

## **The Profit Bridge: A tool for Communication**

The common definition of a Budget is a financial plan incorporating a list of all planned expenses and revenues i.e. *“an organizational plan stated in monetary terms”*.

The purpose of Budgeting, forecasting and reporting is primarily to:

1. *Provide a forecast of revenues and expenditures, that is, construct a model of how an organization might perform financially if certain strategies, events and plans are carried out.('what if scenario').*
2. *Enable the actual financial operation of the organization to be measured against the forecast.*



Budgets are normally the result of an intense period of analysis, meetings, compromises and evaluations understanding the current organization performance, the market conditions, the wider economic conditions and future growth plans.

Every year or even more frequently we as operational managers are expected to prepare and present our Budgets and our Forecasts. We must then report against these on a regular basis to the organisation leaders, finance function and also, and very importantly to our own staff.

The issue is that, like us, many of our staff does not have the financial training or expertise to understand complex financials and reporting. We must speak in a language that they understand and that they can relate to the real world around them

### **A Picture Paints A Thousand Words: The Profit bridge**

How do you think your staff would react if you simply sent them the annual Budget plans by attaching a complex spreadsheet to an email, telling them to read and digest and get on with delivering their part? How confident would you be that the message is clearly understood, that the areas of focus are easily identified and that the staff understand what the organization needs and how they can contribute?

There are many tools available to assist in communication of budgets and performance. From targeted Balanced Scorecards to simple Line Graphs it is possible to paint the picture for your staff of the financial plans of your organization in a language that they understand.

One of my favourite tools is the “Profit Bridge” or “Waterfall Chart” – a simple graphical representation of the cumulative effect individual impacts on the financial position of an organization over time.

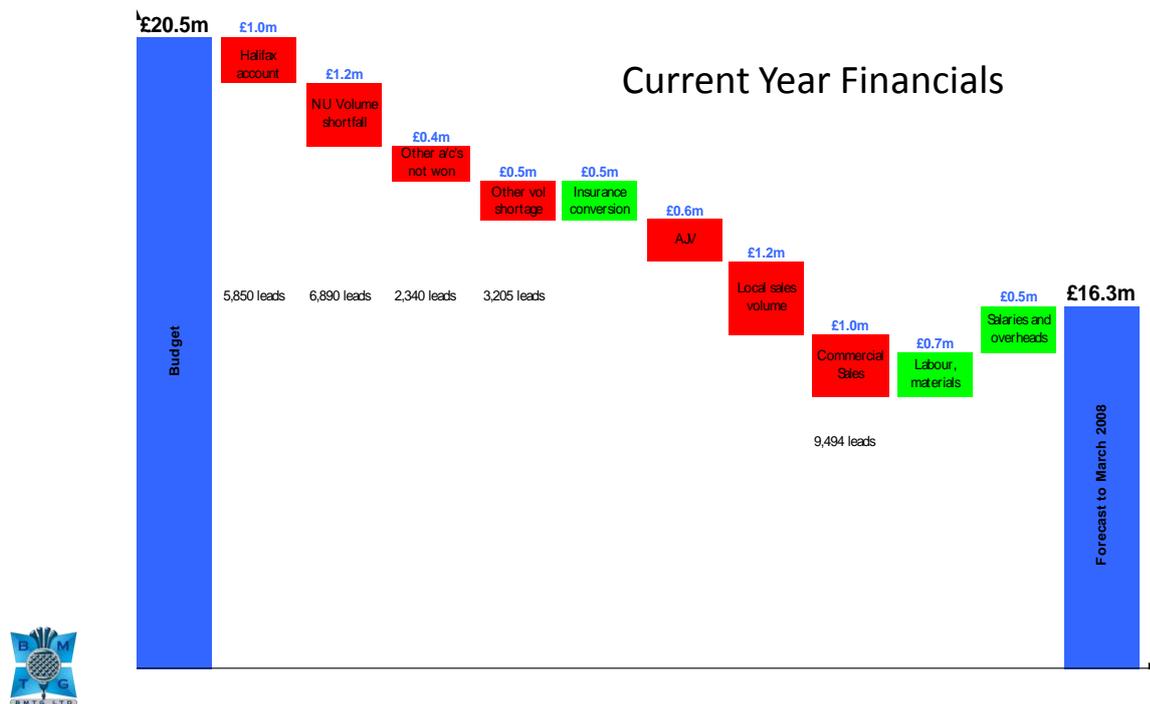


Figure 1: BMTG Budgeting, Forecasting and Reporting - The Profit Bridge

The profit bridge starts with the current year figure and incrementally displays the financial impact of various predicted “activities” over the period being forecast.

Negative impacts are shown in Red with a decreasing impact on the incremental total and positive impacts are shown in green with an increasing impact on the incremental total.

The end result is the future Forecast at the end of the period in question.

Not only does this method effectively get the message across to your staff it also enables you and they to focus in on the specific activities that need attention / correction.

In the Figure 1 example above the Profit Bridge is showing a forecast drop in Revenues of almost 25% which would have been unsustainable had action not been taken to recover. This picture enables the organization to quickly identify the key areas for attention and, where possible, to take action required to minimize or reverse the predicted shortfalls (identified in red). It also enables the organization to identify the positive areas which will counterbalance the negatives and enable teams to focus on maximizing or increasing the positive impacts.

Without this picture it would be more difficult to explain to your direct teams where the issues are, the seriousness of the situation and where action was needed to reverse trends. The Profit Bridge is a powerful communication tool much under used by operational management.

## Building a Profit Bridge

Profit Bridges are relatively easy to build with some basic Excel skills. There are multiple guides available on the internet such as <http://peltiertech.com/WordPress/excel-waterfall-charts-bridge-charts/>.

Take time to learn how to do these or ask your finance team to do it for you. You will find that your teams can appreciate the simplicity of the message and are able to focus their efforts where required.

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Martin commenced his career in computing. He headed the Asian operations of, a software house where he focused on financial systems in banking, broking and asset management.

He left the computer industry to become involved in mainstream asset management, first with Macquarie Bank in Sydney, Australia then with the Rothschild family in Hong Kong. Later, as General Manager of Australia's Challenger International, he implemented the first organisation wide operational Risk Management program for the Group.

In 2004 Martin set up his own fund management company, IMFML Australia, (later acquired by the Allco Group). The business specialised in originating and managing commercial mortgage loan portfolios. In 2009 Martin moved to Singapore and has worked with Oxley Capital, a Singapore based boutique investment firm focusing on property, financial services and alternative energy projects. His main focus has been performing feasibility studies and then establishing "fund management structures" to support transactions for private investors.

Since April 2012 Martin has consulted to Wealth Management & Listed Property (REIT) Managers. Martin has conducted multiple Finance & Wealth Management training programs.