

# Cartwright lumber company case essay sample

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Name of the business: Cartwright Lumber Company

Nature of the business: Retail distribution of lumber products

### Overview

The Cartwright Lumber Company had been found in 1994 as a partnership by Mark Cartwright and his brother-in-law Henry Stark. Later in 2001, Mr. Cartwright bought out Stark's shares and incorporated the business. Now, Mr. Cartwright is a sole owner and president of the company. The business is located in the Pacific Northwest region and does the retail distribution of lumber products in the local area. Plywood, moldings, and sash and door are some of the typical products of the company.

In recent years, the company experienced a rapid growth and expects a substantial increase in sales in the spring of 2004. Despite this, the company had experienced a shortage in cash and considers closing that gap by borrowing. There are two options available: borrow up to \$250, 000 secured loan from Suburban Bank or open a line of credit up to \$465, 000 with Northrop Bank. Further analysis of firm's financials and foreseeable growth is needed to be able to choose from two options.

### Marketing Analysis

As reported by a bank investigator, the sales are expected to reach \$3. 6 million in 2004 and may even exceed that level if the prices of lumber rises. The company sells its products for two purposes: new housing construction and repair. In times of economic downturn, sales going to new constructions may decrease, but high proportion of the firm's repair business will keep the

sales in relatively high levels. The sales increased 18% in 2002 and 33% in 2003 and are expected to keep growing at 33% for foreseeable future, which is a good signal for lenders. The driving force behind the company's sales growth is successful price competition by having tight control over operating expenses and purchasing materials at discounts. About 55% of total sales are made in the period from April through September, so the demand is seasonal. I believe, the company will see its market position improve over the next few years. The main problem Cartwright is currently facing is the shortage of funds because of his purchase of Stark's interest in the business and the additional investment in working capital related to increase in sales volume.

### Operations Analysis

Cartwright is a retail distributor of lumber products. It built its competitive edge based on pricing and having a careful control over its operations. The company reported an operating income of \$86, 000 and \$111, 000 in 2003 and 2004, respectively. This is a 29% increase in operating income in one year, which shows the firm's strong ability to generate cash. The firm's account receivables and inventory are increasing from year to year which is a good sign of a growing business.

Cartwright is not an asset intensive company. It does not have to have huge fixed assets; most of its assets are cash, accounts receivable and inventory which all depend on future sales. Sourcing of materials is managed very well, purchased at discounts most of the time and contribute to having lower prices. The company's day-to-day operations did not change significantly

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over the last few years. Average collection period, inventory turnover, accounts payable, accounts receivable as well as cash conversion cycle all went up and down over the last four years but mainly stayed in the same range. So, there is no any significant change in operations. Mr. Cartwright has a very sound control over operations of the firm. Therefore, I believe, the company needs few more years to recover from the debts incurred at time of incorporation thus don't have to borrow much.

### Financial Analysis

For the first time, Mr. Cartwright borrowed when he bought Stark's shares and incorporated the company. Since 2002 the company had a rapid growth in sales as well as operating expenses and it looks like Mr. Cartwright wasn't ready for this. He borrowed \$146, 000 in 2002 and another \$86, 000 in 2003. The sales are growing, the net income is steadily increasing but the firm does not have enough cash to support the growth, so the only option left is to borrow. The company is expected to increase its borrowing the next year too, for the amount of \$218, 000 (notes payable increased from \$233, 000 to \$451, 000). This amount will be sufficient to sustain the growth for the next year. The company's current ratio decreased from being 1. 45 in 2003 to 1. 25 in 2004. Debt ratio also increased from 62. 7% to 68. 2% in those years. Basically, the firm's financial state is healthy in terms of future growth in sales and net income but the only problem it has is shortage of funds due to its heavy indebtedness in prior years.

### Summary

In short, for the next year the company needs around \$218, 000 to sustain the growth. This amount can be borrowed from the Suburban National Bank. Operations are managed very well. Even though financial position of the firm does not look good now but it promises a bright and growing future.