

GLOBAL STRATEGY EXECUTION SUMMIT

Strategic Financial Planning: A CFO's Perspective

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My Introduction



- Experienced Finance and HR Leader with Board Level experience in FMCG, Pharmaceutical and Assurance Industry.
- Currently **Chief Consultant** at his newly established **Noor Management Consulting** providing Business Advisory in Finance Strategy, Digital Transformation and Organization Development.
- Last role **Director Finance, HR and IS** at **Macter International** a leading pharmaceutical company.
- **Country Head of HR** and **Country CFO** at **Novartis Pharma Pakistan Limited**, a leading global pharmaceutical company.
- **Finance Director** at **Unilever Foods Limited**, a global FMCG Company; served in a variety of Finance roles including, Business Partnering and Corporate Finance roles.
- I was Audit trainee at **KPMG London Office**.
- Key focus areas are **Leadership Development, High Performing Organizations, Capability Building, Business Partnering and Business Strategy**.
- Attended **Harvard Business School** Executive education in Strategy and Advanced Management Program at **LUMS**, Pakistan.
- Fellow Member of **Institute of Chartered Accountants Pakistan (ICAP)**.
- Graduate MBA from the IBA, Karachi.
- Taught Risk Management and Strategic Management in ICAP's Director's Training Programs.
- Edited ICAP Industry Guide for Pharmaceuticals and had earlier organized Pharma Industry Awareness Workshop at the ICAP.

Strategic Financial Planning Presentation Flow

1. Introduction to Strategic Financial Planning
2. Strategic Financial Plan Assumptions
3. Finance Strategy and Objectives
4. Alignment with Corporate and Business Strategic Priorities
5. Criteria for Resource Allocation to Strategic Priorities
6. Investment in Key Resources
7. Risk Management and Scenario Analysis
8. Ringfencing resources
9. Tracking spends and outcome verses plan / adapting and reallocating resources.
10. Financing Decisions Debt vs. Equity
11. Key Financial Planning Statements and KPIs
12. Conclusion



Strategy Cycle



Strategic Financial Planning Process

Introduction

Strategic financial planning is a **comprehensive process** that helps businesses achieve their **long-term Business and financial goals**.

It is a dynamic and ongoing process that involves making **informed decisions** about:

- **Analyzing the company's current financial situation**
- **Aligning financial plan to strategic goals and objectives**
- **Allocating resources to Strategic Business Priorities.**
- **Manage business risk, and**
- **Achieve long-term financial sustainability.**

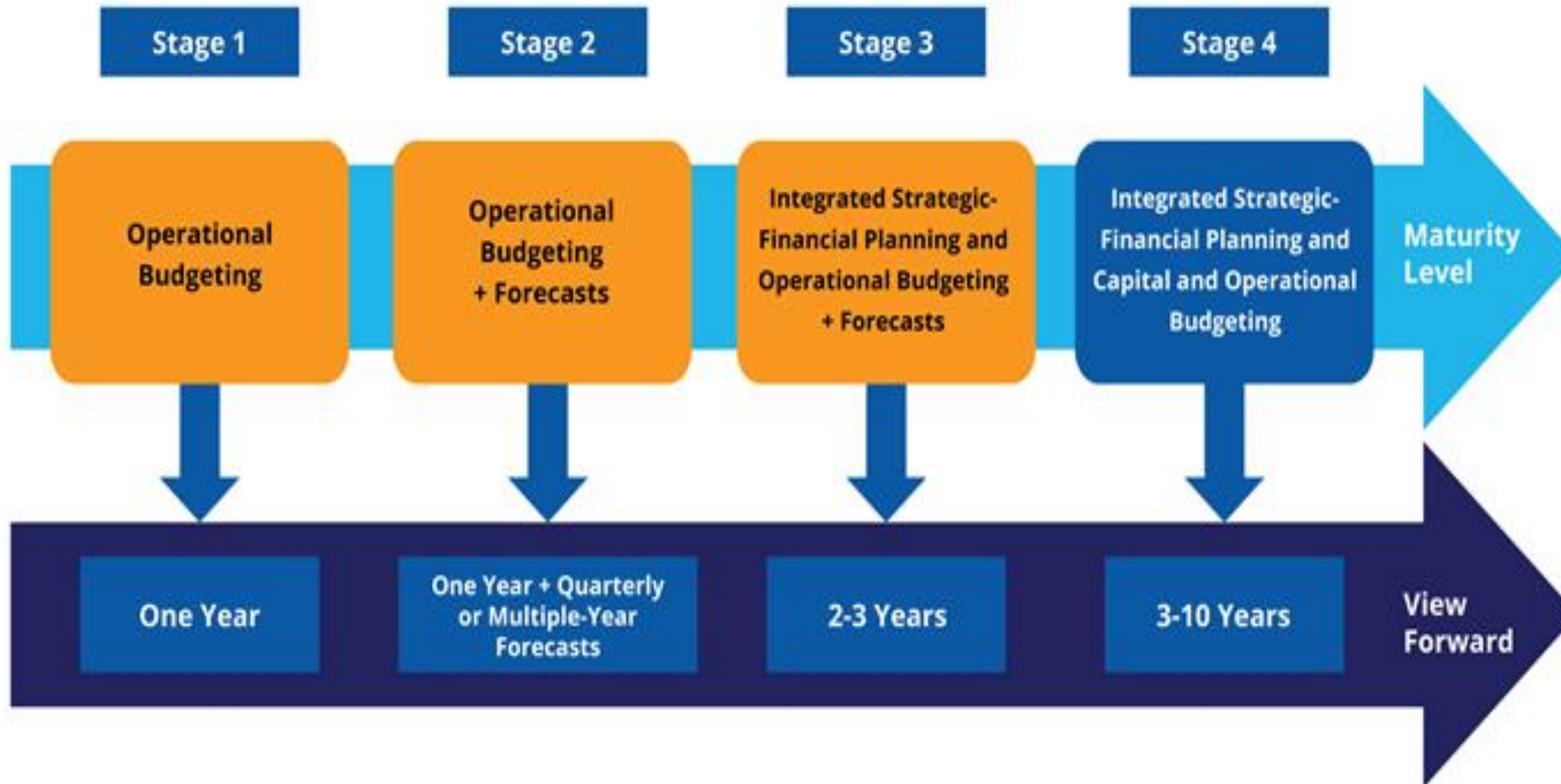
Strategic Financial Plan

Confluence of all the Organization's Strategies



Continuum of Financial Planning

Integrated Strategic Financial Planning



Why is Strategic Financial Planning Important?

Strategic financial planning is essential for organizations of all sizes and industries. It can help organizations to:

- Achieve strategic goals and objectives
- Make informed decisions about capital allocation and risk management
- Improve financial performance
- Attract and retain investors
- Enhance competitive advantage
- Aligning Financial Resources with Strategic Goals
- Informed Decision-Making
- Risk Management and Mitigation
- Enhanced Financial Performance

Role of Finance in Strategic Planning

Finance plays a critical role in strategic planning by providing:

- Financial Analysis framework,
- Allocation of Key resources, and
- Business Insights necessary to achieve strategic goals.
- Risk Management

By integrating finance into strategic planning, organizations can make informed decisions, manage risk effectively, and enhance their overall financial performance.

Key Assumptions in Financial Planning

Financial planning is built upon assumptions about the future economic environment, industry trends, and the organization's competitive landscape.

It is crucial to identify and assess these assumptions to make informed financial decisions. Common Assumptions in Financial Planning:

- **Economic growth rates**
- **Interest rates**
- **Inflation rates**
- **Exchange rates**
- **Industry growth projections**
- **Competitive dynamics**
- **Internal Capabilities Gap**

Core Elements of Finance Strategy

- **Capital Structure:** The optimal mix of debt and equity financing for the organization
- **Cost of Capital:** The cost of raising capital from different sources
- **Capital Allocation:** The process of allocating capital to different projects and investments
- **Risk Management:** The identification and mitigation of financial risks.
- **Performance Measurement:** The establishment of financial performance metrics and targets

Setting Financial Objectives

Types of Financial Objectives:

- **Profitability:** Maximizing net income or earnings per share
- **Growth:** Expanding revenue, market share, or asset base
- **Liquidity:** Ensuring the ability to meet short-term financial obligations
- **Efficiency:** Optimizing resource utilization and cost management
- **Solvency:** Maintaining long-term financial stability

Alignment with Corporate and Business Strategic Priorities

Strategic financial planning should be seamlessly integrated with the organization's corporate and business strategy.

It should consider:

- **Business strategic priorities**
- **Sales & marketing plan**
- **HR plan**
- **R&D plan**
- **Geographical expansion plans**
- **Operations plan**

Setting Criteria for Resource Allocation for Strategic Priorities

Effective resource allocation is crucial for achieving strategic priorities. Establishing clear criteria guides efficient and impactful use of resources.

- **Criteria for Resource Allocation:**
- **Strategic Alignment:** Ensuring resources are allocated to initiatives that support strategic goals
- **Return on Investment (ROI):** Evaluating potential returns and prioritizing high-ROI projects
- **Risk Assessment:** Considering the financial risks associated with resource allocation decisions
- **Time Horizon:** Aligning resource allocation with short-term and long-term strategic objectives
- **Flexibility:** Adapting resource allocation to changing market conditions and strategic priorities

Example: Strategic Projects Ranking

	Weight	Project A	Project B	Project C	Project D	Project E	Project F	Project G
Description								
Initial Cost	20%	10	15	20	25	30	40	50
NPV	25%	15	20	25	40	40	50	60
IRR	30%	20%	15%	18%	20%	12%	15%	10%
Payback Years	25%	3	5	7	10	8	12	15
Financial Attractiveness	Overall	4.0	3.7	4.0	4.3	3.5	3.6	2.3

<u>Criteria</u>	<u>Weight</u>	<u>Score 1-5</u>						
1 Strategic Fit	30%	5	4	3	2	2	1	1
2 Financial Attractiveness	30%	4.0	3.7	4.0	4.3	3.5	3.6	2.3
3 Export Potential	15%	3	4	5	2	3	2	1
4 Technical Difficulty	10%	5	3	4	2	1	3	4
5 Access to Rawmaterials	15%	3	4	5	4	2	3	1
Score	100%	4.1	3.795	3.985	2.99	2.5	2.43	1.69
Project Ranking		1	3	2	4	5	6	7

Key Business Resources

Financial planning should recognize and effectively manage the organization's key resources:

- **People:** Develop and retain a talented workforce with expertise to execute strategic initiatives.
- **Brand:** Nurture a strong brand reputation and customer loyalty to drive revenue growth and profitability.
- **Know-how:** Protect and leverage proprietary knowledge property to maintain a competitive advantage.
- **Organization:** Foster an agile and efficient organizational structure that supports strategic execution.
- **Processes:** Implement streamlined and standardized processes to excel Customer Experience improve operational efficiency.
- **Systems:** Utilize robust technology systems to support data-driven decision-making.

Business Risk Management

- Risk management is an integral part of strategic financial planning.
- **Identify risks:** Proactively identify potential financial risks that could impact the organization's objectives.
- **Assess risks:** Evaluate the likelihood and potential impact of identified risks.
- **Mitigate risks:** Develop strategies to reduce the likelihood or impact of identified risks.
- **Scenario analysis:** Consider different economic and market scenarios to assess the organization's resilience under various conditions.

Ring Fencing Resources

Ringfencing resources involves:

- **dedicating specific resources to critical strategic initiatives,**
- **ensuring that these initiatives receive the necessary funding and support.**

Monitoring & Tracking

- **Continuous monitoring** is essential to ensure financial plans remain aligned with strategic objectives.
- **Track actual spending:** Monitor actual spending against planned expenditures to identify variances and implement corrective actions.
- **Assess outcomes:** Evaluate the outcomes achieved from resource allocation to determine their effectiveness and make informed decisions about resource reallocation.

Financing Decisions: Debt vs. Equity

The choice between debt and equity financing depends on various factors, including:

- **Cost of capital:** Debt financing typically carries a lower cost of capital than equity financing, but it also increases financial risk.
- **Ownership dilution:** Equity financing provides additional capital but dilutes ownership and control among existing shareholders.
- **Financial flexibility:** Debt financing can restrict an organization's ability to pursue future investment opportunities

Financing Decisions: Debt vs. Equity

Optimizing Capital Structure for Growth and Stability

The choice between debt and equity financing significantly impacts an organization's financial structure and risk profile.

Debt Financing:

- **Advantages:** Lower cost of capital, tax deductibility of interest payments
- **Disadvantages:** Financial leverage increases risk of default

Equity Financing:

- **Advantages:** No obligation to repay, no fixed financial costs
- **Disadvantages:** Dilutes ownership and control, higher cost of capital

Balancing Debt and Equity:

- **Considerations:** Organization's risk tolerance, industry norms, growth prospects

Strategy Canvas – Business Model

<p><u>Key Partners:</u></p> <ul style="list-style-type: none"> -API/PM Suppliers -Manf. Equip. Suppliers -Services Vendors -Logistics Services -Distributors -Creative Agencies -Event Management -Market Intelligence -Banks 	<p><u>Key Activities:</u></p> <ul style="list-style-type: none"> -Sales & Marketing -Supply Chain -Manufacturing -R&D, BD, Regulatory 	<p><u>Value Proposition:</u></p> <p>Trust</p> <p>Efficacy</p> <p>Quality</p> <p>Safety</p> <p>Affordability</p> <p>Innovation</p> <p>R&D</p>	<p><u>Customer Relationship:</u></p> <ul style="list-style-type: none"> - Field Force - Congress / Events - Hospital Wards Engage. -Key Accounts -Digital & Social Media 	<p><u>Customer Segments:</u></p> <ul style="list-style-type: none"> - General Physicians - Consultants - Surgeons - Hospitals - Government -NGOs - Institutions
<p><u>Cost Structure:</u></p> <ul style="list-style-type: none"> - API/Excipients and Packaging Materials - Selling & Marketing Organization - Manufacturing & Supply Organization - Leadership, Strategy, Governance & Control Organization - Utilities 			<p><u>Key Channels:</u></p> <ul style="list-style-type: none"> -Retail/Wholesale - Chain Pharmcies -Hospitals, Govt Tenders -Exports, Online 	
<p><u>Revenue Stream:</u></p> <ul style="list-style-type: none"> - Distributor Sales - Hospital Sales - Government Tender Sales - Export Sales - Chain Pharmacies Sales - Online Sales - Doctor's Sales 				

Strategy Canvas – Business Model

<p><u>Key Partners:</u></p> <ul style="list-style-type: none"> -API/PM Suppliers -Manf. Equip. Suppliers -Services Vendors -Logistics Services -Distributors -Creative Agencies -Eve 80 million -Market Intelligence -Banks 	<p><u>Key Activities:</u></p> <ul style="list-style-type: none"> -Sales & Marketing -Supply Chain -M 60 million -R&D, BD, Regulatory 	<p><u>Value Proposition:</u></p> <p>Trust</p> <p>Efficacy</p> <p>Quality</p> <p>Safety</p> <p>Affordability</p> <p>Innovation</p> <p>R&D</p> <p>20 million</p>	<p><u>Customer Relationship:</u></p> <ul style="list-style-type: none"> - Field Force - Congress / Events - H 20 million gage. -Key accounts -Digital & Social Media 	<p><u>Customer Segments:</u></p> <ul style="list-style-type: none"> - General Physicians - Consultants - Surgeons - Hospitals - Government -NGOs - Institutions 100 million
<p><u>Cost Structure:</u></p> <ul style="list-style-type: none"> - API/Excipients and Packaging Materials - Selling & Marketing Organization - Manufacturing & Supply Organization - Leadership, Strategy, Governance & Control Organization - Utilities <p>80 million</p>	<p><u>Key Resources:</u></p> <ul style="list-style-type: none"> - People & Organization - K 20 million sses - Factory, Plant& Equip. -Working Capital 		<p><u>Key Channels:</u></p> <ul style="list-style-type: none"> -Retail/Wholesale - Chain Pharmcies -Ho 100 million ders -Exports, Online 	
		<p><u>Revenue Stream:</u></p> <ul style="list-style-type: none"> - Distributor Sales - Hospital Sales - Government Tender Sales - Export Sales - Chain Pharmacies Sales - Online Sales - Doctor's Sales <p>100 million</p>		

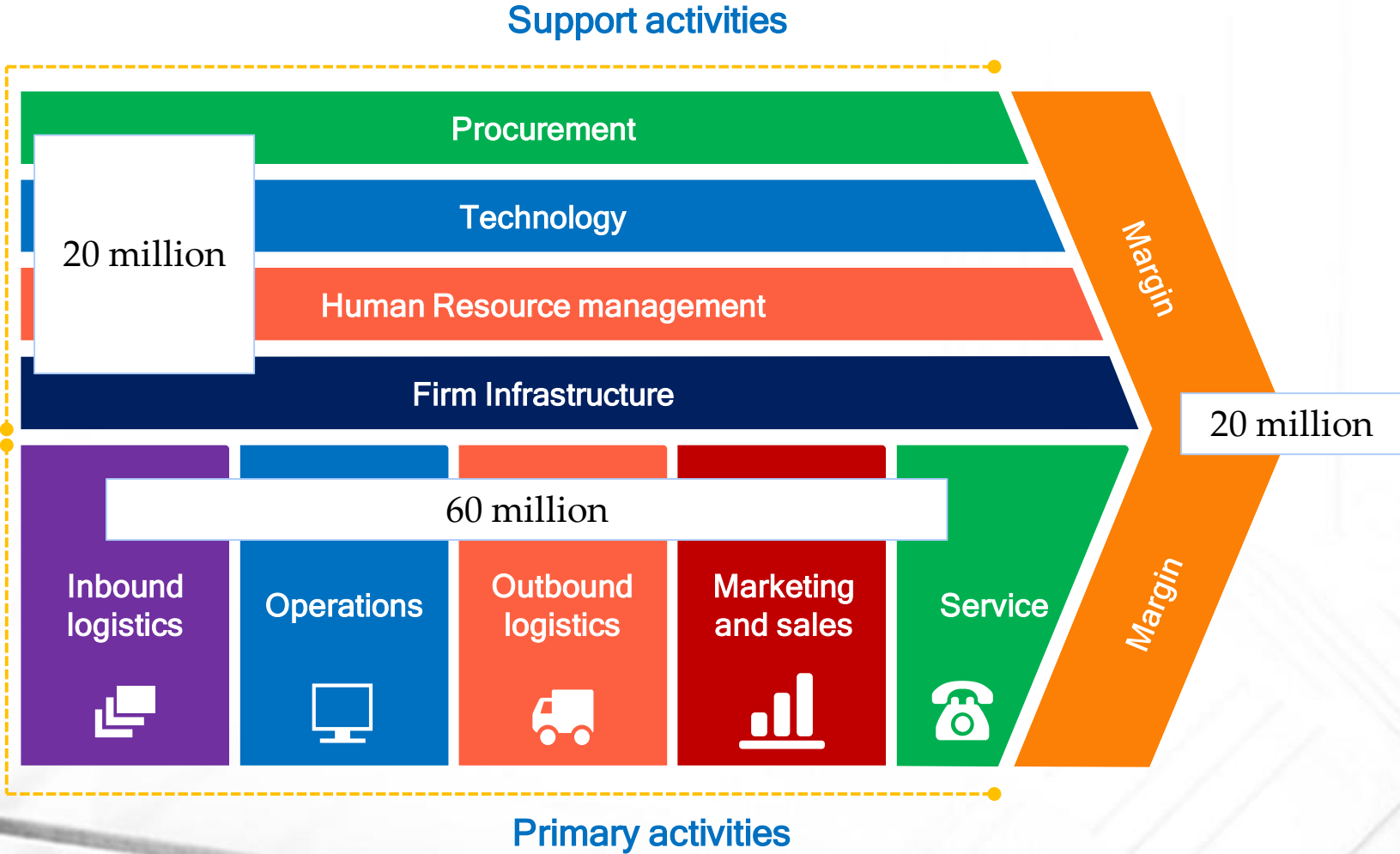
Value Chain Analysis

Support activities



Primary activities

Value Chain Analysis



3 Integrated Financial Plan Statements

- **Income statement:** it reflects business's ability to create value in a given period to make a profit (and the extent of that profit).
- **Balance sheet:** It shows at a particular date the value of Assets, Liabilities and Equity. The Forecast Balance Sheet also reflect how much cash or investment is needed to support the sales and profits on the income statement.
- **Cash flow:** This statement displays the change in cash over a period along with both the beginning and ending balances for that period in cash.

Strategic 5 Year Financial Plan

Income Statement

Year 1 Year 2 Year 3 Year 4 Year 5

Income Statement

Revenues	10,890	11,979	13,177	14,495	15,944
COGS	8,712	9,583	10,542	11,596	12,755
Gross profit	2,178	2,396	2,635	2,899	3,189
Overhead expense	1,520	1,675	1,847	2,013	2,235
EBIT	658	721	789	886	954
EBITDA	693	771	859	956	1,059
Interest expenses	25	36	47	60	72
Other financial loses and gains, net	16	18	20	22	24
Income before tax	617	667	722	804	858
Tax	64	69	75	83	89
Net income	553	598	647	721	769

Strategic 5 Year Financial Plan

Balance Sheet

Balance sheet	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed assets	340	440	520	518	785
Current assets	2,263	2,995	3,846	4,844	5,643
Total assets	2,603	3,435	4,366	5,362	6,429
Equity	858	1,456	2,103	2,824	3,593
Long term fin. liabilities	350	500	690	865	1,041
Current liabilities	1,395	1,479	1,573	1,674	1,794
Total equity and liabilities	2,603	3,435	4,366	5,362	6,429

Strategic 5 Year Financial Plan

Cashflow

Cash flow statement	Year 1	Year 2	Year 3	Year 4	Year 5
CF from operating activities	370	376	393	406	435
Net income	553	598	647	721	769
D&A	35	50	70	70	105
Changes in inventories	(89)	(113)	(137)	(166)	(201)
Changes in account receivables	(79)	(101)	(122)	(147)	(178)
Changes in other assets	0	(92)	(109)	(123)	(131)
Changes in trade payables	(18)	(9)	(9)	(9)	(9)
Changes in other short term liabilities	(32)	43	52	59	79
CF from investing activities	(75)	(150)	(150)	(68)	(372)
(Purchase) or sales of capital assets	(75)	(150)	(200)	0	(350)
Changes in other investments	0	0	50	(68)	(22)
CF from financing activities	200	200	240	225	226
Changes in financial liabilities	200	200	200	200	200
Changes in other long term liabilities	0	0	40	25	26
Total cash flow	495	426	483	562	289
Cash at the beginning of period	500	995	1,420	1,903	2,466
Cash at the end of period	995	1,420	1,903	2,466	2,755

Strategic 5 Year Financial Plan

Cash Conversion Cycle & Net Working Capital

CCC & NWC	Year 1	Year 2	Year 3	Year 4	Year 5
DIO	23	25	27	30	33
DSO	16	18	19	21	24
DPO	37	33	30	27	24
DOSL	49	54	59	65	71
CCC	(47)	(44)	(42)	(40)	(39)
NWC	183	455	780	1,164	1,604

Strategic 5 Year Financial Plan

Key Ratio Analysis

Ratio analysis	Year 1	Year 2	Year 3	Year 4	Year 5
Profitability ratios					
Gross margin	20%	20%	20%	20%	20%
Net margin	5%	5%	5%	5%	5%
EBIT margin	6%	6%	6%	6%	6%
EBITDA margin	6%	6%	7%	7%	7%
ROA	21%	17%	15%	13%	12%
ROE	64%	41%	31%	26%	21%
ROCE	46%	31%	23%	20%	17%
Liquidity ratios					
Current ratio	1.6	2.0	2.4	2.9	3.1
Quick ratio	1.2	1.6	1.9	2.3	2.5
Net working capital Ratio	8%	12%	17%	22%	24%
Solvency ratios					
Equity ratio	33%	42%	48%	53%	56%
Debt ratio	67%	58%	52%	47%	44%
Efficiency ratios					
Asset turnover	4	3	3	3	2
Fixed asset turnover	32	26	22	26	19
Account receivables turnover	25	23	21	19	17
Account payables turnover	10	11	12	13	15
Inventory turnover	18	29	16	14	13
NWC turnover	59	26	17	12	10

Conclusion

Strategic financial planning is an ongoing process that requires continuous adaptation and refinement.

By aligning financial resources with strategic priorities, organizations can navigate the complexities of the business landscape, achieve sustainable growth, and secure



Thank You

Q&A