Abercrombie and fitch financial statements analysis case study example

Business, Company

Company's financial statements provide crucial details on different aspects on its operations. That includes information about its performance in terms of profitability, assets utilization and management efficiency, business liquidity as well ability to provide a suitable return for its stockholders. Thus, understanding the statements is crucial in all planning including operations, financial and marketing. In that respect, this analysis seeks to demonstrate how the statements can be used as a guide on marketing planning and general business management. To achieve that objective, the analysis uses the case of Abercrombie & Fitch and analyzes its financial statements for the year 2012 and 2013 with application of various measures including trend and financial ratios analysis.

- Company overview.

Abercrombie & Fitch Co. was incorporated in 1996 in Delaware and operated specialty retail stores as well as direct-to-consumer operations through its subsidiaries. It sells a wide range of products including personal care products, men, women and kids outwear and accessories as well as sportswear apparel under the Abercrombie & Fitch, Hollister and Abercrombie kids' brands. As at 2nd February 2013, the business operated 912 stores in US and 139 outside the US. (Abercrombie & Fitch, 2013)

- Abercrombie & Fitch. The brand is rooted in Ivey League heritage and East Coast traditions.
- Abercrombie kids. It provides the essence of the prestigious and privileged Abercrombie kids reflecting athletic, popular and wholesome nature.
- Hollister. The brand represents the fantasy of Southern California's beautiful beaches and hot lifeguards.

- Gilly Hicks. The brand is inspired by Sydney's free spirit and is described as an all-American brand that has Sydney's sensibility.

However, although a specific brand embodies their heritage, they have a common characteristics and elements. Those elements include a reflection of casual, classic, intelligent, confident, and privileged as well as possession of humor. (Abercrombie & Fitch, 2013)

- Current income statement and balance sheet.

The following are the financial statements for the company showing performance and position for the year ended and as at the end of 2013.

Income statement is a crucial tool for management and marketing planning as it shows the sales and related operations' performance for a given year. In that respect, marketing planners can identify the level of sales that the business was able to achieve. In addition, they can identify the cost of those sales as well as expenses incurred for sales and marketing activities. (Ittelson, 2009)

On the other hand, the balance sheet provides a snapshot of the company's position in respect of assets, liabilities and equity. That is useful for the business management in identifying whether the business is making enough sales to create wealth for stockholders. In addition, it shows how the business manages its marketing and sales operations to manage aspects like receivables. (Ittelson, 2009)

- Income statement and balance sheet analysis.

Source: (Abercrombie & Fitch, 2013)

Further, the business experienced an increase in marketing and general expenses in 2013 compared to 2012 despite a decrease in sales. Thus, it is

crucial for the management and marketing planners to address the expenses issue to enhance performance.

Finally, the business' net income as shown on the statement and the following chart was higher in 2012 than in 2013. That could be an indication of the negative effect of decreasing sales or poor management of expenses. In that respect, the management can improve net profit by increasing sales and/or managing expenses.

Source: (Abercrombie & Fitch, 2013)

The % change column shows each items change for the two years period. In view of the percentages and the chart shown below, it is clear that the business experienced an increase in current assets and long-term liabilities in 2013 compared to 2012. However, total assets, current liabilities and the stockholders equity reduced in 2013 compared to 2012. The reduction is an indication of deteriorating position that could have resulted from poor sales and expenses management. (Abercrombie & Fitch, 2013)

Ratios Analysis

- Profitability ratios

The ratios are financial metrics useful in assessing a company's ability to generate earnings given its assets, expenses and sales for a given period. They are useful in identifying whether a business' sales and profitability reflect optimal or efficient management and utilization of resources. (Schoenebeck & Holtzam, 2012)

Gross profit margin = [Gross profit / Sales]

The ratio measure the company's efficiency in managing COGs to generate

gross profit given the sales value. It can be used by marketing and management to establish whether the COGs are suitable for the sales. That can help in seeking ways of addressing excessive COGs in situations where sales are sufficient but COGs are relatively high thus significantly reducing the gross profit. (Holmes, Sugden & Gee, 2008)

Net profit margin = [Profit after tax / Sales]

The ratio helps in measuring a company's ability to manage expenses to generate suitable profits. In that respect, marketing planning and the management can identify whether the business fails to generate suitable returns owing to poor sales of expenses management. Thus, a low or declining ratio is an indication that costs are relatively high hence affecting the profitability although the business could be posting impressive sales. (Ittelson, 2009)

In view of the above margins for the company, there was a slight increase in gross profit margin during 2013 compared to 2012. That shows that the business was relatively better in managing COGs in 2013 compared to 2012. In addition, the high ratios for the two years show that the business performs better in managing its COGs to deliver gross profit. On the other hand, a decrease in net profit margin is an indication that the business deteriorated in managing expenses. In addition, the low net profit margin shows that the business has low profitability given its sales level.

Return on total assets = [Net profit / Total Assets]

Return on equity = [Net profit / Equity]

The two ratios measure the ability to generate returns on total assists and the stockholders equity. In that respect, they are measures of how efficient

the business is in utilizing assets and the equity. Higher ratios are desirable while decreasing ratios are a sign of declining marketing and management performance. (Schoenebeck & Holtzam, 2012)

In view of the above ratios, it is clear that the company experienced a decrease in the ability to generate profits given the total assets and the stockholders equity. That is shown by the decline in the two ratios in the year 2013 compared with the rations in 2012. That has an indication that the company is failing in its ability to utilize assets and the equity. Thus, management should identify better strategies to employ the company’s capital and assets to correct the deteriorating performance. (Ittelson, 2009)

- Liquidity ratios

The ratios measure a business ability to pay its ability to pay off its short-terms debts obligations. In that respect, higher or rising ratios are an indication that a business is in a better position to honor its short-term obligations. Thus, the ratio can be useful for management and marketing planners in identifying how well a business manages its cash-flow. (Holmes et al., 2008) One such ratio is the current ratio that is calculated as follows.

Current ratio = [Current assets / Current liabilities]

In view of the above ratios for the company, there is an indication that the business improved its liquidity in 2013 compared to the year 2012. The increasing current ratio shows that. Thus, the management and marketing planners can efficiently apply the current assets for the purpose of driving sales. (Ittelson, 2009)

Conclusion

In view of the above analysis, the understanding of the statements has been demonstrated to be crucial in managing a company’s performance through suitable marketing and corporate strategies. That involves identification of the business efficiency in generating sales, managing expenses, utilizing assets and the company’s equity to generate profits.

References

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