

Riordan manufacturing business analysis

[Business](#), [Manufacturing](#)



Riordan Manufacturing, Inc. Business Analysis Learning Team B BSA 500
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Manufacturing, Inc. Business Analysis * ****INTRO GOES HERE – DANA WILL
WRITE IT AS WE NEAR COMPLETION History of Riordan Riordan
Manufacturing Inc. is a leading global manufacturer of plastic injection
molding components. Some of the components that it manufactures include:
plastic bottles, fans of all sizes, heart valves, medical stents, and other
custom plastic parts. Riordan is focused on high standards, long term
customer relationships, innovation, and growth.

The company was originally founded in 1991 by a professor of chemistry, Dr.
Riordan, as an outlet for commercial applications for the high tensile
strength plastic substrates that Dr. Riordan had developed. Riordan
Manufacturing is now a subsidiary of the Fortune 1000 enterprise, Riordan
Industries. The company is headquartered in San Jose California, but also has
facilities in Georgia, Michigan, and China. Current large projects include the
design stage on an innovative bottle in the shape of a pyramid, and the proof
of concept stage on a CardiCare heart valve.

InformationTechnology(IT) infrastructure, serving 550 employees, consists of
three Wide Area Network (WAN) lines originating from the corporate
headquarters in San Jose (125 employees) to the three manufacturing plants
in: Michigan (130 employees), Georgia (45 employees), and China (250
employees). Modules Accounting Modules Riordan Manufacturing's corporate
office has integrated ERP software designed purposely for plastics,
processors, and process and assembly manufacturers. During acquisition in

Georgia and Michigan, the finance and accounting software's compatibility issue was not addressed.

For this reason, Georgia and Michigan have applications which are not compatible with the current financial system. The following is a list of additional modules that should be connected to the accounting system:

Inventory Modules The Inventory module will help Riordan Manufacturing with the physical management of their stock (until used up or sold). It will perform a sound cataloging procedure by assigning item numbers that the accounting system can process.

Asset Management Modules Asset Management will help Riordan Manufacturing with physical maintenance, tracking of assets, and financial management.

Physical maintenance includes the asset location, condition, and the assignment of asset management to specific individuals.

Cash Management Modules Cash Management will help Riordan Manufacturing manage and control the cash cycle. It will ensure liquidity and enhance profitability. Benefits of this module include multi-currency capabilities, cash balancing, bank reconciliation, and cash forecasting.

Web Applications Modules Web Applications will help Riordan Manufacturing in many ways. Customers and salespeople alike can enter orders through the web.

This “real-time” web configuration will shorten the order cycle, and enhance customer satisfaction. Employees of Riordan will be able to use this medium for expense reporting, supply requisitions, and communication between employees.

Multiple Currencies Modules Since Riordan has a joint venture with China, the Multiple Currency module will be of considerable help.

Financial transaction with China will be recorded in the sub-ledgers and converted into the “ functional currency” by using current exchange rate information. The transactions will be recorded and maintained in the accounting data.

Riordan’s “ functional currency” will be in US dollars. Payroll Modules The Payroll module will apply human resource data to salaries and benefits and determine the amount of pay and how to get the disbursement to the employee. It will take into consideration national tax codes and worldwide regulations. The system can also track and do calculations for data such as sick time, leave of absence, and vacation. Travel/Expense Reporting Modules Because Riordan has multiple offices within the United States and a joint venture with China, travel budgets and expense reporting of trips can be documented into the travel/expense reporting module.

Riordan employees and management can use this module to document information such as cost of plane tickets, vehicles, food, and supplies while employees are traveling. General Ledger Modules The accounting process begins with general ledgers. Therefore, this module will help organize Riordan’s financial reports from the first steps. This will make information readily accessible and more easily processed. Accounts payable/receivable Modules Like the general ledger module, this module will help organize Riordan’s accounts payable and receivable, which will better organize their balance sheet. Systems to be connected to the Accounting System

Sales and Marketing All of the sales to past customers have been annotated using written methods. Riordan has requested that all past sales records,

made up of diverse databases, paper files and microfiche be inputted into a Customer Relationship Management (CRM) system. The information recorded in these records is largely made up of information that can easily be entered into a CRM database for easy distribution and reproduction between departments. The CRM package will also benefit Riordan by providing the customers access to a front end server (extranet), to be able to create accounts, check account status, pay bills and place orders.

Having a single CRM database will provide sales personnel or customer service representatives with the ability to quickly check customer accounting information without having to search through various paper work, microfiche and out of date or inadequate databases. Internally, employees will be able to keep track of various vendors who have a proven track record of discounts, reliable shipping and product innovation. In the past, individual sales employees have managed customer records, and no standard of data recording has been established.

Operating in this manner doesn't allow for a cohesive sales team, which is going to be critical for the new team selling approach being implemented by Riordan. A standardization and consolidation of customer records needs to be implemented for the sales team to be more successful in the future. The CRM will consolidate the sales team into one unit rather than individuals servicing specific accounts. Customer relations will be proficient due to the ability of multiple sales personnel being able to acquire and update account information rather than a single person maintaining individual account records.

Not to mention when a sales person is not available due to health, personal issues or vacation, another employee will be able to provide information and support. The CRM will then be connected to the Finance & Accounting System. Human Resources Riordan Manufacturing's Human Resources system should be connected to its accounting system because the Human Resources department handles the employees' salaries, benefits, employee recognition programs and training programs. These programs do not bring in revenue, however, they are considered costs for the company.

Accurate bookkeeping of these activities and incorporation of the figures into the accounting equation is crucial to painting an accurate financial picture of Riordan. Operations The Operations system should also be connected to the accounting system since it outlines inventory, supply and production.

Inventory is part of a company's assets, which is a core part of the accounting equation. In determining its financial state, Riordan needs to have knowledge of its inventory, how much it costs to obtain, how it is used and the cost of operating, or manufacturing products with that inventory.

Just like assets are a core part of the accounting process, Operations is a core part of Riordan's process. Legal Legal systems need to be connected to the accounting system in order to maintain legal watch over the system. One example of how Legal could benefit from a connection to the accounting system is that it would be able to monitor inventory and approve where Riordan products are being sent. This would make sure export laws and restrictions are being met.

Legal can also interact with Human Resources, Finance, Sales, and Operations over the accounting system to make sure that all aspects of the legal requirements for corporate accounting are followed. Reports and policies could be put in place by Legal in the system to ensure integrity and ethics. Information Technology IT has many reasons to be connected to the accounting system. Ordering, policy implementation, monitoring, and support are just a few of the aspects of business that would benefit from the Information Technology system being connected to the accounting system.

Monitoring, policies, and support are a huge reason for IT to be connected. Accounting is one of the most important aspects to running a business. IT needs to carefully monitor and support validity and integrity within an accounting system as well as ensure proper policies, established in conjunction with legal, are in place. Income Statement Analysis In reviewing the Income Statement for Riordan Manufacturing, there are some concerns on cost expenses that managers will need to adjust. Even though the sales revenue from 2004 to 2005 has increased 10. % from \$46 million to \$50 million, a combination of direct cost of goods sold and operating expenses has caused the net profit to decrease during the same period. The direct cost of goods sold increased 12. 2% from \$37. 5 million to \$42 million. A possible cause for this increase may be that Riordan may have abundance of inventory on hand as a result of ordering above the ordering point. Despite the high increase in cost of goods sold, the gross margin still increased, but by only 2. 6% from \$8. 6 million to \$8. 8 million. In addition to the 12. % increase in cost of goods sold, the operating expenses also incurred by Riordan Manufacturing increased 8% from \$5. 3 million to \$5. 7 million.

These two big increases in costs incurred compared to the small increase in the gross margin proved to be too much, resulting in a decrease in profit before interest and tax expenses. The profit before taxes and interest expenses decreased 6.3% from \$3.2 million to \$3 million. In addition to the negative figures, there are some positive figures to bring into the mix. Despite the profit before taxes and interest expense decreasing by 6%, the net profit only decreased by 1.7% from \$2 million to \$1.95 million. The reason for the smaller decrease in the net profit was a 13.5% decrease in non-operating expenses including tax and interest expenses from \$1.3 million to \$1.1 million. The main focus to increase profits from 2005 to 2006 would be looking into decreasing the cost of goods sold and some of the operating expenses while continuing the trend in decreasing the non-operating expenses or at least keeping the cost manageable. What the company is doing wrong

Riordan's Inventory accounts for a large share of its current assets (54%). On the surface this may represent a weakness however the company has an inventory turn of 5.35 (cost of goods sold annually/inventory) which means the company goes through its inventory 5.35 times per year or every 68 days. Riordan's products are not perishable and enjoy a very long shelf life so this turnover rate of relatively good. This relatively high turnover rate allows for it to maintain relatively low cash balances as it can raise cash quickly from sale of inventory.

This is reflected in the high balance of the accounts receivable. In addition, the company continues to carry a significant long term debt without a

noticeable attempt to lessen that debt. Analysis of shareholder equity shows that the value of the company's shares is greater than the total shareholders' equity, a sign of deficit. The debt to equity ratio is fairly high at 56%, this a potential sign of weakness as well. While the company has maintained a gross margin of over 8.5 million for the past two years, its operating expenses have increased during the same period affecting its profit margin.

This is a sign that Riordan is not doing well in keeping its costs low to be more profitable. The opportunities would be to focus on increasing sales at the same decreasing general and administrative costs. To achieve this, the company needs to invest in IT systems. Eliminating incompatible systems and consolidating information at its headquarter will help in reducing administrative costs. References Riordan Manufacturing. 2004. University of Phoenix. Accessed September 2008 from <https://ecampus.phoenix.edu/secure/aapd/CIST/VOP/Business/Riordan/Internet/IndexPort.htm>