

The Value of Financial Sensitivity Analysis in General

The financial model we have used for this problem is based on reasonable, conservative assumptions for the fixed and variable costs that might be part of conversion. It is worthwhile to consider how robust the model is – in other words, do small to medium changes in assumptions have a large impact on the overall profitability of the business opportunity?

The more sensitive the outcome – in terms of profits or cash flows – is to the inputs, the more skeptical an experienced business person would be about the whole opportunity. It is relatively easy in Excel to change one or two input assumptions – but changing more than two at the same time is much easier to do in a Tableau dashboard.

Before we get to that, try changing one assumption in Excel – in a new workbook, change the 30% transaction fee to 40%, rank by profitability and then apply the \$6,000 cutoff just as you did before. How many properties are above the \$6,000 cutoff?

Take the *Sensitivity Analysis: Measuring Cutoffs at 40% Transaction Fee* quiz to test your knowledge.