

Performance focus

Actionable principles to position the FP&A function at the center of business performance optimization – summarized one page at a time.

What levers will drive improved business performance?

Fundamentals of Lever Analysis

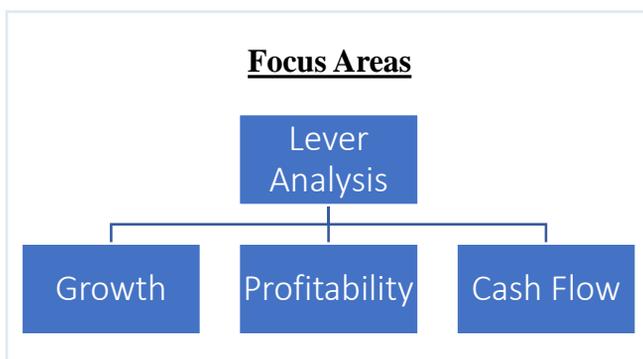


Introduction

One of the most effective ways for finance professionals to add value as operating partners is to provide insights and recommendations into what levers can be pulled to improve business performance.

Although there are seemingly endless places to start, it is helpful to leverage a guiding framework focused on growth, profitability, and cash flow. It's important to note that regardless of the lever analysis, three fundamentals should always be included:

- 1) **Tailor** to the stakeholders that have the decision rights to pull the lever recommendations
- 2) **Clarify** the assumptions that have been utilized
- 3) **Balance** the analysis by providing visibility into the cost-benefit of trade-offs



Lever Analysis Focus Areas

Example questions lever analyses can answer:

Growth:

- Pricing:** Which products have the least elastic demand and can best support price increases?
- Volume:** Will a decrease in prices improve volume sales enough to be a net sales improvement?
- Mix:** Which products should we be focused on growing to improve both net sales and margins?

Profitability:

- Pricing:** What is the expected impact to gross margin if we change prices?
- Variable Costs & Expenses:** What variable costs & expenses can we reduce to improve our contribution margin?
- Fixed Costs & Expenses:** What fixed costs can we reduce to improve our operating margin?

Cash Flow:

- Operating:** How do we decrease our working capital requirements to improve our operating cash flow while we grow?
- Investment:** What is the net cash flow impact to growth accelerating capital expenditures?
- Financing:** How much runway do we have if we take on debt financing?