

Science and technology corporation

Technology



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Quite surely, the SCOFF had a number of accelerators or performance influences that lulled his projections such as: 1) Resolved printed circuit board segment (in-circuit) tester quality problems; 2) Introduction of new tester In mid-1 986; 3) Substantial progress In VILE test market with major program WI US Dept of Defense; 4) Large customer base, extensive software, broad line of testers, dominant share of printed circuit board test market, fair position in VILE testing.

More so, the Industry was foreseen to grow stronger as, 1) Electronics Manufacturers automate their testing due to high labor rates; 2) Move of manufacturers to outsource their testing to ATE companies; 3) Dramatic improvement in testing technology and changes in devices to be tested Increased sales of Dates. However, these accelerators shouldn't have been handled In stride. The fact that there are still a number of aspects of SST that lagged behind its close competitors should not become pressure points for the company to be very aggressive in its projections.

For instance, it Is true that Sect's market share is 31%, 2nd already to Terabyte but it has the lowest Profitability (ROAR and ROE) among Its competitors, More so, It has the ingest recovery time in terms of earnings and has the widest range of Stock Price which makes it more vulnerable to fluctuations and most difficult to forecast. Although it is highly liquid (highest current ratio), it still has a high risk of exposure. (See Attachment 1 for Benchmarking Analysis).

Multifaceted Issues such as mix of business shifting towards more complex systems requiring intensive research and development spending, short

product life cycle, rapid technology obsolescence and fast growth of competitors with more sophisticated technology were not taken into count. In fact, internal decelerators that came inevitably as early as 1984 was not quite handled cautiously. Some of these are: 1) Increased number of employees and Plant Capacity in anticipation of stronger sales growth than the 10% realized. 2) Increase by 32% in R&D Spending due to market opportunity and pressures in competition (16% of sales). 3) Significant problems with a new product in the largest division resulting to expensive recalls and repairs. 4) Major manufacturing problems with VILE which upshot losses of MM in 1984. The failure to consider these issues led the SCOFF to assume a large sales growth from 1985-1989. These assumptions would lead OFF the forecast by needlessly expanding capacity and increasing inventory in anticipation of strong sales.

Other than the strong presence of Fairchild and Tektronix, the SCOFF missed to consider that from 1985, the company will be facing tougher competition with the entry of five more competitors. Further, without a very solid technological edge Sect's prices would soon find stiff competition if the others could find a more efficient way to manufacture the products. Parenthetically, Sect's Profitability (ROAR) for the past 5 years averages 4%, however, its aspiring projections doubled for the next five. More so, its Return on Equity increased from 6% in 1984 to 17% in 1989.

The SCOFF is obviously running squarely after its competitors. He failed to take into account the impact of COGS, R&D Expenses and other Apex which takes out the lion's share of the Sales Revenue. The assumptions made for COGS at flat rate of 41% of Sales failed to consider the 1980-84 performance

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of about 46%. SST is not performing well with expensive product recalls and divisional losses due to major manufacturing losses. These major operational efficiency issues affect so much the cost for it not to be considered. See Attachment 2 for Projections Analysis) As for the Asset Turnover, they performed their worst in the current year (1984) when the projections were made. Although historically SST has a good turnover rate of 1.24, it should be careful in projecting actual growth especially if these projections are hedged not because of grabbing market share of increasing in either base or new products and services, but because of an increase in capacity to accommodate anticipated strong orders as a result of overly optimistic sales forecast. RECOMMENDATIONS: 1 .

Prepare a forecast to show three categories of business condition projections/ forecast such as OPTIMISTIC, NORMAL and PESSIMISTIC. In this way the president would be able to consider on all possible scenarios before making a decision. Also all optimistic projections must be accompanied by supporting operational efficiency improvement plan, technologies advantages and price competitiveness. 2. Adjust formula for forecasting to take into consideration the impact of fluctuations and the influence of the latest financial result or business incidence in 1984. . Determine quantitative impact of accelerators and decelerators in order to analyze and plot realistically into the forecast. For instance, the impact of new entrants into the forecast is -20% and the value of new investments to VILE testers is +35% and so forth. The accelerators should have a positive impact to the forecast while the decelerators will impact negatively on it. The net effect is the overall performance influencer that will make up the forecast.

After identifying the net impact to the satirical baseline figures (1980-1984) of these influences, any gap to the target, if any, should be closed using gap-closing measures. For instance, if the target in 1989 is 843 million in sales and after adding accelerators and deducting decelerators, the outlook is only 800 million, then gap-closing measures should be identified to mitigate the cavity and respond to any issues arising into performing based on target. Forecasting is not something that can be derived out of a silver platter or from an enigmatic staring at the ceiling to get the most reasonable projections.

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It involves a high degree of mathematical and scientific method to come up with a more realistic outlook based on various conflicting information around. It encompasses the has considered both internal and external forces affecting these projections. Finally, it necessitates an experienced planner to come up with the right prognostications without fear of being too pessimistic at the expense of suppressing potential growth; nor being too optimistic at the cost of investing too much and be frustrated in the end.