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Modelling Scenarios

That last thing that we're going to do is put in some scenarios. We are going to apply some drop-down boxes. We are going to do a base case, a best case and a worst case. We've already done our base case so we're just going to tweak those numbers a little bit.

Go back into our financial model. We've got our assumptions here and the way that we've modelled this going to make it quite straight forward to put in our scenarios. You can see here, we've got a little table laid out. We know that our base case was 120 cups per day and our rent was \$1200. Now we're going to tweak these up and down. We're going to take these two input variables and just increase and decrease them by a little bit to see what sort of impact this might have on our financials.

Let's say in our worst case scenario, we only manage to sell 100 cups per day. What if our best case scenario is that maybe we'll sell 140 cups per day. We're actually renegotiating with our landlord, we think that things might change a little bit and we might be able to negotiate down a little bit or our rent might go up, so I'm just going to go in and say the worst case scenario is that it's going to go up by 10%. Equals multiplied by 1.1 so that's adding 10% and then this one is going to be multiplied by 0.9, so it's less 10% so those are the variables that could change.

Now the way that we've modelled this is that is a hard coded number. That's not going to be hard coded number anymore, that's now going to be a formula. If we change our scenarios the input variable is going to change so the way that we've modelled this in our financial model is that everything is looking back to the average number of cups sold per day. If we change that and make that a formula, we change it on the drop-down, the input variable will change and that will just look at our input scenarios, and then the output will automatically change.

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First of all what we're going to do is go back to our P&L, create our drop-down boxes and then we're going to create some formulas that link to that drop-down box at the front. So go to your summary page. Now at the moment I've got best written in there but it is actually base. We'll go into there, we'll go to data validation, allow a list and what we want it to do is say best case, base case and worst case. We're going to link that through, you could just type it in but it's quite easy just to link it through to our assumptions page. Link to here and we'll say worst, base, best. There we go. Now it doesn't matter with data validations drop-downs, if the data is orientated vertically or horizontally, it will all work just fine. As that changes that's going to change our input drivers so have a go and see if you can figure this out. I've explained how you do it so you'll probably get more out of it if you just pause here for a little while and have a go and see if you can get it working and then we'll work through it together.

Did you get it working? Okay, let's do it together. Go to the average number of cups sold per day. This is important because this is going to become a formula, it's not going to be a hard coded value anymore. It's not going to be formatted like that, we need to change it so that the background is no fill and it should actually be more like black. That's actually going to contain a formula. There's a few options if you know how to do a VLOOKUP or in this case a HLOOKUP because the data is horizontally orientated. If you know how, you can go ahead and do that. We could also go with a SUMIF if you'd like to. I'm going to go with an IF statement. IF this cell here is equal to worst case, give me 100 otherwise it will be base. I'm going to do a second IF. IF this cell here is equal to base case, give me 120 and by default if it's not either of those, it's going to go straight through to the best case scenario. I've just missed a couple of brackets at the end there and Excel's helpful, it knows what I'm trying to do, so I'm just going to accept this correction but I'm going to test it and make sure something hasn't gone wrong.

So 120 is my base case, worst case all my numbers are changing, it's 100. Let's go back and test it. Best case 140. That looks like it is working. What I need to do now is have a look at the rent so I can do exactly the same thing. I want to change my formatting so what I can do, I want the rent which is this cell here, I would like that cell to look like that cell so I'm just going to use my format painter and I'm just going to put my currency symbols back in and

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then I'm going to go in and create my IF statement again. You can create it all over again or you can have a go at copying, see if you can get it working. So IF, that cell there is equal to worst case scenario, give me 1320 otherwise IF this cell here is equal to base case scenario, give me 1200 otherwise by default it's going to be the last one. I remembered to put brackets in this time.

Always sense check especially when you've done a fairly long and complicated formula just like I did, so I just need to check it and make sure it's working. Best case looks good, worst case is 1320, okay and I'll just check the base case and that looks good. So that's our scenarios that are working. Let's go into our revenue page and you can see the number of cups there and that still looks good. I'll change that to worst case scenario and you can see that the number of cups are changing. I'm just going to make that a little bit smaller so you can see my chart. I might just move it over so we can see it changing. So now when I change that to base case, you can see the numbers changing and the chart changing. I'll change it to best case as well and that looks good.

Going forward, it's important to make sure that if you don't want anybody to mess with your model that you put some protection in there. Make sure that people are using your model, make sure that they don't add numbers where they shouldn't be, because you've set this model up in such a way that that won't happen.

That's pretty much it for our financial model today. We're happy with our model, we've got our scenarios working and we've got some charts in there.

Make sure that you save your model. Take a copy of it, submit it via the website, we'll take a look at it, make sure it looks okay and that will complete your course. You'll also need to do some online quiz questions just to make sure, at the end of each module, that you've been paying attention, so make sure that you complete each of those. We'll have a look at your model, check your quiz questions and once we've got all that completed we'll send out your certificate to you.

Thank you so much for being with me, I've really enjoyed this online course. I would really like to see you in person though one day. We run a number of face to face training courses.

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Most of our courses are in Sydney, Melbourne and Brisbane, we do a little bit of in-house as well and we have a couple of courses overseas in Asia and in the Middle East. So check the schedule and see what we've got coming up because I'd really like to meet you face to face one day.

Thank you so much.