

# [Tim and brad larsens company purchase](https://assignbuster.com/tim-and-brad-larsens-company-purchase/)

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Tim and Brad Larsen’s Company Purchase Competitive Strategy Tim and Brad Larsen are likely to flourish using a cost leadership strategy. The Larsens’ experience in improving company performance and consulting shows they would be able to make the company they purchase more efficient to increase net income. Tim’s focus on leadership and experience in company recovery indicates the best strategy would be a cost leadership strategy. Tim and Brad do not show the marketing experience or creativity that would be needed for a differentiation strategy. Tim states that he is not creative and likes to focus upon leadership and management skills. A differentiation strategy would require significant market positioning strategy and creativity. A small company like the ones they are looking to purchase can do well with a focus strategy. Tim and Brad do not show that they are interested or have experience using a niche strategy. Purchase Decision & Reasoning The Larsen’s should purchase Landscape Products, Inc. because it fits most of Tim Larsen’s elements. The company also has enough assets to secure funding for the purchase. As one of the larger companies the price is more reasonable compared to the assets owned by the company. The current owners of Landscape Products, Inc. want to take early retirement. This is a legitimate reason for leaving the business under the Tim’s elements. The current owner’s son would like to stay with the business. This indicates that the business is strong and not being abandoned due to hidden problems. Landscape Products, Inc has the second strongest balance sheet based upon the debt-to-equity debt-to-asset ratios of the four companies evaluated. The most recent debt-to-equity ratio is 1. 72. The most recent debt-to-asset ratio is 0. 63. Both ratios are trending negatively from the previous year end due to cash flow problems created by Landscape Products, Inc’s suppliers. The negative ratio is concerning but is the clear result of recent income statement issues. The company has significant retained earnings even though income is currently a problem. The company’s assets are not heavily leveraged. This would allow funding for the purchase to be secured by the assets of the company. Tim Larsen prefers this purchase method. Landscape Products, Inc. is positioned well in the market as a wholesale company. Most of the current products are commodity type rather than value added. This is a relative weakness of the company. Sales have historically been strong and large competitors for bulk commodities are rare. The new products that the company has in development show potential to allow the company to expand in new directions, which is positive. One of the main strengths of Landscape Products, Inc. are the key players involved in the company. There are two key sales figures both of which are staying with the company. The sales are also balanced between them. This means that the loss of one would not eliminate the entire sales force. The sales force should be expanded if the company is purchased. Key operations figures are also staying with the company. Neil Andrews has managed day to day operations is looking to stay with the company. This means operational knowledge will transfer smoothly after the sale. The state of the company’s equipment is of concern. The accumulated depreciation is significant. This means that it is likely the company will need to upgrade or increase repair costs in the future. Although a challenge the retained earnings could be used for these upgrades. Elimination Fairway Outfitters, Inc. is a good second choice. The main problem is the company has few fixed assets to leverage for funding. The balance sheet looks good, but the company is too small for the price that is being asked. There are also no key people aside from the owner. Richmond’s Premium Snacks also has a strong balance sheet but is more heavily leveraged. The debt-to-asset ratio is 0. 68 while the debt-to-equity ratio is 2. 13. The control struggle which is forcing the current owner out is the main problem with this company. Large snack food manufactures could also become a problem for Richmond’s Premium Snacks. Teletech Systems is a very young company. There is no indication that the Larsens have an interest in building a young company. They are looking to purchase an established company. The balance sheet ratios are good because the company has no debt. There are almost no tangible assets to justify the price. This makes asset secured funding unlikely. The company is also just now experiencing its first profitable year. Valuation My valuation of the companies was based upon two ratios. I used the debt-to-equity ratio and the debt-to-asset ratio. Tim Larsen stated his main financial concern was a strong balance sheet. The debt-to-equity and debt-to-asset ratios show the relative strength of the companies’ balance sheets. The change in the ratio can be used to show trends. Tim Larsen was also concerned with the trends within the companies. Ranking 1) Landscape Products, Inc. 2) Fairway Outfitters, Inc. 3) Richmond’s Premium Snacks 4) Teletech Systems: Shopper’s Express