Analysis

Finance

The article focuses on the Return on Equity (ROE)as the benchmark for assessing a business's financial health. Do you agree with this approach? (Support your response with 2 - 4 examples of financially healthy companies.) Additionally, this article presents a spreadsheet analysis for commission-based businesses. What approach would you implement for a manufacturer? How would it differ for a service organization, such as a CPA firm, staffing firm, or consulting firm?

This article emphasized on the financial health checking ratios, whereas the rigorous research and model analysis, ROE has been established as benchmark of analysis. With industry analysis we have estimated few companies ROE who are performing significantly for long time. For example: In scale of ROE (Return on Equity) GSK (GlaxoSmithKline) presents . 46, . 45, NOVARTIS presents . 151, . 140 and Abbott presents . 203, . 198 for the consecutive year 2010 and 2011. In this comparative positioning among the competitor's Abbott can sustain with ROE, which will eventually protect asset and efficiency improvement in the long run. With the global recession this ROE ratio appears a slowdown in recent years, which is accurate in compare to other ratio like ROA, which came across the result as the recent years are higher than previous, this present's short term affect of business operation than long term picture of existing activities.

For a manufacturing company the model we can get most viable to implement is " Reduce operating expenses and staff salaries". In recent competition, price of the products are increasing due to different raw materials and fuel price increases, besides these when operating and staff salaries become good amount product price gets uncontrollable and business may lose its market for high price. Under these conditions implementing commission based model would be a bigger save for the manufacturing companies for the long term sustenance, in terms of price control. Commission based activities and fulltime urgent functionalities have to be separated to identify the weight of the assignment or the internal task. There are some sorts of activities which can be best performed upon task performance commission basis, instead of continuous salary whether there are sufficient need of particular skill or not. For example machine operator of the core item needs to be employed in salary basis, but the market seller as well as product design and development research activities has to be commission based on specific amount to complete the task with competency. Functional separation for this method implementation would be crucial point of strategy formulation for the manufacturing companies.

Now for the service organization the risk of operating cost or equipment to produce the service is rare. This approach best fit with “ Combined strategy” where premium growth rate and profit retention rate gets higher in rate increases with right combination. Based on individual skill and performance the premium paid by the client to the service companies (CPA, staffing firms) getting increased by 20% whereas this bring customer loyalty and profit retention 50% at maximum rate. Thus service firms are best fit for the “ combined strategy” to sustain with skill and experience based product derivation, which may lower the performance upon complete dependence on traditional business model.

Sources:

Wild. J., Subramanyam, K. R. & Halsey, R. (2007). Financial Statement Analysis. (9th edition). McGraw-HILL International edition.