FINANCIAL ANALYSIS

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What’s In It For You?

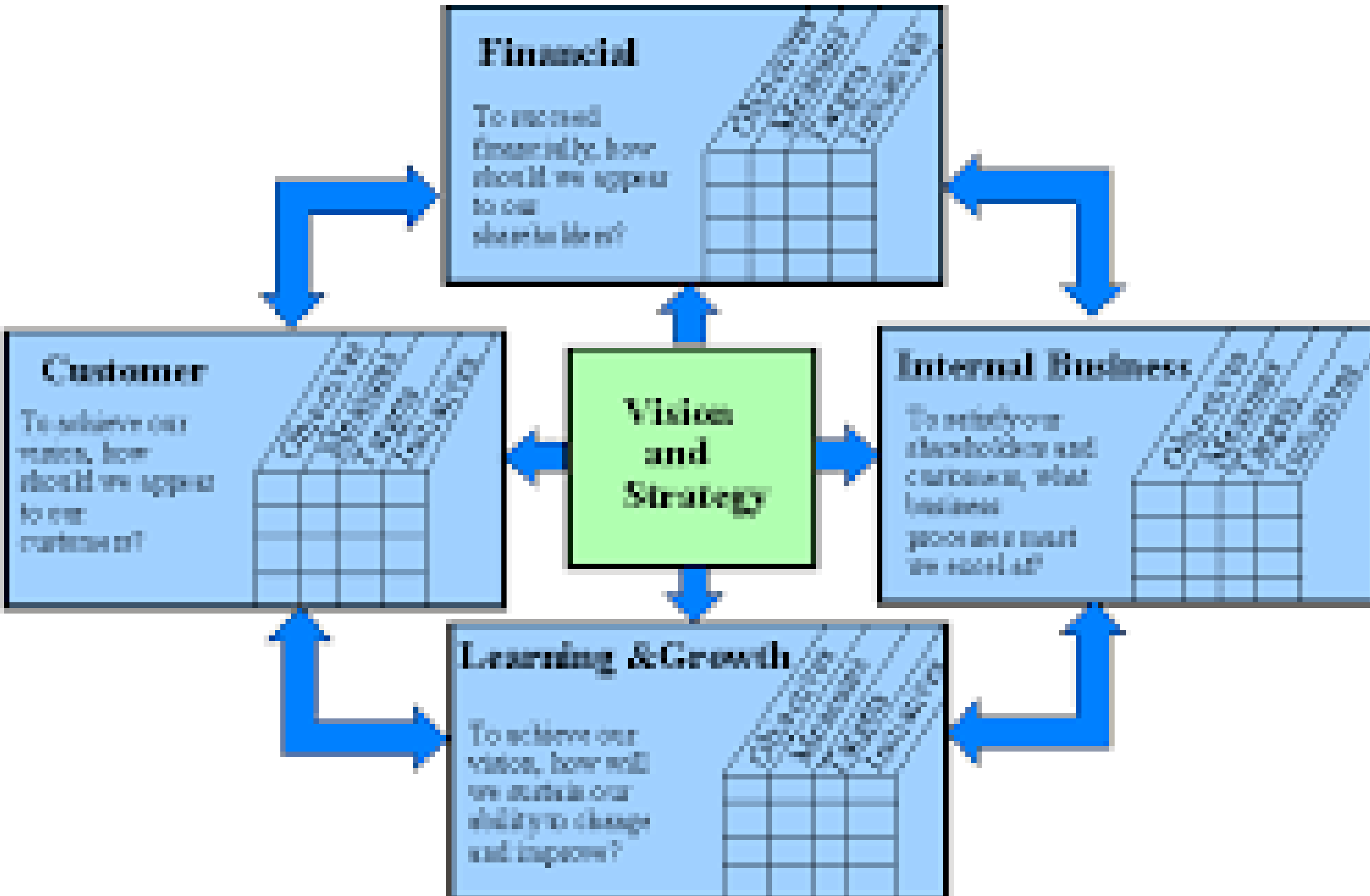
- Demonstrate a ‘**business approach**’
- **Minimize risk and costs** through informed, higher quality decisions
- **Increased credibility** with management
- Build stronger **Business Cases** for proposals
- A more **strategic** approach, aligning with business goals
- Help **ensure successful business outcomes** for customers, through improved service provisioning
- Be a **good steward** of investments in IT services

FINANCIAL ANALYSIS TOOLS TO IMPROVE YOUR DECISION MAKING

- BALANCE SCORE CARD
- RATIO ANALYSIS
- MARGINAL COST ANALYSIS
- RETURN ON INVESTMENTS
- COST BENEFITS ANALYSIS.

-Wise choices = faster, less cost, greater benefits, success
-Poor choices = slower, higher costs, few if any benefits, little success or failure

Balanced Scorecard Framework*



* Adapted from Kaplan & Norton 1996. *The Balanced Scorecard*. Harvard Business School Press. 9. Original from HBR Jan/Feb 1996, p. 76.

What is Balanced Scorecard

Balanced Scorecard is a unique management tool which outperforms the traditional methods of performance evaluation owing to its ability to give an integrated view of the organization, by incorporating both the financial and non-financial parameters. It can be used to significantly improve implementation of objectives and strategies. It provides a mechanism for controlling and monitoring the organizational progress. A balanced scorecard is a way of communication to keep the team members up-to-date, help in translating strategy into operational and measurable terms and achieve strategic implementation.

It improves financial performance by making better resource allocation, investment trade-offs and gives feedback on past performance which serves as direction for future course of action. It directs the Physical, Human and Financial resources to plans and policies which would give the maximum output.

Financial perspective

- Objective: to succeed financially
- As measured by
- Operating income
- ROI
- EVA
- Sales growth
- Cost reductions

Customer perspective

- Obejective : how to achieve the vision of how it should appear to their customers .
- No: of new customers
- Retention
- Market share
- Order time
- Customer satisfaction

internal

- Objective:to excel at having superior business processes to satisfy their shareholders and customers.
- Process quality measures
- Lead time
- Defect rate
- Scrap measures

Learning and Innovation

- Objective:to sustain the ability to change and move.
- Employee retention
- Employee productivity
- Training
- Reskilling
- Suggestion system

Ratios

- **Liquidity Ratios - Short term solvency**

  - Current Ratio - Current assets/ Current Liabilities

  - Acid Test Ratio (Quick Ratio) =

  (Current assets-Inventories)/Current Liabilities

  - Average Collection Period =

  Average Receivables/ Average per day sales

  - Inventory Holding Period =

  Average Inventory/Av. COS per day

Some important indicators of Working capit

- Working capital turnover:

  Sales / Working capital

- Current Ratio

  Current Assets / Current Liabilities

- Days Sales outstanding

  Receivables/ Annual Sales/ 365 days

- Inventory Turnover Ratio

  Cost of Goods sold/ Inventory

Key financial parameters

- Concept of unit pricing and Break even point
- Fixed cost and recurring costs
- Marginal contribution and profits
- Cost of own capital and borrowed capital
- Cash flow and PnL
- Working Capital Management