

Good colgate palmolive company essay example

[Business](#), [Company](#)



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Referring to the latest 10Q(Quarterly) Filings by Colgate Palmolive, i. e. one filed on 24th October, 2013 and 25th July, 2013, we shall be analyzing the changes in working capital and cash management strategies of the company:

Changes in Working Capital:

I) Working Capital Position as at 30th June, 2013:

Beginning with the Quarterly Report filed on 25th July, 2013, and the company ended the quarter with the total current assets of \$4867 Million.

Both receivables and inventories contributed with the maximum share to the total current assets, with an amount of \$1778 and \$1440, respectively. The total cash position of the company for the quarter ended 30th June, 2014 was \$884 Million

As for the liability side, the total current liabilities amounted to \$4444 Million. Both accruals and accounts payables accounted for the maximum proportion to the total current liabilities with an amount of \$2291 and \$1279 Million, respectively.

Thus, with the total current assets of \$4867 Million and current liabilities of \$4444 Million, the company ended the quarter with net working capital of \$423(4867-4444) Million.

li) Working Capital Position at 30th September, 2013:

As of 30th September, 2013, the company had total current assets of \$4600 Million. Receivables accounted for the maximum share with \$1737 Million, followed by Inventories and Cash, amounting to \$1441 and \$721 Million, respectively.

The current liabilities of the company stood at \$4491 Million, with major share of other accruals amounting to \$2367 Million, followed by accounts payable which amounted to \$1234 Million.

Thus, with the total current assets of \$4600 Million and current liabilities of \$4491 Million, the company ended the quarter with Net Working Capital of \$109(4600-4491) Million

Primary drivers of the change in working capital:

Comparing both the quarterly reports, we find that by the end of September, 2013 Quarter, the working capital of the company reduced from \$423 Million to \$109 Million.

The major drivers of significant decline in the working capital of the company were the decline in current assets of the company. During 30th June, 2013, the cash balance of the company stood at \$884 Million which reduced by 18.43% in a quarter and the company ended the September Quarter with cash balance of \$721 Million. Although inventories had a negligible decline, the amount of other current assets decreased by 8.36% from \$765 Million to \$701 Million.

Another source of decline in working capital was increase in current liabilities of the company. During September, 2013, although the company reduced its accounts payables from \$1279 Million to \$1234 million, the total amount of current liabilities of the company increased by 1% and ended with the total balance of \$4491 Million. Apart from marginal increase in notes payable and current portion of the long term debt, the major increase was recorded in other accruals that increased by 3.31%

Finding out cash Management Strategies of the company:

In order to comment on cash management and other working capital related strategies in the company, it is quintessential to calculate the liquidity ratios of the company. The same are disclosed hereunder, indicating how the liquidity ratios changed in a quarter:

i) Current Ratio: $\text{Current Assets} / \text{Current Liabilities}$

ii) Quick Ratio: $(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$

The ratios indicate that, during a quarter, the liquidity of the company has weakened. Even when we calculated the quick ratio by deducting the inventories balances from the current balances, the result stood same, decline in the ration from 0.77 to 0.70. This indicates that the company is following a restrictive cash management policy. Restrictive cash management is recognized with low holdings in cash and inventory.

However, most importantly, under restrictive cash management, the firm curbs its credit sale and the same is evident by reduced amount of accounts receivables. As for Colgate, during a quarter, accounts receivable has reduced from \$1778 to \$1737 Million.

What affects Net Working Capital?

Of all the strategies specified, all of them have significant impact on the net working capital of the company. There have been many instances, when the company reported to pay out cash, so as to reduce their interest cost. Thus, the strategic initiatives of the company prove to reduce the working capital.

This effect was evident in the income statement of the company where interest expense was reduced from \$5 Million to Nil by September, 2013.

Working Capital management is also related to inventory management.

Inventory management is the area in which the disconnect between finance and operations can become the most apparent. Thus, while the area of working capital management is well known, but still operations lack good understanding of relationship between inventory management and working capital.

As for Colgate, the level of inventory has improved by \$1 Million, indicating that company is in favor of holding good levels of stock rather than earning cash tied up in inventory.

Works Cited

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