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Use Bridge Analysis for Better Planning and Measurement

BUSINESS ADVISORS

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For those of you who have not performed bridge analysis, it is a way to analyze your performance against a benchmark (prior year, budget, latest forecast) in a manner that provides explanations that help non-financial executives better understand the results. It also is a useful tool in building budgets and forecasts at a higher level based on what is expected to happen in the business.

Bridge Planning Process

To begin the planning process, use the latest operating results as a starting point. Forecast what changes you expect in the following categories: sales volume, inflation, productivity enhancements, and mix. You can create the bridges at a gross margin level, operating income level, or EBITDA level by taking the latest operating results and adding the expectations in each category to bridge you to the expected results. To gain the deepest understanding, analyze changes in sales volume by unit sales, price changes, and the effect of the exchange rate if you have non-US dollar denominated transactions. Mix can be analyzed by customer and product to provide further detail on profit changes. For example, if you sell to the big box retailers, they probably receive better pricing than most of your customers, which affects profitability. Also, as your sales mix of product line shifts, your gross profit margin will shift as well. Analyze inflation in your business by looking at what is happening to both core pricing (local currency inflation) and the impact of the exchange rate. Finally, add the expected benefit of productivity initiatives to the other categories. Going through these steps will help you build forecasts with the overall business in mind. The line item details can then be built to match these macro expectations.

When analyzing actual results, compare what happened to expectations or the prior year in each of the categories mentioned above. This will give a clearer picture to operating executives and board members of what happened in the business. The use of bridge analysis lends itself well to creating "waterfall charts" for board meetings and presentations to explain both actual results and future expectations.

Contact us with questions or if you would like to know more about preparing bridge analyses and waterfall charts and visit our [Business Advisory Services](#) page to learn more about the services that the Schneider Downs Business Advisors can provide to your organization.

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