How to Be a Great Financial Analyst

It takes seven key skills and a new way of thinking.

BY STEVE SPIECH, CMA, CFM

Every company has employees who analyze its financial data and enhance its decision support process by providing their insights and analyses to management. In some companies the CFO, controller, or accounting staff performs this function in addition to their regular responsibilities. In other companies the process is more formal, with financial analysts, cost accountants, and even whole departments dedicated to this function. No matter which way it's done, effective financial analysis is really more a way of thinking than a series of steps or processes.

Financial professionals who are effective at financial analysis can add value to their companies and excel in their careers. Good analysts identify cost-savings ideas, revenue growth opportunities, and strategies for productivity improvements. Even people who work with financial data but don't do regular analysis (general ledger, accounts payable, financial systems staff) can benefit by building an analytic approach into the way they perform their jobs.

People who are *great* financial analysts exhibit several key qualities—qualities we strive to develop in WellPoint, Inc.'s Central Region. Billions of dollars in health insurance premiums and medical expenses are realized every year in the Central Region, and it's my department's job to forecast and analyze this financial data and other statistics. We work with the leadership of the Central Region to help them meet their strategic objectives.

First, let's address what it takes to be a *good* financial analyst. Then we'll discuss what it takes to be a *great* one.

GOOD FINANCIAL ANALYSTS

The seven qualities of a good financial analyst are listed below. Read through their descriptions and think deeply about whether you possess them. Then fill out Table 1 to see where you stand.

1. Understand the concept of materiality. Good financial analysts can draw conclusions with incomplete information and have a feel—an educated gut feel, perhaps—for when information is relevant and when it isn't. In some cases the information is measurable, like the dollar magnitude of a transaction or the level of a variance percentage to budget. In others it's more intangible, like knowing the amount of detail to present to an accounting manager vs. the CFO. One of my financial analysts explained it as the concept of cost vs. benefit: the concept of knowing when you have reached a point where spending more time on an analysis won't provide enough benefit to continue.

Accountants and computer programmers sometimes have a hard time making the transition to financial analysis jobs because of their focus on numbers and order. A standard question I ask during a job interview is "What does materiality mean to you?" The applicants who tell me it means doing whatever it takes to get something to tie to the penny usually don't get a second interview.

2. Are good at using spreadsheets and databases to analyze information. Good financial analysts know how to apply the tools available in spreadsheets and databases to pull together disparate data, solve problems, and present *information* to management. Experience with using all of the features of these tools isn't as important as an awareness of them and knowing when to use them, though a strong understanding of pivot tables and query design will go a long way. Further, it's important to know the needs and personal style of the individual(s) for whom the work is being done. Some managers prefer information in a visual format like graphs, while others like it all laid out for them in detailed financial tables. Ultimately, it's all about turning data into conclusions.

In my department at WellPoint we developed a Technical Skills Assessment that each analyst uses to assess their level of ability in Microsoft Excel, Microsoft Access, and other tools. These Assessments help me work with my staff to identify opportunities for their development and also give us a reference tool for locating experts in the features of each tool.

Table 1: Good Financial Analysts

2 points for the qualities in which you are very strong

1 point for the qualities you possess but could develop further

0 points for those you don't have and need to develop

____ **1.** Understand the concept of materiality.

____ **2.** Are good at using spreadsheets and databases to analyze information.

____ **3.** Understand management accounting concepts and apply them to their business.

____ **4.** Navigate successfully through their company's financial systems and informal people networks to get data and information.

____ **5.** Possess a solid understanding of their company's products, markets, and processes.

____ **6.** Take the initiative to improve in each of these areas and have a continuous-improvement mentality.

____ **7.** Include insights and questions when distributing a report or analysis.

____ **Total Score**

You are a **GOOD FINANCIAL ANALYST** if you score 10 or higher.

3. Understand management accounting concepts and apply them to their business. We all learned many valuable concepts in our undergraduate and MBA courses, but most financial analysts don't utilize them fully in their jobs. Good financial analysts remember these concepts and are able to apply them. For example, analysts responsible for departmental budgets are skilled at using variance analyses and activity-based costing (ABC) techniques. Those in capital intensive industries are skilled at applying return on investment and breakeven analyses. And those developing growth strategies will use contribution margin and incremental costing analyses.

Statistical methods are also often untapped, mostly because we tend to forget them after completing our degrees. Good financial analysts find ways to use statistics to locate patterns in their data.

Obviously, a great way to develop these skills is to become a Certified Management Accountant (CMA) and/or Certified Financial Manager (CFM). Preparing for the exams refreshes your knowledge and lets you practice in areas where you may feel rusty, and earning the actual certification demonstrates your excellence.

4. Navigate successfully through their company's financial systems and informal people networks to get data and information. Good financial analysts know their company's financial systems—General Ledger, Sales, Inventory, etc.—and the limitations of the data they contain, and they can extract data from them for further analysis in spreadsheets and databases.

Also, knowing whom to ask for help or for answers is just as important as the financial systems. Informal people networks don't follow the corporate chain of command, so it may take several calls at first to identify the people who can help, but these networks are very effective once they are established.

It's hard to have both technical skills and people skills since they require very different talents, but each can be developed with awareness, focus, and practice.

5. Possess a solid understanding of their company's products, markets, and processes. Good financial analysts can add value by understanding how their analyses relate to the business. Knowing the company's major revenue sources (products, customers), key computer systems, workflow processes, and geographic distribution will provide insights into the components of revenue and expense that should be analyzed. For example, an analyst who knows that 30% of a company's revenue is generated by one product will monitor that product's sales very closely and be in constant contact with the product manager when doing financial projections.

6. Take the initiative to improve in each of these areas and have a continuous-improvement mentality. Good financial analysts always look for ways to be more effective in their work and pursue the training that will enhance their abilities, such as learning to use analysis tools more effectively. Good analysts aren't satisfied with current improvements and are always looking to enhance themselves and their business, so they seek advice on how to improve existing processes. In my department, for example, a monthly task that once took eight hours to complete manually is now automated and takes only two hours.

7. Include insights and questions when distributing a report or analysis. Many analysts just want to complete the report, check it off their list, and move on to the next task. Good financial analysts will resist this urge. They will not only take the time to review the report for accuracy but to determine what it says about the business. Then they pass on any observations and questions to management when they deliver the analysis. This process works best if they set aside the analysis after it's complete and then revisit it later with a fresh perspective. Good analysts consider their work to be analysis rather than reporting. If you can do only one thing differently, work on this quality because it will make the most impact.

FROM GOOD TO GREAT

How did you do in Table 1? Are you a good financial analyst? These are skills you should expect from yourself and that any manager should expect from their staff.

At WellPoint, our financial analysts are working to become not just *good*, but *great* financial analysts. Several key qualities exhibited by great financial analysts are shown in Table 2, and, as you can see, they are enhanced versions of the skills good financial analysts possess. As you did with Table 1, read the following descriptions and think deeply about whether you possess the qualities of a great financial analyst. Then fill out Table 2.

1. Feel bothered when analyzing issues that aren't material. Great financial analysts understand the importance and relevance of their work. They have a strong sense of priorities and of what is important to their company, which results in the emotional reaction of "feeling bothered" when they are working on issues that aren't material. This doesn't mean they neglect someone who needs help researching a small issue, but, if their instinct tells them they are wasting their time, they talk to the requestor—even a superior—about what course of action would be best for the company.

2. Take a top-down approach to analysis and investigation. Great financial analysts don't get lost in the detail but start from the highest level and work downward until they experience insights—those a-ha! moments. They are always aware of the "big picture" reason for their analyses and are able to come back to this high level after doing detailed work. They understand their company's mission and objectives and how their role relates. They also delegate effectively if they are in a manager or team leader position.

3. Think like an entrepreneur. Great financial analysts look at their company's key financial and performance measures and think about ways to make more money, grow market share, etc. They are driven by the desire to find opportunities and threats and to locate innovative ways to answer key questions. They actively offer their thoughts to key decision makers and enjoy discussions about the business with management and their peers. People come to them for ideas on how to solve problems, and they are often included on cross-functional teams.

4. Understand concept over process. Remember the statement that effective financial analysis is more a way of thinking than a series of steps or processes? Well, all financial professionals have processes—like the monthly close process—that are part of their work routine. But some don't understand the process and follow a set of steps while being oblivious as to whether they make sense. Others understand the process and its intricacies and are able to adjust to any disturbances or disruptions. But they still don't understand what value the process adds to their company or how it fits in with other key processes. Great financial analysts understand the true concept of the process and sniff out unnecessary processes to eliminate. They ask questions like "Can we close the books one day sooner if we eliminate this step?" Or "Does anyone find value in this report that I produce and distribute each month?" Some of the biggest opportunities for process improvement occur when an analyst takes on new responsibilities since they are able to take a step back and apply a fresh look to existing processes.

5. Understand how external factors affect their company. Great financial analysts can anticipate how changes in the industry or economy will affect their business. They realize the impact of competitor and government actions, and they understand the expectations of shareholders, stock analysts, and rating agencies. They create models and scenarios based on possible outcomes of these factors and share them with management.

6. Constantly seek customer feedback and interaction. First, great financial analysts understand who their customers are: managers, peers, other departments. They ask them how they can provide better service, sometimes even using questionnaires to collect this feedback. And they seek frequent interaction with their customers to learn more about their needs. Great analysts also poll the people on their distribution lists to find out whether they want to continue receiving the analyses they send to them and whether they recommend any changes.

7. Have the ability to tell the story behind the data. Great financial analysts are truly able to take a piece of paper full of numbers and effectively communicate insightful conclusions about the key points within the numbers—in a clear, concise manner. If a financial professional wants to be an effective CFO, he or she needs this skill more than any other.

In my department, we developed an analyst test to use with potential job candidates. It shows a series of financial results for a fictional insurance company and asks the interviewee to describe what they see happening in the numbers (tell the story). We have found this to be one of the best indicators in determining whether someone is well suited for our department and our team.

Table 2: Great Financial Analysts

4 points for the qualities in which you are very strong

2 points for the qualities you possess but could develop further

0 points for those you don't have and need to develop

____ **1.** Feel bothered when analyzing issues that are not material.

____ **2.** Take a top-down approach to analysis and investigation.

____ **3.** Think like an entrepreneur.

____ **4.** Understand concept over process.

____ **5.** Understand how external factors affect their company.

____ **6.** Constantly seek customer feedback and interaction.

____ **7.** Have the ability to tell the story behind the data.

____ **Subtotal**

____ **Score from Table 1 - Good Financial Analysts**

____ **Total Score**

You are a **GREAT FINANCIAL ANALYST** if you score 30 or higher.

GO FOR THE GREAT!

Increasing global competition and the pace of change require companies to have a stronger ability to analyze, predict, and improve their financial results. Financial managers can enhance the value of their teams by coach-

Table 3: Making the Transition

Good Financial Analysts:	Great Financial Analysts:
1. Understand the concept of materiality.	1. Feel bothered when analyzing issues that are not material.
2. Are good at using spreadsheets and databases to analyze information.	2. Take a top-down approach to analysis and investigation.
3. Understand management accounting concepts and apply them to their business.	3. Think like an entrepreneur.
4. Navigate successfully through their company's financial systems and informal people networks to get data and information.	4. Understand concept over process.
5. Possess a solid understanding of their company's products, markets, and processes.	5. Understand how external factors affect their company.
6. Take the initiative to improve in each of these areas and have a continuous improvement mentality.	6. Constantly seek customer feedback and interaction.
7. Include insights and questions when distributing a report or analysis.	7. Have the ability to tell the story behind the data.

ing them to be great financial analysts, and individuals can set themselves apart if they demonstrate superior financial analysis skills. Although these skills don't come naturally for many people, they can be developed and enhanced over time.

Now take another look at your scores from Tables 1 and 2. Share your assessment with your supervisor, and commit to working on the skills that need development. Keep Table 3 nearby as a handy reference—it shows the transition from good to great. If you become a great financial analyst, your department—and your company—will become great as well! ■

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Note: Anthem, Inc. acquired WellPoint, Inc. in November 2004, retaining its headquarters in Indianapolis, Ind., but changing its name to WellPoint, Inc. In addition to being the largest healthcare company in the U.S., WellPoint, Inc. is also the largest Blue Cross and Blue Shield licensee, with health plans stretching from California to Maine.