

Aurora textile essay sample



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Introduction

Aurora Textiles is a textile company that specializes in hosiery, knitted outerwear, woven, and industrial and specialty products. They develop finished fabric to meet specific needs as the leading yarn manufacturer established in the 1900s. However, both Aurora and the whole U. S. textile industry have been struggling financially due to globalization and other external factors. Aurora itself may not have responded quickly enough to the deteriorating business environment and has caused their net earnings and concerning ratios leaning toward the negative side. The company needs to either make crucial amends with new investments or stay with its current situation.

Problem #1

How has Aurora Textile performed over the past four years? Be prepared to provide financial ratios that present a clear picture of Aurora's financial condition. ***Refer to Appendix 1 for financial ratios***

Aurora's financial performance during 1999 to 2002 was quite discouraging. Aurora has both domestic and international components to its market sales, but 90% of its revenue came from domestic textile market. The top two leading profitable gains were yarn and knitted-outerwear revenue source for Aurora. However, with rising competition all around the world of low production costs as just the start of all their problems, their performance were mostly in the downsides. These past four years, Aurora's turnover ratios are in concern and have a downward trend. The days' receivable and inventory outstanding takes much longer to collect each year.

In addition, the debt management ratios show a fast rate increase to leveraging in the company. By paying attention to their escalating numbers in long-term borrowing, debt-to-equity, and equity multiplier, we can see that the company isn't managing their money effectively. Moreover, by averaging out all four years, their net sales have declined by 15%. The profitability ratios, such as profit margins, ROA...etc. never left the negatives. Even though raw material costs are declining, conversion costs increased showing that Aurora needs to take drastic measures on how to lower costs in order to profit.

Problem #2

List the factors affecting the textile industry. What do you think is the state of the industry in the United States? How should you incorporate the state of the textile industry into your analysis? Why should anyone invest money in the industry? The steady declines in sales and various undesirable aspects from the company led to 4 closes of manufacturing facilities from management decision. Due to globalization, U. S. government trade policies, cheaper production costs overseas, and customer preferences and fads, the U. S textile-mill industry as a whole encountered dramatic change. Aurora took a major hit when the search for cheaper production costs moved the industry to Asia since the company's manufacturing base was kept in the U. S. Furthermore, apparel makers and yarn makers started to move their production abroad, following with aggressive exports from foreign textile manufacturers.

Customer preferences also played a role in the changing industry as it shifted from mass production to a more customized manufacturing market.

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This modification allowed most of the communications and needs to be done in a shorter time frame. Information technology also contributed a disadvantage due to liability issues with customer returns for Aurora. For instance, if something was sold for \$30 at a retail store plus a corresponding a \$5 charge of Aurora yarn gets return, the company would have to reimburse the full retail price. Another affecting factor would be the new free-trade policy implemented through the North American Free Trade Agreement (NAFTA) and the Caribbean Basin Initiative (CBI). This created an even bigger problem by encouraging more trading between other countries, lowering prices in the U. S. market, while competing against cheaper labor, lower environmental standards, and government-subsidized operations.

The industry is at a state of deterioration and suffered consecutive losses because of such business environment. During 1999 to 2000 in the U. S., 150 textile plants were closed and 200, 000 industry jobs had been lost. Despite cutting a good amount of SG&A spending to continue operations, other financial environments still arose and expected to come for Aurora. Based on the future of the textile industry, most research analysts still believed that it would grow around 2%, with prices and costs increasing at a 1% inflation rate. On the other hand, even with a possible growth rate, numbers still doesn't look too good based on the financial analysis and that difficult financial environment was expected to continue. In this type of situation, when investors still find faith in potential growth toward the industry, it'd be toward the four-segmented market: hosiery market, knitted outerwear, woven, and industrial and specialty products.

Hosiery market, which accounted 43% of Aurora's revenue, had attractive margins with some of the most profitable hosiery companies in the world by producing heavy yarns. Cotton yarns were used for white athletic socks in the U. S. and nearly half of U. S. population owned socks made with Aurora yarns. Not only limited to Aurora, but the entire textile industry, the hosiery market defended against global competition. The bulkiness of the products and heavy yarns successfully discouraged foreign producers due to its costly transportation. Additionally, this type of production was highly automated to a lower labor costs in the U. S. even compared to other Asian manufacturers. Other investments possibilities toward the different segmented-market may include knitted outerwear, which had a 35% sales revenue.

However, keep in mind that having high percentage revenue doesn't necessarily mean that it will be a positive long-term investment idea due to a constant price pressures on outerwear yarns. Woven, on the other hand, which only account 13% of Aurora's sales, production is mostly foreign, and majority of the weavers continued to purchase domestically due to supply risks. This might have an excellent opportunity for growth if it expands down the road. Although industrial and specialty products contribute only nine percent of revenue, it also has the most attractive and highest growth margin. This market segment doesn't have a high volume business, but it produces medical supplies and protective clothing.

Conclusion

Inclusively, the textile industry in the U. S. is at a definite state of decline. Most of the analysis reports are in the negatives of a downward trend. Furthermore, with many external factors affecting the industry globally, such <https://assignbuster.com/aurora-textile-essay-sample/>

as cheaper labor costs, just a sight of growth would be meaningless with other cost deficiency and competitions around the world taking over.