

Financial analysis of office depot

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Part 1 Background introduction for Office Depot Office Depot is a supplier of office products and services. The company's selection of brand name office supplies includes business machines, computers, computer software and office furniture, while its business services encompass copying, printing, document reproduction, shipping, and computer setup and repair. An S; P 500 company, Office Depot generates revenues of over US \$14 billion annually and has 42, 000 employees worldwide. It is headquartered in Boca Raton, Florida. Office Depot is one of the biggest office supplies retailers, but its sales revenue decreased dramatically 26% from 14. 5 billion dollars in 2008 to 10. 7 billion dollars in 2012.

Part 2 Macro-level systematic analysis for Office Depot This financial analysis report of fiscal year 2012 will adopt the macro-level and micro-level systematic method toward the development of office depot. The stakeholders related to OD should pay close attention to these two parts, in order to adjust the strategic and tactic actions upon office depot.

First of all, from the perspective of macro-level, the SWOT analysis is suitable to be imported. Details as follow:

Strength 1. Strong Network of Retail Stores Office depot has 1131 stores in North America and 546 stores in other countries. The network of retail stores distribution of the American three biggest office supplies companies as below: 2. Large Range of Products and Services The range of products and services selling distribution of the American three biggest office supplies companies as below: 3. Strong Marketing Avenues OD has three main marketing avenues which are online B2B/C, retailing terminal and key

account. Its distribution centers operation efficiency is higher than the industry average, for 36 DCs has been supported 10.7 billion.

Weakness

1. Weak Competitive Performance More and more consumers are utilizing more technology and purchasing less paper, file storage and similar products instead of the traditional office stationary, leading the usage amount of office supplies declined. The technical products sales revenues accounted for only 20.9% of all, the ratio were 44.6% and 40% compared with Staples and Office Max respectively. 2. Weak Financial Performance A significant number of its vendors demand accelerated payments or require cash on delivery, such demands could have an adverse impact on its operating cash flow and result in severe stress on its liquidity. A downgrade in its credit ratings or a general disruption in the credit markets could make it more difficult for it to access funds, refinance indebtedness, obtain new funding or issue securities. 3. Weak Operating Performance Sales per retailing stores was average 6.4 million, the level stayed behind Office Max and Staples. The gross profit margin averages 30% while the operating profit margin almost 0%.

Opportunity

1. Expand online services As more consumers transfer their purchasing place from physical stores to online, OD could enhance the online selling power. 2. Acquisitions Staples's revenue was twice the OD's revenue, OD could merge with Office Max in order to compete with Staples at the same level. In addition, after that the alliance could integrate the source effectively and efficiently and cut more operating cost. 3. Emerging markets and expansion

abroad Although the economy of America was sinking into mud, the emerging markets like the Golden Brick countries have much bigger purchasing power compared with American domestic market. OD can establish more physical retailing stores and online business with the support of its supply chain ability.

Threat

1. Economic Crisis lead to declines in business and consumer spending One of OD's largest U. S. customer groups consists of various state and local governments, government agencies and non-profit organizations. The shadow of economic crisis not yet slaked till now, the financial deficit made the U. S. government cut various budgets which including the office supplies budget. The effect of economic crisis is same to the corporations in America.
2. Intense Competition OD face competition from other office supply stores that compete directly with it in numerous markets. This competition is likely to result in increased competitive pressures on pricing, product selection and services provided. Many of these retail competitors, including discounters, warehouse clubs, and drug stores and grocery chains, carry basic office supply products. Some of them also feature technology products. Many of them may price certain of these offerings lower than OD does,
3. The development of IT lead to the concept of Non-paper office activity Less paper, less ink. This environmental concept will reduce the usage amount of traditional stationary. Indeed, more and more new generation of staff practice with the help of information technology.

Part 3 Micro-level systematic analysis for Office Depot From the perspective of micro-level, the stakeholders related to OD should pay close attention to <https://assignbuster.com/financial-analysis-of-office-depot/>

its financial data, in order to adjust the strategic and tactic actions upon the performance, efficiency, risks and liquidity factors of OD. The table below demonstrates the various financial ratios which the principle stakeholders concerns:

1. Performance

From the ratio charts above, it is obviously that the performance of OD is badly enough comparing with its competitors and industry. The ROE and ROA of Office Depot were both lower than the industry average level, but also below 0, reflected office depot had worst profitability. The investors should be cautious to put stock in Office Depot. The GPM level of OD was higher than Office Max, Staples and industry average, however, the OPM of OD was lower than OM, Staples and industry average, this situation reflected the operation cost of OD was definitely higher than his competitors and industry average. As a result , the management should make the operation activities more efficiently and effectively, for instance, consider closing idle stores and to lay off employees, etc. Moreover, the operation management should focus on the cost cutting. Impersonal speaking, the tax authority should pay attention to OD's financial data to identify if OD have over-cooked its financial statement.

2. Risk

The debt ratio of OD was higher than industry average mean OD will be more likely of indebtedness and has more financial leverage. The risk that OD face will be greater.

3. Efficiency

The debtor age and creditor age of OD were decreasing and increasing respectively from 2008 to 2012 reflects OD great pressure in cash flow safety. The debtor age decreasing can lead to loss some key customers, therefore its market share will be negatively affected. The creditor age increasing can lead to affect its suppliers engage in collaboration. The inventory turnover of OD was below the industry average which means its inventory structure has severe problem, existing large proportion of dead stock. Moreover, some of its retailing terminals have ineffectively selling power, and the DCs amount may be not enough to support its sales.

4. Liquidity

The current ratio and quick ratio were also below the industry average and its competitors. The investors, suppliers, owners and management should consider its debt paying ability. In other words, its liquidity was worse.

In conclusion, Office Depot had many financial problems. In order to improve it, OD should try every means to cut its operating cost. In this respect, Office Max did better than OD. OD can seek conservation to discuss merging with OM, to complement each other's advantages. Analysis method hypothesis:

It is very hard to find the complete financial ratios of office supplies industry, so I integrated the financial data of the American's three largest office supplies companies into industry average, in order to avoid the benchmark changing.