

Essential financial skills for purchasing and procurement

Overview

The aim of this programme is to provide participants with the knowledge and skills to manage their purchasing and procurement activities more profitably and with a greater degree of financial understanding and confidence.

Training objectives

The objectives of this course are to:

- Provide an overview of the business economics that drive all organisations, examining the fundamental principles of score keeping and accounting, profitability and cash flow management
- Examine how financial performance is analysed (especially external stakeholders) and appreciate the benefits of a structured approach towards financial analysis
- Visit certain key relevant financial anomalies
- Explain the role of financial management and future-looking decision-making within a finance context, especially the importance and practice of capital spending and investment criteria
- Help participants put it to work – a structured approach to monitoring and evaluating supplier actual contract performance
- Explain the financial management techniques within supplier businesses – for costing, budgeting and performance analysis – and show how these can be used to the purchaser's advantage
- Facilitate better and more profitable financial decisions with suppliers
- Examine in detail current tools, trends and best practice in the financial dimension of purchasing

Audience

The entire purchasing / procurement team would benefit from this programme. Any other staff involved in making procurement decisions should also attend.

Format

A comprehensive two-day course, interspersing formal presentations from the expert trainer with case studies, exercises and tutor-facilitated discussions. The presentational style is 'fast, furious and fun'.

Special features

For maximum benefit from the course, we recommend that the trainer be given access to relevant documents and information on which to base case studies and practical exercises relevant to your organisation.

The expert trainer

Stephen runs a very successful business that specialises in the provision of tailored finance training programmes. A psychology graduate, he qualified as a chartered accountant in 1980 with KPMG and, after a period at Grandmet plc, joined a leading organisation in the provision of training for chartered accountants in practice. During this time he gained extensive experience of writing, developing and presenting programmes on accountancy and finance. He then joined Ernst & Young for a number of years as a consultant, leaving them to set up his own management and training consultancy business. He has developed, written and presented numerous seminars and training events in both the public and private sectors, in the UK and overseas. He is also the author of a number of books on finance for non-financial managers.

His very extensive client list includes such organisations as H M Revenue and Customs, Pearson, ASDA, Reed Elsevier, Black & Decker, Sky, Bowater, Sony UK, Standard Chartered Bank, BT, Canon UK, Mobil, Hiscox, Taylor Woodrow, National Grid, Next, GE, Orange and many, many others.

Much appreciated for his 'fast, furious and fun' approach, the response to his training courses is uniformly enthusiastic.

Course outline

DAY ONE

1. Getting to grips with the fundamentals – Financial Statements 1

- Financial objectives of purchasers and suppliers
- Scope and limitations of available information to assist purchasers
- Rules and environment underlying accounting and preparation of financial statements
- Pitfalls and inadequacies in the UK system
- Differing perspectives in financial accounting and business management – who is trying to measure what, and why
- Balance sheets, profit and loss accounts, cash flow statements – what they tell you, and what they don't tell you
- Understanding different business operating and capital investment cycles; 'seeing through' financial statements to the business beyond
- Sources of funding and finance – long, medium and short term
- Cash flow v profitability – the importance of working capital control within an enterprise, and how you as a purchaser can use this to your advantage

2. Financial analysis and relative performance – Financial Statements 2

- Use and calculation of key ratios – profit margins, asset velocity, return on investment
- Gearing and liquidity – earnings per share, dividend cover, interest cover
- Examination of up-to-date comparative financial performance studies and reports. Review of industry accepted performance measures and norms, together with recent trends and issues
- External investor perspective: financial pages, yields, price-earnings ratios, market capitalisation, share prices, equity, debt, shareholder value, understanding investor expectations and capital market pressures on businesses

3. Finance technical workshop

- The UK business taxation scene and implications for purchasers – how capital allowances and taxation anomalies can distort otherwise straightforward decisions
- Capitalising assets – rentals, operating leases, hire purchase and finance leases – and the financial impact (often unwanted) of these transactions on enterprises
- Sundry items: dividends, groups, intangible assets, stock valuation
- International financial and accounting issues for purchasers – Europe and beyond

DAY TWO

4. Importance and practice of capital spending and investment criteria

- Making valid future-looking financial decisions. Many larger corporations' financial decision-making is flawed, in spite of only a few simple rules to follow. A review of the criteria for acceptance/rejection of a decision – which one to use, and how do you justify or attack it?
- Procedures, people and costs: the need for, and principle of, authorisation of capital expenditure across all businesses. Capex approval process, capex financial and capex people limits, forms and arguments required
- Techniques to justify financially (or otherwise) a decision – ARR, payback, NPV, IRR; cost of capital – WACC or marginal
- Post-spend audit of authorisations – was the right decision made?
- Case study – review of recent actual capex cases, together with actual documentation, outcomes and post-approval items of relevance
- Lease or buy decision-making

5. Putting it to work – a structured approach

- How to develop a formalised and structured approach to the financial analysis of suppliers and partners, in particular:
 - First cut: have they passed the entry test?
 - Are we paying too much and / or too soon: what should we be aiming for?

- Will our business change their fundamentals: in our favour, or perhaps out of business? What would happen to them if we gave them our order?
- What else will we need to ask them?
- Analysing real-life case studies of the financial side of the purchaser / supplier relationship, using examples from manufacturing, retailing and service industries

6. Financial management techniques within supplier businesses

- Understanding suppliers' costing systems (variable / standard / full / absorption) and demystifying the jargon behind them
- Traditional aspects of costing systems – fixed, variable, direct, indirect, contribution – and budgeting techniques (zero-based and priority-based)
- Elements of control – forecasting, decision-making, monitoring, variance analysis and interpretation
- How management accounts relate to financial accounts, including annual published accounts
- A formalised approach to improving management information, the current shift from the traditional P&L with cost and variance analysis to specifically formulated and targeted information; how to create specific KPIs, selective / segmented and non-financial performance indicators
- Asking the often unanswerable question – are we doing profitable business? – and a review of modern techniques such as Activity-Based Costing, with realignment so as to identify customer / product profitability

7. How to make better and more profitable financial decisions with suppliers

- Managing the eternal triangle of volume, margin and costs; pricing and costing – setting discounts and incentives, estimating costs and selling price, coping with price sensitivity and elasticity of demand, managing the mix of volume and margins
- Getting better deals from suppliers – spotting opportunities for cost reduction from suppliers; the learning curve effect
- Supplier analysis and comparison exercise – how can we get more from them?
- Analysing actual performance of suppliers in-contract:
 - What the figures mean
 - Actual v anticipated performance
 - What future action should be taken?
- How to take costs out of a business

8. Trends in purchasing tools

- Open book costing (supplier partnering): the trend, how it is done, impact on purchasers to become business consultants, successes and failures
- What is supplier partnership? – the desire on both sides to reduce costs overall, thereby making more affordable products for customers and generating greater profits for both parties
- Confidentiality; lack of supplier expertise / ability to produce costs; apportioned costs; estimated figures; non-incremental amounts; overheads – are we paying someone else's share of all the supplier costs?
- New perspectives – incentivising the contract for both supplier and purchaser
- Risks and rewards in fixed-price contracting

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