

Evaluation of games workshop and hornby businesses



In a company or a business, the owner would want to evaluate his business i. e. whether the business is making a profit or loss and would want to compare it with other companies or its competitors in the same industry. To know the performance of a company, you need to look at more than just easily attainable numbers like sales, profits and total assets. To know the real picture of a company, we must be able to read between the lines of the financial statement. Hence there are many comparative ratios to identify the strengths and weakness of the company. These ratios will help the public (outsiders) to make decisions while investing in companies at the stock market. Ratio analysis helps us to understand the risk we must be taking. The basic source of these ratios is the company's profit and loss account and balance sheet as it contains all important information about the company. Financial ratios are useful indicators of a firm or company's performance and financial situation.

The two company ratios we are going to compare are Hornby and Games PLC. Both the companies belong to the same industry.

GAMES WORKSHOP

Europe's foremost professional P. C. and video game retailer is Games group. It is the only company in the gaming sector to be listed on the London Stock Exchange. Outstanding customer service and a specialist offer are at the heart of GAMES Group growth.

HORNBY PLC

HORNBY PLC is UK's Model Railway manufacturer. Frank Hornby founded the company in 1901 and launched trains until it was bought by his competitor

Tri-Ang in 1964. http://en.wikipedia.org/wiki/Hornby_Railways. It is recognised for the construction of its model train sets, hobby (radio controlled cars) and toy production. It is an incorporated limited company, operating in the UK.

Return on Capital Employed (ROCE).

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$$\text{ROCE} = \frac{\text{PBIT (Operating Profit)}}{\text{Capital Employed}} \times 100$$

$$\text{Capital Employed (FA + CA - CL)}$$

Ratio on capital employed indicated the productivity and success of a company's capital investment. According to the formula we take operating profit or PBIT and divide it by the capital employed in the business i. e. fixed asset and working capital. In the two companies, the ROCE for Games workshop in the year 2008 was 5.48%, 2009 was 17.26% which was lower compared to 27.98% in the year 2010. This indicates that Games workshop's ROCE has increased which is a positive sign as the more the returns of the capital employed, it's better for the firm. Whereas Hornby Plc.'s ROCE in the year 2010 has decreased from 17.67% which was in 2009 and 29.47% in 2008 to 12.65% which is a negative sign as the return on capital employed is lesser than the rate at which the company borrows.

Return on Sales (ROS)

$$\text{ROS} = \frac{\text{PBIT}}{\text{Sales}} \times 100$$

Sales

ROS also known as “ operating profit margin” tell us about the company’s operational proficiency. According to the formula, we consider operating profit or PBIT and divide it by the sales in the organisation. In the above two companies Games workshop’s ROS was 2. 31% in 2008, 7. 17% in 2009 and has increased to 12. 68% in 2010. This indicates that games workshop is growing more efficiently and is more profitability. Whereas in Hornby the ROS for the year2008 was 16. 85%, in 2009 was 11. 20% and it decreased in 2010 to 9. 27%. A decreasing ROS indicates financial trouble for the company. When we compare Hornby and Games workshop together, we get to know that Games workshop has a higher ROS which indicates a profitable organisation compared to Hornby.

Asset turnover

Asset turnover = $\frac{\text{Revenue}}{\text{Capital Employed}}$

Capital Employed

Asset turnover is the amount of sales generated for every pound that is worth the asset. We consider the revenue of the company and divide it by the capital employed. In the above companies, the asset turnover for both the companies are low but Hornby has a lower asset turnover of 1. 36% in 2010 compared to Games workshop that’s asset turnover is of 2. 20%. This indicates that games workshop has a higher asset turnover which is better. This also indicates pricing strategies which the company undertakes as companies with a low price margin who have a higher asset turnover and vice versa.

Current Ratio

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Liabilities

Current Ratio comes under the heading of Liquidity ratio. Liquidity means cash a business holds during the financial year. Current Ratio is a liquidity ratio which tells us the ability of the company to pay its short term obligations. Short term obligations are obligations which are under 12 months. The formula tells us that the ability to pay back short term borrowings with its short term assets. In the above case Games workshop has a higher current ratio compared to Hornby, though the difference is not that large, but still Games workshop's current ratio in 2010 is 2.03% while Hornby in 2010 is 2.10%. This indicated that Games workshop is capable to pay their obligations and vice versa. If the ratio was under 1 it would indicate that the company cannot pay its obligations.

Liquidity Ratio (Acid Test Ratio)

Liquidity Ratio = $\frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}}$

Current Liabilities

Acid test ratio is a severe or a tough ratio which indicates whether the firm has enough short term assets to cover its immediate liability without selling out stock. The acid test ratio for Games workshop in 2008 was 0.9, in 2009 was 1.14 whereas it increased in 2010 to 1.48. Hornby has a low acid test ratio in 2009 which was 0.72 but it increased to 1.37 in 2010. This indicates that Games as well as Hornby, both companies can pay off their liabilities as

if the acid test ratio was less than 1 then the company has to be warned. Even if the acid test ratio is lower than the working capital ratio, it shows that the company is highly dependent on inventory.

Cash Ratio

Cash Ratio = $\frac{\text{Cash}}{\text{Current Liabilities}}$

Current Liabilities

Cash ratio is the company's total cash balance and the cash equivalents to its current liabilities. Cash ratio is helpful to measure the liquidity of a company. In the above case, Games workshop has a much higher cash ratio in both the years i. e. in 2009 0. 57 and in 2010 it was 0. 92, whereas Hornby has a very low cash ratio from 2008 which was 0. 07, in 2009 it decreased to 0. 02 but it increased to 0. 53 in 2010. This indicates how quickly the company can pay of its creditors. Hence creditors will decide seeing the cash ratio of the company.

Stock turnover

Stock turnover = $\frac{\text{COGS}}{\text{Stock}}$

Stock

Stock turnover ratio shows how many times over the business has sold the value of its stocks during the year. In the above case, Games workshop has a higher stock turnover than Hornby. This is because in the year 2008, Games workshop had 3. 24 as its stock turnover, in 2009 it was 3. 36 and it decreased I 2010 to 3. 02 which is a negative point. Whereas Hornby has a

lower stock turnover compared to Games workshop. This indicates higher the stock turnover, the better it is for the company as then money is held up for a lesser time in stocks.

Stock Period

Stock Period = $365 \div$ _____

Stock turnover

Stock period is the number of days where the average money is held up in stocks. It is calculated by dividing stock turnover by 365 days. This gives the actual picture of how many days the stock is in the warehouse. In the above diagram, it shows that in the year 2008 and 2009 Games had a stock period of 113 and 109 days while Hornby had a stock period of 166 and 164 days respectively. In the year 2010 Games workshop had a stock in warehouse for 121 days while Hornby had it for 138 days. This indicates the longer the stock is in warehouse, it is bad for the business as the money is not available to be used elsewhere. Hence Hornby's stock is available for a longer period than Games workshop.

Debtor Period

Debtor Period = $\text{Debtors} \times 365$

Sales

Debtor period is the average number of days credit given to customers i. e. how long does it takes the company to get its money. In the above case, the debtor period for Games workshop has decreased from 33 days in 2008 to

29 in 2009 and 2010 respectively. Whereas in Hornby the debtor period has increased compared to 2008 but has decreased to 75 days compared to 2009. This indicates that a lesser number of days are good as the debtors could trust the company. But if the company takes a long time to repay, it is bad, Hence Games workshop is better than Hornby as Games workshop has lesser number of days compared to Hornby.

Gearing Ratio

Industry Analysis

Hornby PLC

The toys and games industry has survived in the UK for 70 years but in 2009, model vehicles and outdoor games had a negative growth due to the economic recession. Customers preferred indoor games and activity construction toys since it did not require them to leave their houses, during this period. The economic downturn also caused some companies in the industry to stop business and others were bought by larger companies.

There has also been an increase in demand for movie based toys and video games, which are easier to produce than other toys. As such, Hasbro, Mattel and Lego are favoured for this reason. The retail outlets prefer to stock video games as a result of its increase in demand and also because it takes less shelf space. The UK market is dominated presently by Hasbro, which has the largest market share, Mattel and Lego.

Passport GMID Traditional Toys and Games - United Kingdom

<http://www.portal.euromonitor.com/Portal/ResultsList.aspx>

<https://assignbuster.com/evaluation-of-games-workshop-and-hornby-businesses/>

HORNBY PLC is UK's Model Railway manufacturer. Frank Hornby founded the company in 1901 and launched trains until it was bought by his competitor Tri-Ang in 1964. http://en.wikipedia.org/wiki/Hornby_Railways.

It is recognised for the construction of its model train sets, hobby (radio controlled cars) and toy production. It is an incorporated limited company, operating in the UK. The company has created a niche market (train sets) and deals with suppliers all over the world for different railway products. Property owners, worldwide, want to engage with Hornby, in awarding license for Hornby products because of its specialisation and popularity .

The key focus of the company is to ensure that the model railway business succeeds, by continually dealing with supply chain issues. Research and Development is also an important factor to its success. The following companies are subsidiaries to the group;

Hornby Hobbies Ltd UK

Hornby America Inc USA

Hornby Espana S. A Spain

Hornby Italia s. r. l Italy

Hornby France S. A. S France

Hornby Deutschland GmbH Germany

There are individual targets for each subsidiary as regards growth and profit. It is monitored from time to time and based on current circumstances, future adjustments are made.

<http://www.hornby.com/investor-relations/>

Horby's Competitors

Tri-Ang - Model railway producer

Bachmann Europe Plc - Model railway producer

GraFar - Model railway producer

Model rail UK - Model railway parts builder

New railway Modellers - Model railway builder

Heywood Model Railway Group - Model railway producer

Hasbro - Board (monopoly, scrabble etc), Star Wars movie franchise

Mattel - Superman, Batman, Harry Potter movie franchise

Lego - Activity and construction games

Fun Collectibles - Latest kids crazes toys and games

Wind Designs - Flying toys, yo-yo's, juggling equipments and kites

Map Toys - Toys and games

Richard Edwards - Card based products

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Revell - Model kit toys

Cartamundi - Card games

Ravensburger - Puzzles and 3D Action games

Cambridge Brainbox - Educational Electronic kits

Games Workshop - Tabletop fantasy and futuristic battle games

Thumbs Up - Helicopters and AK 47 Guns

Rainbow Productions - Costume character production

<http://www.toynews-online.biz/marketplace>

<http://www.holtmodelrailways.com/>

<http://www.modelrailuk.co.uk/>

Home

<http://www.mcvuk.com/search/news/hornby+plc>

Customers

Games retail stores

Children

Wholesalers

Market Contribution and Share

In 2008, there was a fall in interim pre-tax profits from £2.7m to £1.8m and this reduced the expected profit by December that year. Suppliers in China were challenged with the increase in labour and raw materials, therefore Hornby increased price by 10% to support China.

<http://www.ft.com/cms/s/0/65fd8c42-ec57-11dd-a534-0000779fd2ac.html>

Although sales in Europe fell by 15%, the Chief Executive was confident that Hornby would excel because of its quality hobby brand. On November 7th 2008, Hornby's shares dropped to 118.5p from the initial 300p which it maintained from the beginning of 2007.

<http://www.ft.com/cms/s/0/f57bef7e-ad34-11dd-971e-000077b07658.html#axzz14clXbHtA>

Hornby Plc contributes to charity every year. It donated £15,354 in 2008 and £21,635 in 2009

Hornby's % Breakdown of Company shares for Toys and Games in the UK

COMPANY

2005

2006

2007

2008

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2009

2010

Hornby Plc

1. 1

1. 1

1. 1

1. 0

Passport GMID Country Report - Country Market Insights

<http://www.portal.euromonitor.com/Portal/Statistics.aspx>

Future Forecast

In order to make profit, since the demand for video games and movie based toys have increased in the UK market, Hornby Plc should study the demand of the customers and work around producing what the customers need.

There may be a problem in the future to fund research and development.

Hornby Plc should be prepared for economic crisis.

In 2010, the group is financially strong after a difficult trading period and there is a continuous increase in the demand for its products.

Passport GMID Toys and Games - United Kingdom

<https://assignbuster.com/evaluation-of-games-workshop-and-hornby-businesses/>

<http://www.portal.euromonitor.com/Portal/ResultsList.aspx>

Hornby's China engine unstuck on dollar strength

By David Blackwell and Maggie Urry

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<http://www.ft.com/cms/s/0/65fd8c42-ec57-11dd-a534-0000779fd2ac.html>

Hornby sees fall in outsourcing benefits

By David Blackwell

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00. Page 26

[http://www.ft.com/cms/s/0/f57bef7e-ad34-11dd-971e-000077b07658.](http://www.ft.com/cms/s/0/f57bef7e-ad34-11dd-971e-000077b07658.html#axzz14clXbHtA)

[html#axzz14clXbHtA](http://www.ft.com/cms/s/0/f57bef7e-ad34-11dd-971e-000077b07658.html#axzz14clXbHtA)

<http://www.toynews-online.biz/marketplace>

Games Workshop

The Toys and Games industry in the UK is a gradually growing market, mostly due to their largest group of customers, children around 2-10 years of age. Children often want and need toys to entertain and occupy themselves with (Competitive Context-Figure 9). Even with recession, most parents do not necessarily cut down on spending on toys for their child as they are willing to spend what little disposable income they have on their kids and buying toys that they wanted for them (MINTEL-Internal Market Environment-Figure 1).

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In 2007, the toys and games sector in the UK was valued at around £2. 2 billion, a significant rise of 22% than when in 2003 (MINTEL- Toys and Games-UK-Nov 2008-Market in Brief: A strong market in tougher times). Christmas is usually the cause of the highest booster for sales of toys and games, bringing in half the total number sales in a year (MINTEL-Internal Market Environment-Key Points).

Games Workshop PLC

In 1975, Games Workshop PLC, was established in London by John Peake, Ian Livingstone, and Steve Jackson. It was listed in the London Stock Exchange in 1994. The company has since moved its headquarters to Nottingham. Games Workshop is mainly involved in producing and retailing games and toys (miniatures). The company started off with producing board games made of wood (eg. Backgammon), moved on to importing role-playing games (RPGs) from the United States and finally to where it is today, a toy and games producer, publisher and retailer. Games Workshop is well-known in the market for its collectible miniatures (toy soldiers) used in its “ role-playing and table-top wargames” (WIKIPEDIA). It’s specialty and focus is on collectible toy models targeting toy collectors and hobbyist whose favourite pastime is collecting toy models. Games Workshop has several subsidiaries, they include:

BL Publishing

“ Publishes literature and gaming materials”

Citadel Miniatures

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Produces toy miniatures collections for collectors and hobbyist

Forge World

Produces higher quality models for their role-playing and table-top wargames

Sabertooth Games

Produces card games related to their role-playing and table-top wargames
produced

(Wiki: Games Workshop http://warhammeronline.wikia.com/wiki/Games_Workshop#Subsidiaries)

Competitors

Hasbro U. K. Limited

Vivid Toy Group Limited

Vivid Imaginations Limited

Games Workshop Limited

Hornby PLC

Flair Leisure Products PLC

Hornby Hobbies Limited

Datel Electronics Limited

Rockstar North Limited

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Hardy & Greys Limited

From FAME (<https://fame.bvdep.com/version-2010823/cgi/template.dll?checkathens=1&kick=1&uct=1&user=lingd%40coventry.ac.uk&pw=D341XryjGFEL77TgmOwhnA%3d%3d>)

Customers

Collectors & Hobbyist of their miniature games collection

Teenagers

Young Adults

Global customers

Market Contribution & Share

In 2009, Games Workshop wanted to cut cost and initiated a move to use plastic instead of metal for the production of their toy and games miniatures. It was an apparently well-accepted change by their customers as sales rose from £110.3m to £113.9m in 2009.

<http://www.ft.com/cms/s/0/719b6d28-7bbb-11de-9772-00144feabdc0.html>

In 2009, Games Workshop opened 10 new stores in the UK which are run by a single staff, making it easier for them to expand to smaller towns and hence more accessible to their teenage fans. These additional stores will boost Games Workshop's market presence.

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As at January 2010, Games Workshop has expanded operations overseas to Europe, North America, Japan and Australia. However, market analysts believe that the company has potential to expand to other untapped markets.

In January 2010, when Games Workshop revealed that its profit before tax achieved would surpass expectations by at least 50 percent, shares increased by 30 per cent to 333.85p. Profit before tax was initially estimated to be around £9m as at 30 May 2010 but in January 2010, it was expected to grow by another £5m or more by May 2010. Games Workshop's gross margins have increased as a result of their cost cutting measures undertaken in 2009.

<http://www.ft.com/cms/s/0/afb932a0-fade-11de-94d8-00144feab49a,s01=1.html>

Future Forecast

Games Workshop PLC should try to be more creative and innovative, launching new products constantly over the year, in order to increase sales and spread sales more evenly over the year than garnering the majority of sales only during the Christmas season.

As mentioned earlier, market analysts believe that Games Workshop has the potential and capability required to further expand overseas, probably to untapped markets, such as Asia (with the exception of Japan where they already have expanded to).

Furthermore, the market for toys and games are continuously increasing and expected to carry on growing in the future (internal market environment-is childhood getting shorter?). Sales recorded for toys and games have also been rising over the years and expected to continue doing so. (Market Re-forecasts-Household-UK-March 2009-Toys and Games). In the case of Games Workshop, although there was a slight drop in sales for the company in 2007, it has since been steadily increasing over the last couple of years. This could be due to the fact that Games Workshop builds up customer loyalty by offering collectibles that interested customers can only buy from the company if they want the complete collection. The excellent after-sales service provided by the company could be another factor that enabled them to earn loyalty from their customers. This is an invaluable asset to the Games Workshop as no matter what new products they offer, most of their loyal customers will support them by purchasing their products. As long as the company continues to successfully retain its customer loyalty, it will go a long way.

It is crucial for Games Workshop to constantly update themselves on the current trends and threats faced by the toys and games industry, and act accordingly by coming up with suitable strategies to ensure that the business stays profitable and hopefully gain a larger market share.

Conclusion and Recommendations: