

Merill electronics case assignment



**ASSIGN
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Merrill Electronics Corporation Case Context Merrill Electronics Corporation, founded by Thomas Miller in 1950 and a major distributor for the Global Electrical Company (GEC), is one of the largest manufacturer of electrical and electronics products for consumer and institutional markets. Over the years, it has expanded its operations with its noncompeting lines of electrical appliances, records, compact discs, and cassettes and through importing from and distributing to Taiwan and Japan. However, Merrill is faced with steadily severe declining margins in the electrical distribution business in recent years.

This worsens its poor financial condition and inability to meet payments to suppliers and the current \$3 million debt to its principal bank. Problem Statement Merrill needs to evaluate the sustainability of its current market strategy to be at par in the electronics distribution business and consider if it can stay in the business or not. As Merrill's new president and largest shareholder, what is the necessary action that Patricia Miller should do that would be the most effective and beneficial to the company and its shareholders? Should she choose to retain interest in the company or sell out?

Methodology 1. Analyze the financial statements highlighting operating efficiency, profitability, financial leverage, and liquidity. Do a trend analysis and compare the company ratios to its industry peers. 2. Evaluate the current strategy implemented by Brown. 3. Suggest and test the feasibility of other alternative strategies to maintain healthy margins and levels of profitability. 4. Recommend the best course of action to ameliorate the

current problem. Analysis Framework The alternative courses of action shall be evaluated using cost-benefit analysis.

I. Areas for Consideration Suitability to the Business Environment Merrill's suitability to the industry it belongs should be considered for this will be the basis in deciding for the perfect strategy Merrill should partake. These external factors include competition, economic condition, market health and market share, and customer base. Market penetration This should be considered specially that Merrill belongs to a competitive market. It should consider market penetration in terms of its depth of sales of its particular product division.

This could involve cutting prices or discounting on its obsolete products, increasing advertising and promotions, obtaining better warehouses for their products, or innovative distribution strategies and efficient delivery system. Because the deeper the market penetration, the higher the volume would be in product sales. Sustainability of the Strategy Whether or not a new strategy shall be implemented, a strategy shall depend on its general sustainability until future uses. A sustainable strategy is a strategy that can be used in the long-run and adaptive to internal and market changes.

Failure to fulfill this prohibits the effectiveness of any alternative strategy. Financial Ratios- Operating efficiency, profitability, and turnovers will be evaluated and strategies for the firm will be tailored with the current state of the company's books. These ratios guide the company in the assessment of its current and projected condition. Implementation of the Suggested Action The cost of change and the time needed to implement a strategy should be

taken into account. Monetary and opportunity costs will be evaluated, and the most cost-effective in terms of these shall be the foremost strategy to consider.

II. Alternative Courses of Action and Evaluation

1. Stay with the current strategy implemented by Brown.
2. Alter the strategy of Brown and implement complementary actions.
3. Register the company and make the stocks publicly-traded.
4. Sell out the company to reduce losses if ever strategies fail to work out.

General Overview: Financial Ratios | As seen on the first table presented on the Appendix to this case, the current and quick ratios are below average as backed by the bloated debt ratio (more asset is funded by borrowings than by internal fund generation).

Asset turnover is also below par that might have been caused by the company's operating inefficiency as seen by its very long collection and payment periods as compared to its industry peers. On the other hand, ROE and gross margin are above industry means that is one of the indications of the short-term effectiveness of the current strategic plan.

Alternative 1 | Stay with the current business strategy

Suitability: The current strategy of doing a high-volume business has been proven useful as seen in the recent sales growth experienced by the company. On the other hand, expenses are ballooning and inventory management has been suffering.

There are expected losses because of the accumulation of more than enough inventory and obsolescence of previous stocks.

Sustainability: It is very uncertain if the current plan will be carried over in the future because banks refuse to increase and extend the company's current credit lines. If the

company fails to fulfill all the requirements set by its banks in order for it to gain more funding, the plan might be derailed prematurely. Implementation: The costs of the recent changes have been internalized but additional cost in financing might be needed to stay with the current business configuration.

Also, opportunity costs of funds taken away to build up inventory levels might accumulate in the future and opportunity costs of other fruitful investments might take place if the current system is not streamlined further to address these issues. Alternative 2 | Alter Brown's strategy and implement complementary actions This alternative will capitalize on the good things the current strategy has and implementation of changes that can solve the problems comprised of increasing bad debts, volatility in receivables and inventory, increasing needs for funds, etc.

To control for the large influx of inventory, slashing some of the products that the company is currently selling might be needed. The Vortex division must be monitored very closely to ensure that it can still be profitable in the future or not. The Small-Appliance Division is now a candidate for divestiture because of quality issues and losses because of huge carrying costs.

Implementation of a more efficient receivables management must also be spearheaded if the current strategy is to be continued.

More funding from any optimal provider must be sourced out because the strategy requires more money to be sustainable. Also, it could improve customer and supplier relations to ensure that the quality of the products is high and the inflow of cash (from receivables) is continuous and efficient.

Suitability: This would be a very effective choice if ever it is implemented

because this addresses the need of the more competitive business environment. Also, the current strategy will be immortalized if its flaws are remedied by the complementary actions that are supposed to be implemented.

Sustainability: It can never be ultimately sure if this strategy could last until the future, but if the changes can be implemented sooner rather than later, it might succeed in doing so. The only problem would be the sources of financing. If the current banks of Merrill refuse to give extensions in credit lines, and if the company is not able to get funds from alternative sources, even the tailored strategy will fail to be sustainable. **Implementation:** The costs of the changes outlined above will be high because of uncertainty of funding sources. Time and opportunity used in implementing his strategy would also make it a very risky move. If Patricia Merrill decides to take these risks, huge gains or huge losses would be the most imminent outcomes and it can decide on the ultimate future of the company. **Alternative 3 | Register the company and make the stocks publicly-traded** **Suitability:** This strategy best suits to answer the Company's short-term problems. The cash inflow will provide the company a means to meet the costs of the larger inventory and receivables, to extend credit lines, to streamline operations, to reconcile its relations with its suppliers and improve inventory turnover and receivables collection.

Sustainability: This is surely not the ultimate resolution that Patricia Merrill is looking for. The inflow of cash will allow the company to have the financial leverage to solve the current problems of Brown's strategies. This means that, it can only remedy the current problems but further strategy

improvements are needed for the company to continue on its operations.

Implementation: To implement this solution, the company needs to meet certain requirements. One, the company must have a good financial history otherwise this alternative's effect will be compromised and limited.

Two, the company will require costs (i. e. Ads, Meetings etc.) and time, resources which the company doesn't have, this will put further pressure in the company's already stretched credit lines. Lastly, the company needs to use the gathered funds effectively to meet its needs otherwise trading the business publicly will just be a waste of time. Alternative 4 | Sell out the company to reduce losses if ever strategies fail to work out Suitability: This alternative can do a lot to solve the company's current problems.

Firstly because the company will have access to the buying company's resources giving them the way to answer their problems (i. e. streamline operations, shoulder debts etc). Secondly, good synergy and the potential buying company's good leadership and good strategies may increase effectiveness. On the other hand, even if the company is bought, the buying company will still have to face declining market share and competition, furthermore, if synergy and leadership of the buying company is faulty, the company will be in worse difficulty than it is now.

However, an upside to this is that no matter what happens, Merrill's family no longer need to burden themselves with this trouble. Sustainability: Sustainability will depend entirely on the potential buying company's plan and current situation. They may choose to sell the company piece by piece, assimilate it with in its ranks or run it as autonomous business. And so, how

the company's problems will be solved and how the company will adapt to changes is entirely on a case to case basis. In whatever case, the sustainability relies entirely on who Patricia Merrill decides to sell her father's company to.

Implementation: To implement this strategy, the company will first have to spend money on advertising its business as a solid investment venture (i. e. meetings & ads). Secondly, it should choose the buying company with the offer that best suits the company and the shareholders. This is undoubtedly the least costly strategy. Recommendation and Implementation From the Cost-Benefit Analysis done for the case, it can be clearly seen that a combination of the second and the third alternatives are needed by Merrill.

To implement the strategies, Merrill should first capitalize on advertising and getting a good record to entice the public to buy the shares that they would eventually offer. Second, it should further improve on its top three division earners namely, PC, Records, and Hi-Fi and Electronics. Quality of the products offered by the aforementioned divisions must also be ensured to reduce warranty and replacement costs, which will supplement the relations of the company with its customers and will allow it to penetrate other customer groups.

Third, the company should consider divesting some of its divisions that are not profitable anymore (or worse, those that are incurring losses). These divisions are the Small-Appliance and Vortex. Merrill should put these product lines on probation and terminate them when these do not improve in the future. Then, it should improve its relationships with its stakeholders and

increase delivery speed (to retain current and gain new customers). It should also speed up (or at least be more efficient) its collection of receivables because past-due accounts have evidently increased from May to June.

Inventory levels have been increasing as a result of the addition of new product lines but Merrill could implement Just-In-Time inventory management to lessen the losses from obsolescence and overstocking. Lastly, it should control the bloating operating expenses for the company to be more sustainable in the future. If these recommendations are implemented, with control and efficiency, both the short- and long-term problems of the company will be remedied.