Financial training
For non financial staff

ATTAINMENT TRAINING

The financial training specialists

Feeding the sheep – Return on Capital Employed

Sitting in my office recently I was watching the local farmer rounding up the sheep in the field opposite my office window. He arrived with his quad bike and sheepdog, and it was lovely to watch man and dog in action. Without the quad bike I could have been watching hundreds of years of history.

But in most companies such a low tech approach would be sneered at. “How can we mechanise or automate the process? How can we bring it up to date?”

Return on Capital Employed (ROCE) is a key financial measure, and it compares the profitability of a business with the investment in that business. If a hotel costing £2m turns an annual profit of £100,000, the profit is 5% of the investment. This is ROCE. At 5% I might prefer to put my £2m into the bank!

Expensive high profile and leading edge systems can be very exciting, but do they give an appropriate return on the investment? I am not advocating abandoning investment, but we need to be sure our investment is giving an adequate ROCE. Is it paying for itself, or are we being led astray by an exciting idea?

ROCE can be improved by reducing the cost of the investment, or by increasing the profitability of the project. In some cases the low tech approach may give a better ROCE.

Find out what ROCE your organisation expects to deliver, and whether your department’s projects actually deliver it.