



## [OPEFIN] OPERATIONAL FINANCE

### Introduction

How does a company ensure that it has enough money to operate and grow? How do managers evaluate the financial health of their businesses? This course examines the role of finance in supporting the marketing, production, and other functional areas of the firm, while also fostering an understanding how financial decisions can create value. Through case studies, lectures, and readings, students learn the basic analytical skills and principles of operational finance.

### Objectives

Standard techniques of analysis such as ratio analysis, pro forma statements, analysis of working capital and working capital requirement are developed. Students are also introduced to the basic concepts related to management of working capital requirement and its interrelations with the firm's sustainable growth and competitiveness.

### Learning Outcomes

The main learning outcomes are:

- Analyze the financial situation of a business and assess its liquidity
- Relate the market product strategy with financial strategy
- Relate the day to day operational decisions with the firm's financing need
- Identify the main drivers of cash in a business
- Thorough understanding of the Working Capital Management: understand and measure the working capital requirements and the major sources of cash consumption in a business.
- Identify the major sources of the liquidity risk and their management.
- Estimate the sustainable growth rate of a company and the financial need of any growth strategy

## Competences

### General Competences

- To explain and discuss business situations in a rigorous, effective way using both formal and informal procedures, and providing relevant information to support their observations and conclusions.
- To distinguish and categorize relevant information effectively for business decision making.
- To formulate and evaluate business strategies in decision-making, anticipating the economic consequences of action plans.

### Specific Competences

- To evaluate the quality of the information, contained in financial reports, and to detect cases of irregular accounting.
- To estimate the operating needs of funds and choose the most appropriate financial products for financing: credit policies, factoring, confirming, terms of payment with clients and suppliers, etc.
- To design treasury management and risk coverage strategies (exchange rates, interest, prices of raw materials, etc.) through financial assets and derivatives.
- To analyze operating decisions economically (e.g., whether to accept an order, to manufacture or outsource, to withdraw a product, to close a department, to offer a discount, etc.) using differential cost analysis.
- To design cost allocation systems to evaluate the profitability of products, customers, and departments. To understand incentives and behaviors stemming from the system within the organization.

## Content

The course materials consist of cases, technical notes and exhibits for almost all cases are available in excel format on the virtual campus. Please remember that, class discussions and analysis are not limited to the PS questions.

## Methodology

Each session will involve class discussion. In some instances, discussion will be centered on lectures; in others, it will be centered on a business case. Your participation is critical to the success of the course. You are expected to read all cases and reading materials, before coming to class, and participate in class discussions.

- a) **Book.** Everything you need in terms of tools and knowledge is in chapters 1 and 2 of the book "*Finance for Managers*" (FFM), Ed. McGraw-Hill, 2012 by E. Martínez Abascal. Use them as a reference any time you need them... and know them by heart. Estimated time 3 hours per chapter. You will find the exhibits in Excel format in his blog <http://blog.iese.edu/martinezabascal/books/>
- b) **Cases.** After studying each note, we will apply that knowledge to the cases. You should be prepared to dedicate 2-3 hours per case.

- c) **Preparation sheet.** In order to save time, I recommend you to follow closely the preparation sheet of every case.
- d) **Exhibits, supplements to do and done.** To facilitate the calculations required (sometimes many) I have included the “supplements to do”. After doing the calculations, you may check them with the “supplements done” after each class, and identify errors. The supplements and exhibits are available in excel format online.

## **Evaluation**

Grades will be based on class participation (50%), and the individual exam (50%).