

Ceo of sunflower nutraceuticals essay sample



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Acting as the CEO of a small company, you will apply the principles of capital budgeting to invest in growth and cash flow improvement opportunities in three phases over 10 simulated years. Each opportunity has a unique financial profile and you must analyze the effects on working capital.

Examples of opportunities include taking on new customers, capitalizing on supplier discounts, and reducing inventory. You must understand how the income statement, balance sheet, and statement of cash flows are interconnected and be able to analyze forecasted financial information to consider possible effects of each opportunity on the firm's financial position. The company operates on thin margins with a constrained cash position and limited available credit. You must optimize use of internal and external credit as you balance the desire for growth with the need for maintaining liquidity.

Sign-in to the simulation and review each of the following:

Welcome Statement

How to Play

Terminology Primer

More Details (this includes information to help you understand how to play the simulation) Write a paper of no more than 1,400 words that analyzes your decisions during each phase (1-3) and how they influenced each of the following final outcomes (metrics) of SNC: Sales

EBIT

Net Income

Free Cash Flow

Total Firm Value

Address the following in your paper:

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A summary of your decisions and why you made them

How they affected SNC's working capital

What general effects are associated with limited access to financing Include scholarly references (in addition to your course textbook and simulation materials) to support your positions. Format your paper consistent with APA guidelines.

Working Capital Analysis:

Working capital management is critical for business. Inappropriate working capital management will lead to major problems for the operations of the company. Management of the company has to make estimation about future expected sales, costs and so on in order to understand about the future working capital requirements (www. boundless. com). This provide guidelines to the management in raising appropriate funds at appropriate time, this will avoid interruption in the business operations. A company seeking for growth should be made critical analysis about the working capital requirements (finance4smallbusiness. blogspot. in, 2006). For this company, there are three different growth phases which has different decision to be implemented in an orderly manner. In this case, an appropriate analysis of each phase is required for better understanding about the working capital requirement.

Phase 1 - Acquire New Customer:

This decision is being chosen as there is more opportunity to include Atlantic Wellness who is a large player in the health food as the new targeted customer. By acquiring this customer the company encounters various changes which are discussed below.

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Increase in sales: Acquiring new customers expands the business base and is expected to generate higher revenue for the company. The sales are expected to increase by \$4, 000, 000 each year for three years constantly.

Increase in the revenue of the company is considered to be positive information to both investors and the management. But with regard to working capital management, cash generating capacity of the company is very important (André Luiz de Souza Guimarães; Valcemiro Nossa , 2010). In this case about 30% of the sales equal the amount of accounts receivables which indicates that cash generating capacity of this decision is less.

EBIT: The cost of sales increases with the increase in revenue which has finally resulted in increase in EBIT by \$260, 000 and the overall EBIT remain flat. This provides for indication about the expected expenses and the net realizable income. EBIT has increased as a result of this decision.

Net income: This is the crucial part of any business as this provides an outline about the net amount available for the reinvestment purposes or for distribution. This is the amount of profit which the company has generated, after the implementation of this decision the net income increases but they remain flat because of the EBIT.

Free cash flow: The overall free cash flow of the company before the implementation of Phase 1 decision was not good. By implementing this decision only the top line of the financial statement has improved and net income remained flat which indicates about the less free cash flow generating capacity of the company (venturelabinternational. com). Overall free cash flow of the company continues to be average in this Phase.

Total value: The total value will decrease by \$225, 000 after the implementation of this decision. Apart from sales, there is no improvement in any aspect of the business, like no change in the accounts receivables, payables and cash cycle. They remain the same as before which has affected the cash flow of the business.

In this phase the management should arrange for short-term cash loan for meeting up the increasing demand, the sales has increased which directly increased the consumption of raw materials and suppliers cost. In this phase the supplier are paid in 41 days whereas sales are collected after 110 days which beings a huge gap between collection and repayment. Actually two times the suppliers has to be paid before collecting the sales. This increases the working capital requirement of the company in order to meet the payment obligations and about 30% of sales are in credit.

Phase 2: Pursue Big Box Distribution:

After the acquisition of new customers, the company is planning to expand the distribution channel by entering business with Mega Mart who is having more than 2, 000 stores spread in US. But in this case, the profit margin will be compromised by the company by 0. 5% in order to maintain the requirements of Mega Mart. But this provides for great increase in the sales of the company.

Increase in sales: In this case, the sales of the company will increase each year which increases the top line on continuous basis with the new distribution channel. This provides confidence to both management and investors as the sales will increase continuously and the accounts

receivables also increases with sales. As discussed earlier, cash generating capacity decides about the working capital requirements (André Luiz de Souza Guimarães; Valcemiro Nossa , 2010).

EBIT: With the adoption of new distribution channel the company will incur higher cost in order to accommodate such increase in the sales; EBIT is also improving along with sales. That is the graph of EBIT is increasing and is positive. Net income: Movement in the net income is similar to the EBIT which is providing a cushioning effect to the company as this is contributing for increase in the cash flow of the company.

Free cash flow: Improvement in the cash flow cannot be felt from the first year of implementing this decision. The free cash flow of the company is improving slowly, but due to the initial decrease in the value the cumulative free cash flow balance is less. This has actually increased the short-fall in the cash (venturelabinternational. com).

Total value: Total value is mainly dependent upon the cash generating capacity (venturelabinternational. com); in this case cash deficit continues to be higher like that of Phase 1 which has further pulled down the value by \$428, 000.

In this Phase the days of sales collection has slightly decreased which provides for an improvement in the cash collection as they are dealing with the retailers directly. But there is no change in the payment cycle. When a business grows it requires more investment to be made. Especially this two phase the company has drastically increased the sales which will increase the cost and the amount due to suppliers. Delayed collection period

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adds more cash deficit and the management should be prepared to manage these deficits using short term loans in order to avoid interruption in operations (Accountlearning. blogspot. in, 2011).

Phase 3: Renegotiate Supplier Credit Term:

Dynasty Enterprise is the main supplier of the company who offered for an attractive credit terms which will enable the company to reduce the cost of sales.

No change in sales: This is a strategic decision implemented by the company in order to increase the efficiency and the cash generating capacity of the company. By changing the credit terms the company will reduce the cash deficit and hence will have no impact on sales.

EBIT: EBIT will increase because of reduced cost of sales. With change in the terms with suppliers has resulted in reducing the cost of sales and the payment burden which enable the company to increase the EBIT without any increase in sales.

Net income: With increase in EBIT the net income of the company also improves. There are two ways to increase the profitability, one by increasing the sales which is done in Phase 1 and Phase 2 and second by reducing the costs which is implemented in Phase 3. Generally, reducing costs will increase the profit faster when compared to increase in sales.

Free cash flow: As discussed earlier, the Phase 2 decision provides for slow improvement in the free cash flow, with the increase in profit by reducing the

costs has improved the free cash flow of the company drastically (ValueWalk, 2012).

Total value: The total value of the firm increased by \$334, 000, after adjusting the terms with suppliers. Increase in the cash flow is the main reason for the increase in the total value (Neal, 2007).

The above decisions clearly disclose the order in decision making. First a company should get customers; they should expand in all possible way that is feasible for the company. In this phase the company has to be prepared to meet the increasing working capital requirements. Once the business is established, the next target is to reduce the cost and improve the cash flow of the company which is being implemented in the Phase 3. The working capital requirement in this phase is less. Thus, this analysis clearly discloses the working capital requirements in each phase which will enable company in effective working capital management.

The final outcomes of the results are:

(All Figures in Thousands)

Sales

\$20, 213

EBIT

\$1, 617

Net Income

\$816

Free Cash Flows

\$970

Total Firm Value

\$2, 929

Reference

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