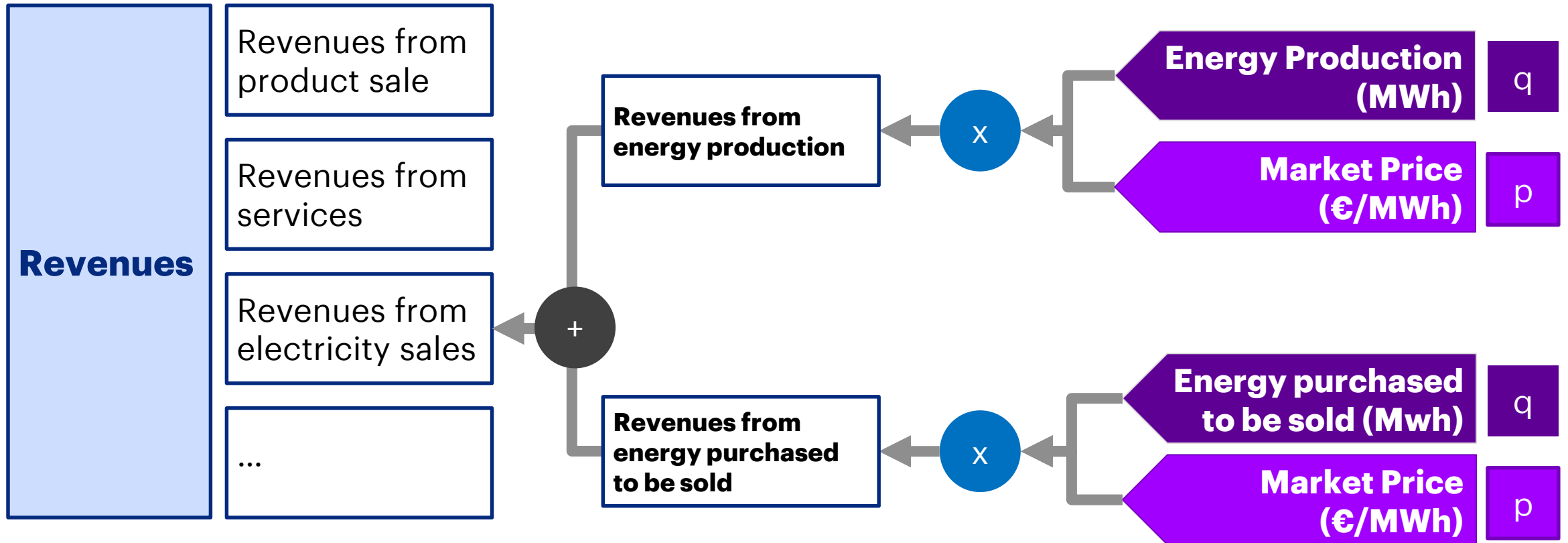
Example: Revenues from Electricity Sales



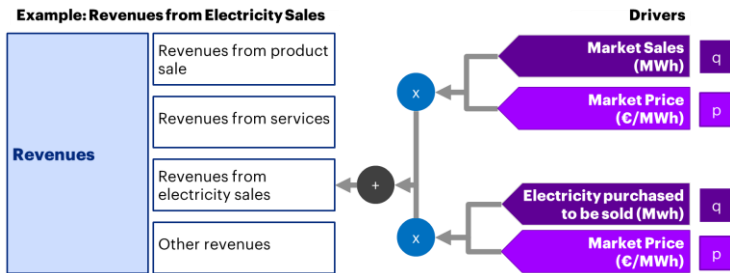
THE TYPICAL BUDGETING APPROACHES - THE DRIVER BASED APPROACH

ILLUSTRATIVE

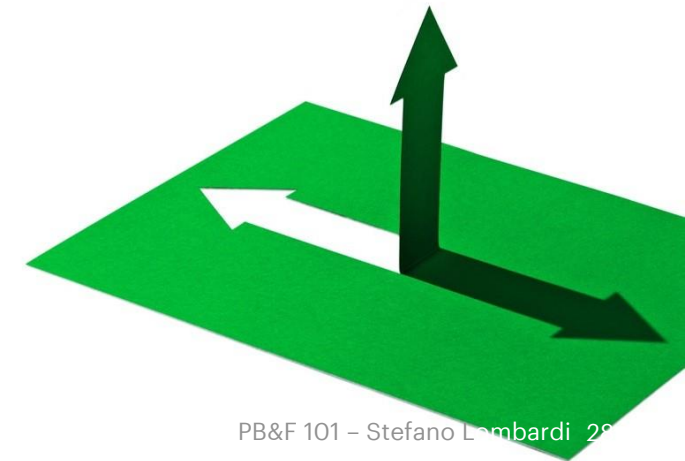
Example: Revenues from Electricity Sales



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!

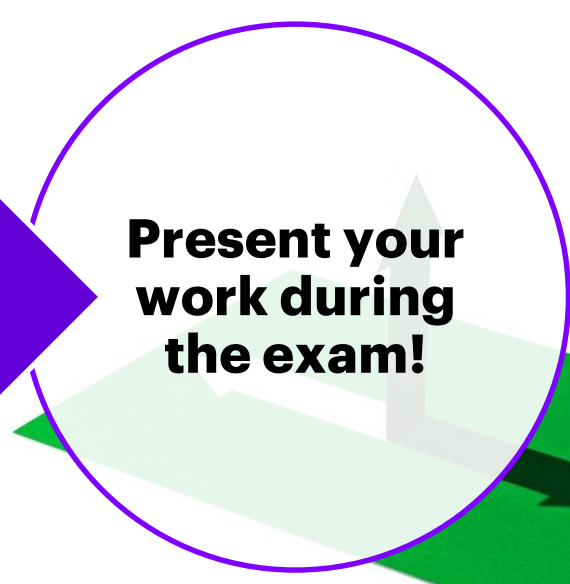
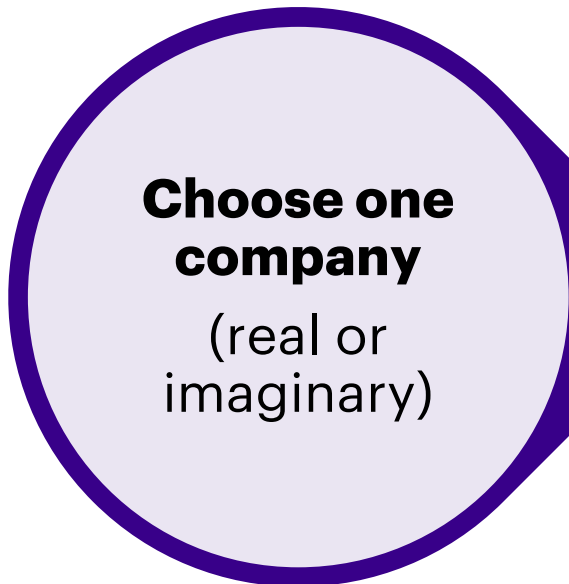
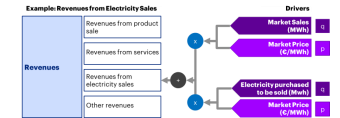


Given the
Management
Profit & Loss

Revenues
Cost of goods sold
Trade Commissions
GROSS MARGIN
Directly Applicable
MARGIN FROM SALES
Costs from
MARGIN FROM OPERATIONS
General and Administrative
Other Indirect Costs
EBITDA
Depreciation and Amortization of Contract Specific Assets
Other Depreciation and Amortization
EBIT
PRODUCT MARGIN



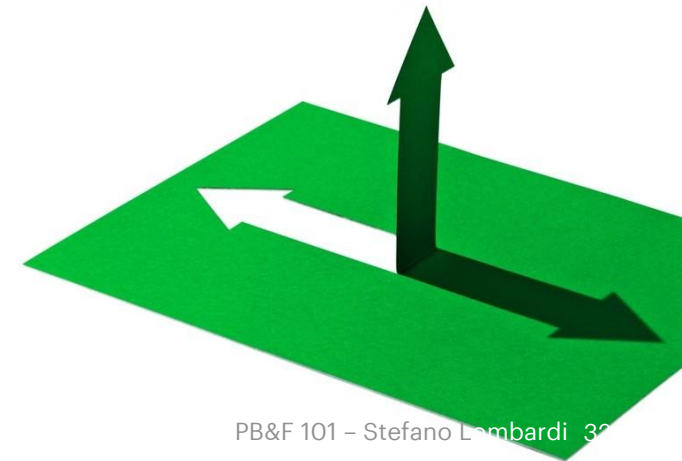
Given the Driver
Based Budgeting
approach



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

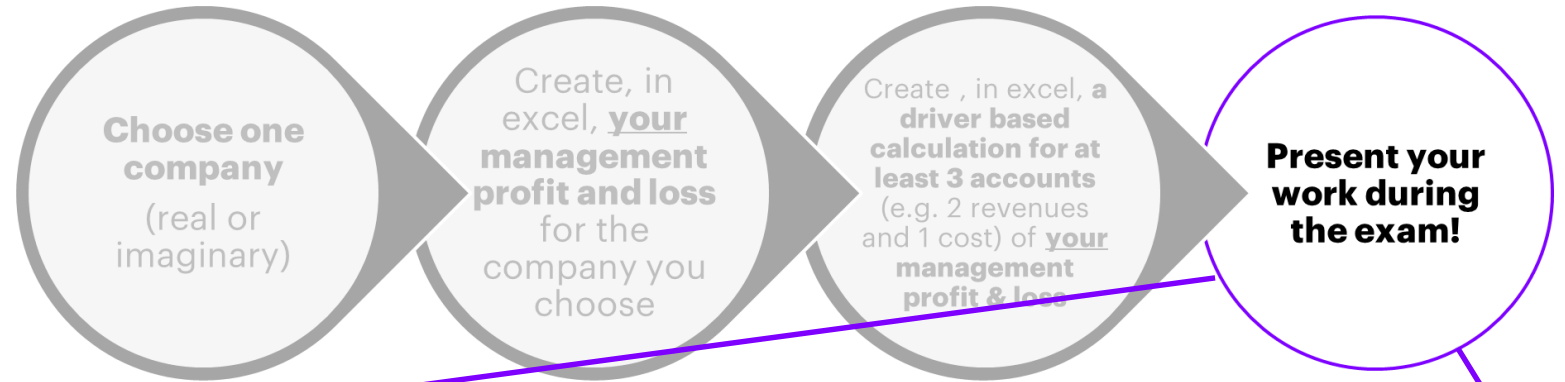


EXCEL PROFIT & LOSS DRIVER BASED BUDGETING EXAMPLE



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 the chosen company**. The presentation **must include at least:**

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

