Financial Savvy / Finance for Managers

This is a generic outline. It is normally adapted to meet the specific requirements of each organisation.

Overview

The difficulty for many managers is that they cannot see the link between the decisions they make and the organisation's financial results. And if this is the case, how can we expect them to make financially astute decisions?

Our programs are designed to remove the question marks so that your managers:

- are able to balance short-term profitability with long-term value creation. (*For instance, cutting the training budget will most likely improve this year's profitability and cash flow. But how can you show that it will harm future performance. Not anecdotally but in a way that the finance director will accept?)*
- can justify investment decisions with payback over several years
- understand the real performance drivers in the business - many of which don't appear in the financial statements, such as relationships, culture, skills and knowledge.
- recognise the critical importance of cash flow and working capital
- are able to undertake what-if analyses and balance risk and return
- know how to evaluate opportunities and when necessary cut the right costs

In short, our programs will:

- improve the quality of decision-making
- enable managers to act more quickly and with greater confidence
- provide a sense of context and a greater strategic understanding
- help to develop a common results-oriented language with the organisation

The programs thus combine traditional finance with new approaches associated with value management and economic profit. Managers gain a much broader perspective and a more realistic view of business performance. As a result, managers will be more confident and better able to make decisions that increase the value of the company.

Topics Outline

- Financial statements and Sensitivity (what-if)
    - Profit and Loss
    - Balance Sheet
- The importance of cashflow
- Working capital, Fixed and Current Assets, Creditors and Debtors
- Introduction to the concept of Value Management
- Analysing Financial Performance (use and abuse of ratios):
    - profitability
    - financial status
    - financial management
    - resource management
- Performance Drivers and Intangibles – understanding the importance of non-financial factors on financial performance
- Value Management and economic profit – the real measures
- The role of the Balanced Scorecard in achieving financial targets
- Overview of Activity Based Costing
- Project Finance
    - payback period
    - discounted cashflow
    - risk analysis
- Business Planning, Budgeting, Forecasting

Each delegate receives a comprehensive workbook and several Microsoft Excel spreadsheets that will serve as a basis for developing their own models.

Extended Description

The profit and loss statement is approached from a forecasting perspective initially. This is so that managers gain a clearer understanding of what can affect the bottom-line. Instead of viewing "sales" as simply one line at the top of the statement, we build it up by considering:

- the number of customers
- groups of customers – the 80/20% rule – 80% of sales from 20% of customers
- average sales value
- promotional activity
- etc

Delegates create a spreadsheet model of a business and are able to see the impact of changes in, for example, the variables above. In this way, the profit and loss statement becomes more tangible to the delegates and not simply a column of figures. The Balance Sheet is approached in a similar manner.

Then the concept of cashflow is considered and the notion that a profitable business can fail through lack of cash. A cashflow forecast is built up by the delegates, continuing the work they did on the Profit & Loss and Balance Sheet. Using the "business model" spreadsheet that they have created, delegates gain a perspective of the whole business and how the financial statements work together.

Within this section, delegates also explore – Working Capital, Fixed and Current Assets, Creditors and Debtors. They examine different approaches to asset valuation, depreciation and off-balance sheet funding. Ratios are used to provide an insight into how the business is performing along certain dimensions. For instance, a business may be yielding high profits, but a liquidity ratio may highlight the precarious nature of the overall position should cash inflows drop or debts be called in.

Ratios are useful but they are based on accounting data. Accounting data is historical; it tells you where you have been and the ratios are a very crude indicator of future performance. The Balanced Scorecard, however, as its name suggests was a reaction to the over-reliance on purely financial measures that often present a "too-late", distorted picture (eg no recognition of key drivers such as brand and relationships) of a business. The Balanced Scorecard does not remove financial measures and objectives – it places them at the top! However, the emphasis is on:

- identifying what drives future performance rather than historical measurement
- managing causes rather than analysing symptoms

A further difficulty with ratios is the accounting classification of expenditure and investment. Advertising is an expense and immediately reduces the profit for the period and yet its benefits may not be seen until much later and tend to be cumulative – eg KitKat is an international brand because of almost a century of advertising. Ratio analysis can induce myopia!

The concept of Value Management is introduced and the importance of intangibles is emphasised. Finally, in this section, we look at how to read financial statements and see through the smoked glass of "creative" accounting.

From here we move onto project appraisal using techniques such as:

- payback period
- discounted cashflow and IRR (and the difference)
- discounted payback
- risk analysis
- accounting versus economic profit – back to value management!
- identifying and measuring key performance drivers

A 'Finance for Managers' program should not be attempting to turn delegates into quasi-accountants. It should be providing them with a broad balanced financial perspective that enables them to function better as managers. This program integrates traditional financial analysis with the latest thinking around economic profit, value management and the Balanced Scorecard. In this way, figures come alive and are imbued with significance and meaning; finance becomes a joy!

Approach

Participatory and involving with an emphasis on the practical application of skills and knowledge. Workshops, combining group discussion, case studies, video, what-if scenarios, the application of models and tools and presentations, can be supported with online learning and coaching to ensure the transfer of insights and skills to the workplace.

More information: commercial-awareness.com