Financial ratios

Business

In the meantime, BABY is also expanding s existing stores. To achieve the goal of expansion, potential customers should be fully informed. However, a simple “ word of mouth” advertising strategy is not effective enough. Approaches such as television advertising, direct-mail advertising and broadcast advertising should be added to the existing strategy.

Ere “ promotion from within” policy of operation strategy is not entirely consistent Ninth the expansion strategy. Although the policy leads to a low turnover in the management ranks, the depth of the management is concerned.

A lot more experienced managers are required for an expansion strategy but the policy limits he recruitment. BABY should implement a better recruitment policy focusing more on employing from outside. BABY also has the following strength compared to its competitors.

1 . Every-day low prices. BABY offers name brand and better quality merchandise at very-day low prices. Premium customer service. BABY provides superior service from the time the customer drove into the parking lot to the time they left the store, and even when the customer returned merchandise.

No warehouse. B policy to not using warehouses and snipping all inventory directly to the store ensured that merchandise is almost always in-stock. Superstore format. Buys superstores provide merchandise of a breadth and depth unmatched by most competitors. Nor of mouth advertising. BABY spends less on advertising than virtually any other retailer of its size, relying

instead on “ word of mouth” advertising as our primary means of communicating with our customers.

Lease of store sites. The policy of leasing all sites makes it possible for BABY to expand with less cost.

The table below shows Buys advantages over specific competitors. Bobby’s advantage Every-day low prices Premium customer service No warehouse Superstore format Nor mouth advertising Lease of store sites Estrous Lechers b) Assess Buys current performance. Evaluate the keys to its current success. How has the important performance measures changed over time? How does BABY compare to its competitors? What is driving Buys superior ROE? How sustainable are Buys current ROE and growth rate? Nee calculated these ratios.

Sales Net Income Net Income/Sales (%) *Sales/Average Assets *Bag.

However, BABY was in disadvantage on this aspect compared to its major competitors. 3. Financial leverage for the year 1993 of 1. 502 implied that BABY acquired $1. 502 additional assets with the use of each dollar of debt.

The continuous decrease of the Asia over three years implied a decrease in the relative use of debt and an increase capability of meeting its debt obligations. Also, the ratio was significantly less than those of the major competitors and showed advantage. Return on equity for the year 1993 of 33. 18% implied BABY earned profit of $0. 3318 from every dollar of its stockholders’ equity.

From 1991 to 1993, the ratio decreased from 43. 85% to 37. 34% which indicated that the net income to the average investment by shareholders decreased. Despite that the ROE of BABY continually decreased, BABY was still in huge advantage over its major competitors. The ROES of Estrous, Lechers and J Penny were 15. 37%, 8.

47% and 18. 75% respectively in 1993. Current ratio for the year 1993 of 2. 976 greater than 1 implied more expected cash Inflows than cash outflows the short run. It might also indicate inefficient asset use. Ere ratio didn't change much over time.

Quick ratio for the year 1993 of 0. 097 was a ' arrant of the current ratio. The ratio, compared to last year, was small which might be caused by the strategy of expansion. Liabilities-to-equity Ratio of the year 1993 of 0. 364 implied BABY was a relatively solvent company. The increase of the ratio showed that BABY became more reliant on creditor financing with equity financing.

Ere superior ROE of BABY in 1993 lay on its outstanding profit margin and asset turnover ratio. For three main reasons, BABY was able to earn high profit margin despite implement every-day low price strategy.

The reasons included the training on managers to sell high-margin products, the selling of low-cost private-label goods along with branded products and the involvement of central buying office in all initial purchases. On the other hand, the large amount of sales and the strategy of leasing tore sites rather than owning led to a relatively high asset turnover ratio. Ere continuous decrease of ROE and the drastic fluctuation of growth rate barely showed

any sustainability. However, the unsuitability was mainly caused by the expansion strategy and the PIP in 1992 of BABY.

The fact was that Bobby’s growth had continued since the PIP which could be reflected by sales, net income, corporate scale, and market shares. Z) What potential problems are likely to be encountered as Buys management attempts to implement its expansion plans? How is BABY planning to finance its growth? Will internally generated funds and borrowings available under the $20 million credit facility be sufficient to fund Bobby’s normal operations as well as its expansion program for the remainder of fiscal 1994 and on into fiscal 1995?