

# Quick Start for Financial Plan for Professional Services

How to use your Custom Excel Workbook

## Quick Start Instructions

Here are simple, step by step instructions to get your Financial Plan for Professional Services working for you as quickly as possible. Just follow the steps below in order and you'll be on your way.<sup>1</sup>

**A Note about Input Cells:** Enter input data only in shaded blue cells. These input cells are found mostly on the 'Inputs' worksheet and also on the 'Labels' worksheet. Some blue input cells contain Excel formulas the copy data from adjacent input cells. (For example, if you enter data in the first period, the model will usually copy it to the other time periods to the right.) This feature is a convenience for those inputs that sometimes have repeated values. You can overwrite any formula in a blue input cell; they are just there to provide starting data to get you going quickly.

### Step 1: Enter Names of Dimension Items (Practice Areas, Professional Areas, Professional Staff Types, Departments, etc.)

Select the Labels worksheet.

Edit the names of items in the bottom section starting around row 300 or 320. You can edit names of

- practice areas, professional areas of expertise, professional staff types, major engagements, engagement types
- selling locations, selling channels, sales lead quality classes
- departments, department-specific expense accounts, marketing programs, general & admin expense accounts
- direct labor, professional staff job types, support staff job levels
- tagged assets, untagged asset types, leases, and bonds.

These may already be correct from the customization process. If you want to increase the numbers of sub-projects or other items in the model, you must return to the ModelSheet website and customize a new spreadsheet.

Check the start date of the model at the top of worksheet 'Labels' and change it if necessary.

### Step 2: Enter Input Data for Major Client Engagements

Select the Inputs worksheet, and go to the section "Major Engagements".

If you do not have "Engagement Prototypes" in our model (the normal case):

1. Enter input data for each major engagement: Practice Area, Sales Channel, Client (if "Client" is included as an option in your model), and Start Time Period.<sup>2</sup>
2. Enter Engagement attributes that describe staff time on the engagement:
  - Specify the Duration (expressed in number of time periods)
  - Specify the distribution of professional staff hours in the engagement by staff type and toe period, in either of two ways.

<sup>1</sup> You can find more explanation of how the model works under the heading "Financial Plan for Professional Services Explained in a NutShell" below.

<sup>2</sup> Major engagements are tracked individually and in greater detail than minor engagements, which are tracked in groups.

- Either: specify (a) the size in total professional staff hours, (b) the distribution of staff hours across the professional staff types (percents that add to 100%), and (c) a ‘ramp’ for each staff type that indicates how much the staff hours ramp up or down during project life (0= no change, +1 = ramp up. -=1 = ramp down).
  - Or: specify staff hours for each staff type and each time period. If you do this, your entries will overwrite the formulas that compute values from the inputs from the first method of specifying the distribution of staff time.
3. If your model supports fixed fee engagements:
    - In the column "Billing Type Code" enter "2" for Fixed Fee engagements.
    - In the column to the right named "Fixed Fee (if applicable)", enter the fixed fee.
  4. In the section “Billing Practices”, specify the percentage of staff hours applied to a major engagement that is billed.

If you have “Engagement Prototypes” in our model:

Note: Engagement prototypes enable you to specify duration and distribution of staff time over staff types and over time for a prototype and have several engagements inherit these properties from the prototype, without you having to enter data manually several times. You should include them when you customize your model only if you will have numerous major engagements that are similar in duration and staffing.

1. Enter input data for each major engagement: Practice Area, Sales Channel, and Start Time Period, and Engagement Prototype.<sup>3</sup>
2. Enter input data for each engagement prototype: Size in total professional staff hours, duration, Fixed Fee ("2") or regular hourly fees ("1"), the distribution over staff types, and the ramp of staff hour (as described above).
3. If you want to override any property that a major engagement inherits from its prototype, then you can do this in the section “Engagement Attributes - Override of Engagement Prototypes”. You can override just some attributes of some engagements, and the remaining attributes will remain inherited from the prototype.
4. In the section “Billing Practices”, specify the percentage of staff hours applied to a major engagement that is billed.

### Step 3: Enter Input Data for Minor Client Engagements

If your model includes the sales funnel feature, then it includes minor client engagements. These engagements are tracked as one group of staff hours, segmented by practice area, sales channel, professional staff type, and time period. The sales funnel track the progression of qualified leads until they become minor engagements.

Select the Inputs worksheet and go to section “Minor Engagements – Sales Funnel”.

1. Enter data for the sales funnel that tracks and promotes sales leads.
  - Enter the number of initial sales leads (counted in billable hours) in the funnel, segmented by product, selling location, and sales lead quality class.
  - Enter the initial order backlog segmented by product and selling location.

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<sup>3</sup> Major engagements are tracked individually and in greater detail than minor engagements, which are tracked in groups.

- Enter the number of new sale leads (counted in billable hours) that appear in the funnel, segmented by practice area, sales channel, staff type, lead quality class, and time period.
  - Enter the annualized rates at which leads are promoted to the next more qualified lead class.
  - Enter the annualized rate at which leads expire in the funnel.
  - Enter the rate at which backlogged orders are fulfilled in each time period (not annualized).
2. Enter information about billing rates and non-labor costs. You have the option of specifying fees and costs that differ from those for major engagements. (If you make no changes, these variables default to the values for major engagements.)
- Enter the percentage by which hourly billing rates for minor engagements are lower (or higher with a negative discount percentage) than the rates for major engagements.
  - Enter the rate of accumulation of T & E expense and cost of supplies per hour of staff time, segmented by professional area and professional staff type.

#### **Step 4: Enter Billing Rates and Non-labor Costs of Services**

Select the Inputs worksheet, and go to section “Billing Rates and Non-Labor Costs of Services”.

1. Enter the nominal billing rates for each professional staff type in each practice area for each time period.
2. Enter the average billing rate discount percentages.
3. Enter discount rates for entire engagements. These are compounded with the previous discount rates.
4. Enter costs per staff hour for each type of non-labor cost. (You can alter the names of the non-labor cost accounts on the Labels worksheet.)

#### **Step 5: Enter Staff Headcount Input Data**

Select the Inputs worksheet, and go to the section “Employment Input Data”. (This does not include direct labor, which is handled in the previous section.)

1. Specify the Professional staff headcount. This is done in two parts: at early times, you directly specify the staff headcount. At later times, your target utilization percent determines the staff headcount. You determine how much to use each method by specifying a cutover time.
  - Enter the Professional Staff Count Cutover (on the far right) – that is, the number of the time period before which you explicitly specify employee headcount and after which employee headcount is determined by revenue and scaling formulas.
  - Enter the Employee Count Early – the employee count you explicitly specify to be used before the Employee Count Cutover date.
3. Specify the Support Staff headcount.
  - Enter the Professional Staff Count Cutover (on the far right) – that is, the number of the time period before which you explicitly specify employee headcount and after which employee headcount is determined by revenue and scaling formulas.
  - Enter the Employee Count Early – the employee count you explicitly specify to be used before the Employee Count Cutover date.
  - Enter the Employment scaling factors (on the far right) – that is, the factors in the formula

$$\text{headcount} = K0 + K1 * (\text{annualized revenue} / 10000)^{K2}.^4$$

Enter this data for each job level in each department. (For example, to make headcount proportional to revenue, set  $K0=0$ ,  $K1=0$  and  $K1 =$  a number that expresses the relationship between revenue and headcount.)

## 2. Employee Compensation

- Enter the initial average annual wage/salary for each job level in each department.
- Enter the wage/salary increase percentage; and indicate whether this is an annual rate or a per-period rate.
- Enter the bonus percent of base wage/salary for each job level in each department.
- Enter the sales commission percentage, and the percent of revenue that is commissioned.
- Enter the payroll tax percent and the benefits percent for employees for each job level in each department.

## Step 6: Enter Staff Compensation Input Data

Select the Inputs worksheet, and go to the section “Employee Compensation”.

### 1. Professional staff compensation

- Enter the average professional staff salary, for professional area and each professional job type.
- Enter the growth rate of salaries. These rates can be per period or annual, depending on the value you enter for “Wage Increase Annual?” (true for false).further down the worksheet.
- Enter the size of the professional staff bonus pool, as a percentage of salary.
- Enter the size of the professional staff benefits costs, as a percentage of salary.

### 2. Support staff compensation

- Enter the average support staff salary, for each job type and practice area.
- Enter the growth rate of salaries. These rates can be per period or annual, depending on the value you enter for “Wage Increase Annual?” (true for false).further down the worksheet.
- Enter the size of the support staff bonus pool, as a percentage of salary.
- Enter the size of the support staff benefits costs, as a percentage of salary.

### 3. Enter other compensation data.

- Specify whether the growth rates for staff salaries and wages that you specified are annualized or per time period.
- Specify the average wage tax percentage.
- Specify the average sales commission rate and what share of revenue is commissioned.

## Step 7: Enter Recruiting Expense Input Data

If your model includes recruiting expenses, then specify the following data for professional staff and separately for support staff. Select the Inputs worksheet, and go to the section “Other Operating Expense Input Data “.The required data is:

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<sup>4</sup> This method – in particular the exponent  $K2$  allows you to include scale effects in your headcount plan. That is, when revenue doubles, headcount often increases by less than doubling.

- Annualized employee turnover percent,
- Initial percentage of employees recruited at the start of model time.<sup>5</sup>
- Ongoing percentage of open positions that are recruited.
- The recruiting expense as a percentage of compensation for each position.

## Step 8: Enter Other Operating Expense Input Data

Select the Inputs worksheet, and go to the section “Other Operating Expense Input Data “.

1. If your model includes the marketing programs feature:
  - Enter the Marketing Programs Cutover (on the far right) – that is, the number of the time period before which you explicitly specify employee headcount, and after which employee headcount is determined by revenue and scaling formulas.
  - Enter the Marketing Programs Early – the Marketing Programs you explicitly specify to be used before the Marketing Programs Cutover date.
  - Enter the marketing program scaling factors (on the far right) – that is, the factors in the formula

$$\text{program expense} = K0 + K1 * (\text{annualized revenue} / 10000)^{K2}.$$

Enter this data for each marketing program. (For example, to make marketing programs proportional to revenue, set  $K0=0$ ,  $K1=0$  and  $K1$  = a number that expresses the relationship between revenue and program expenses.)

2. If your model includes the department- specific expense account feature:
  - Enter the expenses for each departmental expense account in each time period.
  - Note: You can edit the department-specific expense accounts on the Labels worksheet. The top level of the hierarchy should be identical with the list of departments. If you want to increase the number of department-specific accounts for one department, go to the ModelSheet website and re-customize your model.
3. Facilities Expense: Enter values for the five facilities expense fields for each time period.
4. If your model includes Leases, then enter values for the seven parameters that describe each lease.
5. General & Admin Expense, then enter the G&A scaling factors that is, the factors in the formula

$$\text{program expense} = K0 + K1 * (\text{annualized revenue} / 10000)^{K2}.$$

Enter this data for each G&A expense account. (For example, to make G&A Expense proportional to revenue, set  $K0=0$ ,  $K1=0$  and  $K1$  = a number that expresses the relationship between revenue and expenses.)

6. Miscellaneous Operating Expenses:
  - Enter Employee-Related Expense per Employee per Year, for each department, job level, and time period.

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<sup>5</sup> If you are modeling a startup, then these percentages are likely to be higher than the ongoing percentages below. If you are modeling going concern, then these percentages are probably about the same as the input for continuing recruiting.

## Step 9: Enter Financial and Tax Input Data

Select the Inputs worksheet, and go to the section Financial and Tax Input Data.

1. Enter the short interest rate, long interest rate, interest rate earned on deposits, and bad debts as a percentage of receivables.
2. Enter the income tax rate for each time period.
3. Enter the discount rate for cash flows.
  - Enter the method for setting the discount rate: either Direct (which means you directly input a discount rate) or 'CAPM' (which means the rate is computed from other financial parameters using the capital asset pricing model. 'Direct' is the simplest choice.
  - If you entered 'Direct' for the method of setting the discount rate, then
    - Enter the annualized discount rate for each time period.
  - If you entered 'CAPM' for the method of setting the discount rate,
    - Enter the 'beta' parameter for each sub-project. Beta is a parameter that measures how much earnings and cash flow tends to correlate with stock market returns.
    - Enter the annualized riskless discount rate for each time period. This is approximately the interest rate on high-grade debt of very stable governments, such as the interest rate on U.S. government treasury bills.
    - Enter the annualized market risk premium rate for each time period. This is the extra earnings that investments in stocks are expected to make in excess of the interest rate on riskless debt.

## Step 10: Enter Asset Input Data

Select the Inputs worksheet, and go to the section 'Asset Input Data'.

### Short-term Assets

1. Cash:
  - Enter initial cash balance
  - Enter the target for cash balance in each time period, expressed as a number of days of revenue.
2. Inventory:
  - Enter the initial inventory value of supplies.
  - Enter target for inventory of supplies, expressed as a number of days of supplies used, for each time period.
3. Accounts receivable:
  - Enter the initial value of receivables.
  - Enter the target amount of receivables, expressed as a number of days of revenue.

### Long-term Assets

1. For each tagged asset, enter Asset Name, Purchase Date, Initial Value, Depreciation Method, Depreciation Life (in years), Physical Life (in years), and Salvage Value. (A tagged asset is an asset that is tracked and depreciated separately.)
2. For each untagged asset type,
  - Enter the name of the untagged asset type.
  - Enter the depreciation life (in years) in each time period.

- Enter the amount purchased at the beginning of model time, purchases for each new employee, and purchases annually to support each existing employment position.
3. If your model includes capitalized development as an asset:
    - Enter the initial value of capitalized development for each listed expense category.
    - Enter the life (in years) of capitalized development assets
    - Enter an annual amount of capitalized development for each listed expense category.
    - Enter a percentage of development spending that is capitalized for each listed expense category.

## Step 11: Enter Liability Input Data

Select the Inputs worksheet, and go to the section 'Liability Input Data'.

### Short-term Liabilities

1. For Accounts Payable,
  - Enter the initial value of payables for Vendor Payables, Payroll Payables, and Taxes Payable. (Example: these are usually all zero for a startup, and positive for a going concern.)
  - Enter the target accounts payable, expressed as a number of days of revenue.
2. Enter the amount of Short-term Debt at the end of each time period. (The model fills this in with default values that maintain a reasonable positive cash balance.)

### Long-term Liabilities

1. Enter the amount of Long-term Loans at the end of each time period.
2. If your model includes corporate Bonds, then for each bond, enter values for the seven parameters that describe each bond: Sale Date, Initial Value, Life (in years), Bond Origination Fee (as a percentage of Initial Value), Annualized Interest Rate, Balloon Payment (at end of life).

## Step 12: Enter Owners' Equity Input Data

Select the Inputs worksheet, and go to the section 'Equity Input Data'.

1. Enter the value of stock issued in each time period (sales of stock net of repurchases).
2. Enter the dividend paid in each time period.

## Step 13: Enter Valuation Input Data

Select the Inputs worksheet, and go to the section 'Valuation Input Data'.

1. Enter the Cash Flow Expectation Factor (defined as
 
$$\frac{\text{(expected cash flow in the next year)}}{\text{(plan cash flow in the next year)}}$$
 for each time period. This factor measures risk in planned cash flows.
2. Enter the annualized Tail Growth Rate and annualized Tail Discount rate (for estimated cash flows that occur after the end of model time, for inclusion in valuation of the business).
3. Enter initial guesses for the IRR (internal rate of return) of the cash flows of the business with and without the cash flows in the 'tail' after the end of model time.

## Step 14: See Your Results!

Now that you've entered your data, take a look at the four major financial statements.

- Income statement (worksheet 'IncStmt'):  
You can see details that affects the income statement, on worksheets Sales, 'Cogs GM' (cost of goods and gross margin), OpExp (operating expense), Labor, FinTax (financial and tax expenses).
- Balance sheet (worksheet 'BalSht')  
You can see details that affects the balance sheet, on worksheets Assets, 'Liab' (liabilities), and Equity.
- Cash flow (worksheet 'CFStmt')
- Ratio report (worksheet 'RatioRpt').

The valuation of the business is summarized on worksheet 'Value'.

You can see summaries of practice areas, engagements, cost of services, professional staff, operating expenses, support staff and other topics in suitably names worksheets.

If you want to learn more what these quantities mean, read the comment on the table by hovering the mouse over the cell with the small red triangle (which is Excel's way of telling you that cell has a comment). There you'll also find a "formula name" that defines the table. You can look up that name on the 'Formulas' worksheet to see the human-readable formulas that are used to define the values in the table.

## Financial Plan for Professional Services Explained in a NutShell

Your Financial Plan for Professional Services model produces the four main financial reports for a business.

1. Income statement – revenue, cost of sales, operating expenses, financial expenses, and income
2. Balance sheet – assets, liabilities and equity
3. Cash flow statement - starting cash balance, cash sources, cash uses, and ending cash balance
4. Ratio report – operating ratios and financial ratios.

This financial plan has some special features that make it particularly useful for modeling professional services business.

- It tracks individual major client engagements with details about professional staff applied and other features. These engagements are segmented by practice areas and sales channels.
- It tracks minor client engagements as a group, without tracking individual engagements. It does this by tracking billable hours as sales leads in a funnel, then as work orders, all segmented by practice area, professional staff type, and sales channel.

The remainder of the model consists of more detailed information on about a dozen sectors of the model. The model provides a wide range of optional features to accommodate the more common aspects of businesses. See the list of features at

<http://templates.modelsheetsoft.com/modelsheettemplates/financial-plan-professional-services-templates-version-comparison.aspx>. The model has reports in these areas.

1. Sales: tracks sale of products, optional annual product support, and installed base. Also optional contract revenue
2. Cost of Goods: tracks direct material, direct labor and direct supplies.
3. Operating Expense: tracks expenses for manpower, recruiting, marketing programs, facilities, leases, and expense accounts by department.
4. Employment: tracks headcount by job level and department.
5. Finance and tax: tracks interest income and expense, bad debt, and income tax.
6. Assets: tracks short term assets (cash, inventory, receivables) and long-term assets (major tagged assets, smaller untagged assets).
7. Liabilities: tracks short-term liabilities (payables and short-term debt) and long-term liabilities (long-term debt, corporate bonds).
8. Equity: tracks paid-in capital, retained earnings, sales of stock, and dividends.
9. Valuation: computes valuation of the business.

In broad outline, that is all there is to it.

Not all features mentioned here are present in the Light and Standard versions of the model.

## Where to Get More Information

Read the Excel comment on each table on every worksheet. Each comment contains important information about what the table contains or what it does in the model.

Worksheet 'Formulas' contains a list of the named variables in the model and formulas that define each variable in terms of other variables. This worksheet is often the best way to understand how the entire model fits together.

The user guide for this product contains more information. See

<http://templates.modelsheetsoft.com/modelsheettemplates/financial-plan-professional-services-templates-user-guide.aspx>

The introductory webpage for the Sales Plan template is

<http://templates.modelsheetsoft.com/modelsheettemplates/financial-plan-professional-services-templates.aspx>

Please address queries to: [customerservice@modelsheetsoft.com](mailto:customerservice@modelsheetsoft.com) .

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