

# Return on sales essay sample



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1. Analysis of TRAC Team's Financial Statistics with Competitor Analysis An analysis of TRAC Team's performance over the first eight years of its operations revealed several noteworthy trends and benchmarks in relation to its competitors within the sensor industry. Highlights of these trends, peaks and lows are summarized in the following report to emphasize the critical lessons learned and to guide TRAC Team's business strategies over the next several years.

#### A. Return on Sales (ROS)

Also known as operating profit margin, Return on Sales (ROS) is a financial ratio that provides insight into a company's operational efficiency (Investopedia, 2015). Determined by dividing Net Income (before interest & taxes) by Sales, ROS provides information regarding the profit generated per dollar of sales. An increase in ROS would be indicative of increased operational efficiency of a company.

From the graphs below, it can be seen that Year 6 (2020) saw a significant increase in ROS over prior years, with an ROS of 14.8%, whereas prior years had produced ROS' of 3-8%. Year 6's increase in ROS and related operational efficiency is primarily the result of increased automation to near maximum levels by 2020 as well as the introduction of TQM tactics, which enabled TRAC Team to generate higher Net Income values relative to its sales volumes. Because of TRAC Team's aggressive and early adaptation of automation and implementation of TQM measures, our ROS of 14.8% in Year 6 was more than double that of any of our competitors, with Erie Company having the next highest ROS of 6.7% in that same year and two other competitors barely breaking 1%.

However, Year 8 (2022) saw a dramatic drop in ROS value to 7.7%, which was the fourth highest ROS level out of six companies. Despite TRAC Team's effective implementation of automation and TQM strategies, Year 7 saw the largest stocking out amounts of all the years examined, which eroded the company's sales and overall net income. Specifically, four of our five products stocked out that year, and our net income fell dramatically from a high of \$33.55 million in Year 5 to only \$15.18 million in Year 7, and as a result, our ROS plummeted to only 7.7% due to the decreased sales and associated income. It should be noted, however, that our contribution margin of 54.4% and cumulative profit of \$117,642,308 in 2022 were the highest values in the overall industry that year, and this feat is best explained by our automation and TQM strategies that helped buoy the company's overall profitability despite the decreased sales and income.

In contrast, Year 8 (2023) experienced a dramatic rebound in ROS value for TRAC Team. With an ending ROS of 16.7% that year, TRAC Team had the highest ROS value of any of its industry competitors, with Erie having the next highest ROS of 14.5%. This substantial increase is primarily the result of better forecasting and production with improved positioning, thereby increasing our competitiveness in each segment and improving our ability to regain market share and sales. Consequently, our company's net income surged from \$15.18 million in Year 7 to \$40.65 million in Year 8. As before, our earlier aggressive automation increases and progressively increasing TQM tactics enabled TRAC Team to improve its operational efficiency, thus, further improving its ROS.

## B. Return on Assets (ROA)

Return on Assets (ROA) is often referred to as Return on Investment (ROI) because it provides insight into how efficiently a business is employing its assets, such as invested capital in terms of both debt and equity, to produce earnings (Investopedia, 2015). ROA is determined by dividing Net Income by Total Assets, and while benchmark values can vary between different industries, in general, the higher the number the better the business is doing in terms of generating more income with less investment (Investopedia, 2015). However, because of the variability between different industries, it is more prudent to compare similar companies within the same industry. In general, an ROA greater than 5% is considered desirable.

A review of TRAC Team's ROA over the course of its first eight operational years revealed some noteworthy patterns and values. For instance, TRAC Team's ROA in every year with the exception of the first two years was greater than the general benchmark of 5%, with the two highest values of 12.3% and 15.3% occurring in 2020 and 2023, respectively. These peak values indicate that TRAC Team was overall most profitable in 2020 and 2023. This achievement is primarily the result of increased sales and resultant net income relative to total assets. Specifically, 2020 saw a Net income that more than doubled over the prior year's (\$33.56 million versus \$15.17 million), whereas the total assets in 2020 did not increase at the same dramatic rate over the same period; thus, the ratio of Net Income to Total Assets increased from 4.3% to 12.3% over that same time.

Similarly, the ROA in 2023 reached a peak value of 15.3% because net income in 2023 was \$40.65 million as a result of peak sales of \$243.56

million that year, while total assets remained relatively flat over the prior year's level. In contrast, a decreasing ROA suggests less overall profitability for a company, and as such, 2021 and 2022 saw significant declines in TRAC Team's ROA and by extension, its profitability. These declines were largely related to progressive sales declines in those same years. As a result, net income decreased, while total assets actually increased significantly in 2021, causing the ratio of net income to total assets to decrease accordingly. While TRAC Team's ROA of 8.3% remained fairly competitive in 2021 compared to our competitors (with only Erie beating us with an ROA of 11.2%), we lost substantial ground in 2022 when our ROA decreased to 6.4%, placing us third amongst our competitors. Again, these decreases in ROA can be attributed to decreased overall sales due primarily to stocking out issues, whereby our competitors gained more market share and increased their sales and net income accordingly.

### C. Return on Equity (ROE)

Return on Equity (ROE) is a financial metric that determines profitability by depicting the amount of profit generated from invested capital (Investopedia, 2015). It is determined by dividing net Income by Shareholders' Equity and is then expressed as a percentage that represents how much profit is produced from each dollar of shareholders' equity (Investopedia, 2015). ROE is very similar to ROA, with the critical distinction that ROE does not include liabilities as ROA does. ROE is therefore an important factor for potential investors because it provides insight into how effectively a company is using its equity to "fund operations and grow the company" (Investopedia, 2015). As with ROA, the higher the ROE value,

typically the better the company appears to be managing its operations; however, it should be noted that a high ROE does not always indicate superior financial performance in that a high ROE can also occur when financial leverage is high, and potential investors would be wise to keep this in mind.

While benchmark ROE values differ between industries, a value of > 15% is generally considered desirable. Upon examining TRAC Team's ROE over its first eight operational years, additional noteworthy levels and trends were observed. As with ROS and ROA, TRAC Team's ROE was highest in 2020 and 2023. As before, these higher values are driven by the company's high net income levels those years in relation to other years' performance and relative to the amount of shareholder equity in those same years. For instance, in 2020, TRAC Team's ROE increased to 22. 2% over the prior year's value of 12. 8%. This boost in ROE occurred despite the company's increased shareholder equity over the same time because of the larger increase in sales and net income relative to the shareholder equity increase. A similar increase in ROE occurred in 2023 for the same reasons. In both of these years, TRAC team's ROE dramatically outperformed our competitors, with Baldwin finishing 2020 with an ROE of only 13. 0% but in second place. Further, ROE values in 2023 were highly competitive within the sensor industry, with TRAC team finishing the year tied with Chester with the highest ROE of 31. 3%. By comparison, Erie had an ROE of 24. 5%, Digby had an ROE of 21. 9% and Baldwin had an ROE of 21. 5%, demonstrating the industry's overall ability to appeal to potential investors. In contrast, TRAC Team's ROE decreased dramatically in 2021 to 15. 5% and dropped further

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to 14.6% in 2022 before rebounding to its highest level of 31.3% in 2023. These declines are primarily related to increased shareholder equity in conjunction with decreased sales over these two years. For instance, between 2020 and 2021 TRAC Team's total equity actually increased from \$151,316 to \$178,322, while the company's sales decreased from \$226,369 to \$219,896, which ultimately caused the ROE ratio to drop accordingly. While a decreasing ROE can signal trouble and be indicative of operational inefficiencies, a decline in this value can also suggest that the company's financial leverage is lower and therefore, the company is less risky for investors. Thus, it is important to delve further into a company's debts and not simply look at ROE values in isolation.

#### i. Leverage

Leverage refers to the amount of borrowed capital (debt) a company uses to purchase additional assets, with the assumption that asset appreciation will be greater than the expenses related to borrowing (Investopedia, 2015). The higher a company's debt relative to its equity, the more highly leveraged the company is. The financial leverage ratio is an important financial metric that is often used to determine a company's solvency and risk. It is calculated by dividing total assets by total equity, with a value greater than 2.0 indicating higher risk for investors.

An analysis of TRAC Team's leverage ratio over the eight-year period under review revealed a nadir leverage ratio of 1.7 in 2019 followed by levels of 1.8 in 2017, 2018 and 2020; 1.9 in 2021; and 2.0 in 2016 and 2023, indicating acceptable risk levels and company solvency due to effective balancing of debt and equity to fund our assets and operations. In contrast, a

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peak leverage ratio of 2.3 occurred in 2022, as a result of a significant decrease in TRAC Team's total assets. In particular, TRAC Team sold off substantial amounts of plant capacity in 2022, which helped optimize plant utilization that year; however, the sell-off resulted in a substantial decrease in our assets (total assets dropped from \$335,965 in 2021 to \$237,391 in 2022), which ultimately increased our leverage ratio to a much more risky level of 2.3. While our total equity also decreased over that same time period, the decrease was not proportional to the drop in assets and was therefore not enough to maintain a leverage ratio of 2.0.

By comparison, our competitors all had similar leverage ratios in all the years with the exception of 2021, when Chester had a ratio of 2.4, Baldwin had a ratio of 2.3, Ferris had a ratio of 2.2, and both Digby and Erie completed the year with leverage ratios of 2.1, whereas TRAC team maintained a healthier 1.9 leverage ratio that same year. In addition, it is imperative to note that leverage is an important differentiator between ROA and RAE. As noted in a prior section of this report, ROA and ROE are very similar with the exception that ROE does not include liabilities as ROA does. Because  $\text{Equity} = \text{Assets} - \text{Total Debt}$ , a company can decrease its equity by increasing its debt. Thus, with increasing debt, equity is diminished, and ROE increases because equity is the denominator in ROE. In essence, debt augments ROE in relation to ROA (Investopedia, 2015).

#### D. Sales

A review of TRAC Team's sales performance over the eight-year period of time revealed that our company dominated industry sales the first three years of our operations, until 2019 when our sales volume was second to



Baldwin's. This decrease in sales volume was the direct result of four of our five products stocking out by the end of that same year, thus allowing our competitors including Baldwin to sell their products to our customers. More accurate forecasting and increasing production levels over the already conservative forecasted sales volumes would have better prevented this epic stock-out and resultant loss of sales and profits. However, TRAC team rallied back in 2020 to reclaim the top sales position for that year with \$226, 368, 671 in sales. This increase was primarily the result of more accurate forecasting and production levels, all the while maintaining our competitive edge in terms of product positioning and pricing. Unfortunately, from 2021 through 2023, TRAC Team never regained the top sales position and actually fell as low as fourth place in sales in 2022.

However, the reasons for these declines varied. For instance, as noted previously, the sales drop in 2019 was the result of underforecasting and stocking out issues, with four out of our five products selling out completely. In contrast, the drop in sales in 2021 was primarily the result of poor positioning on several products, most notably Low End's Acre, whose R&D specifications had been allowed to fall so far behind our competitors that it was nearly impossible to maintain any competitiveness without severely reducing our prices. As a result, TRAC team was left with a massive 1, 526 units of Acre in inventory at the end of 2021. Our Size product Agape suffered a similar fate that same year with an ending inventory of 589 units. However, the root of 2022's lower sales volume reverted back to excessive stocking out issues, once again involving four out of our five product lines. As before, TRAC Team's repetitive stocking out cost us lost

sales and more importantly, gave our competitors the ability to sell to our customers. More accurate forecasting and increasing production levels over the conservative forecasts would have offset these stock outs to a large extent.

#### E. Profits

Profit is the financial gain that results when a company's operations generate funds that exceed the company's associated costs, expenses and taxes (Investopedia, 2015). It is calculated by subtracting total expenses from total revenue, and is often referred to as a company's "bottom line" or net earnings.

An analysis of TRAC Team's profits revealed some important trends and individual values. For instance, in the first two years of our operations, TRAC team realized a meager net profit of \$4.02 million and \$8.19 million, respectively, which occurred despite our overall sales being the highest in the industry those same two years. Our lower net profit levels in these two years was the result of operational inefficiencies that created higher costs than those of our competitors that ultimately eroded our profit level. More specifically, TRAC Team's overall sales were \$153.57 million in 2017, which was the highest sales volume in the entire sensor industry. However, our net profit level came in at the third highest level for that same year behind Chester and Digby. The root cause of this disproportionate figure is the higher expense levels incurred by TRAC Team.

For instance, TRAC team's variable costs including labor and materials in 2017 were \$98.24 million, whereas Chester's variable costs were slightly

lower at \$95. 89 million and \$96. 29 million, respectively. Similarly, TRAC team's SGA expenses for items such as R&D costs, marketing budgets and administrative costs totaled \$21. 75 in 2017, while Chester and Digby minimized their SGA costs at \$16. 50 million and \$19. 25 million, respectively. In addition, " other" expenses including fees totaled more for TRAC team than " other" expenses for any of our industry competitors in 2017, which was most likely related to brokerage fees that were incurred because our financing department both issued and retired stock in this round. Our interest payments, EBIT and profit sharing expenses also all exceeded any of our competitors during this year, all of which contributed to a lower net profit margin for TRAC Team despite our superior sales performance.

However, by 2020 TRAC Team had improved its operational efficiencies through automation, plant improvements and TQM tactics that significantly reduced our variable costs, and ultimately boosted our net profits to \$33. 56 million, which far exceeded the profits of our competitors that same year. For instance, despite our sales volume of \$226. 37 million being the highest in the industry in 2020, TRAC Team was able to have the next to lowest variable costs of any of our competitors at only \$101. 44 million. Only Erie's variable costs were lower at \$89. 92 million, yet they also only generated \$148. 29 million in sales.

In addition to the benefits of our lower variable costs, TRAC Team also managed to contain overall SGA expenses at \$25. 25 million, which was the second highest SGA value in the industry, again despite our superior sales volume. Moreover, despite having incurred greater tax expenses and interest

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payments than any of our competitors in 2020, TRAC Team still dramatically outperformed all of our competitors' net profit levels as a result of the plant improvements and TQM strategies we employed. Consequently, TRAC Team's net profit level of \$33.56 million in 2020 was nearly triple that of our closest competitor, Baldwin.

In sharp contrast to our stellar performance in 2020, TRAC Team's net profits plummeted to \$15.18 million by 2022, placing us next to last relative to our competitors with only Ferris reporting a lower net profit. This dramatic decline was multifactorial, including experiencing a substantial decrease in sales revenue, and having the second highest SGA expenses in the industry that year coupled with the third highest interest expenses in the industry and soaring "other" expenses, such as fees and TQM costs. For example, our "other" expenses in 2022 at \$18.0 million far exceeded those we had incurred in any prior year and was also three times higher than the company with the next highest "other" expenses. These excessive and poorly contained costs severely eroded TRAC team's net profits for 2022 to the point that we reported the next to lowest net profits in the industry that year.

Fortunately, TRAC Team was able to rally back from its anemic net profit in 2022 with an industry high of \$40.65 million in 2023, due in large part to our ability to substantially increase our sales revenue and to regain control over "other" expenses that had soared from \$6.8 million in 2021 to \$18.0 million in 2022.

2. Prepare a written report to discuss the overall performance of the business compared to competitors using the financial reports from the simulation by doing the following:

#### CASH FLOW STATEMENT:

The primary purpose of a cash flow statement is to provide information regarding a company's cash receipts and cash payments. The cash flow statement is intended to provide information on a company's liquidity and solvency. The cash flow statement can also be used to provide additional information for evaluating changes in assets, liabilities, and equity ("Cash Flow Statement," 2015.). An analysis of a company's cash flow statement serves as an effective method of checking up on a company's financial health. The cash flow statement is essentially concerned with the flow of cash in and out of the business. The cash flow statement excludes transactions that don't directly affect cash receipts and payments. The cash flow statement displays the current operating results and the accompanying changes in the balance sheet. The cash flow statement also compliments a company's income statements and balance sheet.

I have analyzed my team's company Andrews visible trends, highs, and lows of its cash flow statements in rounds 1-8. I will also incorporate the visible trends, highs, and lows of my team's company top competitor team Digby. At the end of round one my teams NET INCOME was \$4, 018. That figure placed our team in sixth place overall in regards to net income at the end of round one. Our top competitor Digby's NET INCOME at the end of round one was \$5, 574; that figure placed them in third place overall in regards to net income. At the end of round two my teams NET INCOME was \$8, 188. That

figure placed our team in second place overall in regards to net income at the end of round two. Our top competitor Digby's NET INCOME at the end of round two was \$8, 198, that figured placed them first place overall in regards to net income. At the end of round three my teams NET INCOME was \$9, 441.

That figure placed our team in first place overall in regards to net income at the end of round three. Our top competitor Digby's NET INCOME at the end of round three was \$4, 629; that figure place them in fifth place overall in regards to net income. At the end of round four my team's NET INCOME was \$15, 173. That figure placed our team in first place overall in regards to net income at the end of round four. Our top competitor Digby's NET INCOME at the end of round four was \$8, 435; that figure placed them in fourth place overall in regards to net income. At the end of round five my team's NET INCOME was \$33, 555. That figure allowed our team to stay in first place overall in regards to net income at the end of round five. Our top competitor Digby's NET INCOME at the end of round five was \$3, 404; that figure placed them in fifth place overall in regards to net income.

At the end of round six my team's NET INCOME was \$27, 894. That figure allowed our team to stay in first place overall in regards to net income at the end of round six. Our top competitor Digby's NET INCOME at the end of round six was \$17, 363; that figure placed them in third place overall in regards to net income. At the end of round seven my team's NET INCOME was \$15, 184. That figure dropped our team back down to fifth place overall in regards to net income at the end of round seven. Our top competitor Digby NET INCOME at the end of round seven was \$20, 952; that figure

allowed them stay in third place overall in regards to net income. At the end of round eight my teams NET INCOME was displayed at \$40, 649. Our top competitor's NET INCOME at the end of round eight was displayed at \$34, 423. The figures showed that my team was still in the lead at number one in regards to NET INCOME. The figures also showed that our top competitor Digby had excelled to number two in regards to NET INCOME. The overall NET INCOME trend of the company Andrews is the company experienced a steady rate of increase until the end of round six.

The company also experienced an additional decline in its net income at the end of round seven. However at the end of round eight the company managed to more than double its net income from round seven to eight (\$40, 649). Andrews top competitor Digby experienced an increase from rounds one to two. During round three the Digby experienced a slight decline in its net income. At the end of round four the company was able to almost double its net income from \$4, 629 to \$8, 435. That success was short lived because at the end of round five the company net income had declined to \$3, 404. The company was able to pull it together a managed to increase its net income over the course of rounds six through eight. Digby ended round eight with a net income of \$34, 423.

#### CURRENT RATIO:

The current ratio is a liquidity ratio that measures a company's ability to effectively pay off its short-term obligations. The higher the current ratio, it is said the more capable the company is of paying its obligations. If a company's current ratio is less than one it strongly suggests that the company would be unable to pay off its obligations, over the next 12 months

(" Current Ratio, " 2015.) . The current ratio is an indication of a firm's market liquidity and ability to meet creditor's demands. An acceptable current ratio varies from industry to industry, however are generally between 1.5 and 3.

If a company falls between 1.5 and 3 the company is considered to be in good financial health. The current ratio formula is:  $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$ . I have analyzed my team's company's current ratio for simulation rounds 1-8. I will discuss the visible trends, highs, and lows of my team's company's performance in each of the designated rounds. I will also incorporate the visible trends of my team's company's top competitor's current ratio. ROUND ONE:

During round one my team's company Andrews had a Current Ratio of  $\frac{\$30,811}{\$61,495} = .5010$ . Our top competitor Digby had a Current Ratio of  $\frac{\$37,193}{\$52,287} = .7113$ . The competition was able to secure a greater number of current assets and a lower number of current liabilities. The above mentioned figures ultimately signified that the competitor Digby has a greater ability to pay off its short term obligations. ROUND TWO:

During round two my team's company Andrews had a Current Ratio of  $\frac{\$25,820}{\$66,282} = .3895$ . Our top competitor Digby had a Current Ratio of  $\frac{\$47,367}{\$64,149} = .7384$ . The competition was able to secure a greater number of current assets and a lower number of current liabilities. The above mentioned figures ultimately signified that the competitor Digby has a greater ability to pay off its short term obligations.



**ROUND THREE:**

During round three my team's company Andrews had a Current Ratio of  $\$28,755/\$81,522 = .3527$ . Our top competitor Digby had a Current Ratio of  $\$48,847/\$71,333 = .6848$ . The competition was able to secure a greater number of current assets and a lower number of current liabilities. The above mentioned figures ultimately signified that the competitor Digby has a greater ability to pay off its short term obligations.

**ROUND FOUR:**

During round four my team's company Andrews had a Current Ratio of  $\$36,926/\$88,093 = .4192$ . Our top competitor Digby had a Current Ratio of  $\$70,961/\$83,313 = .8517$ . The competition was able to secure a greater number of current assets and a lower number of current liabilities. The above mentioned figures ultimately signified that the competitor Digby has a greater ability to pay off its short term obligations.

**ROUND FIVE:**

During round five my team's company Andrews had a Current Ratio of  $\$46,333/\$120,703 = .3839$ . Our top competitor Digby had a Current Ratio of  $\$64,425/\$91,708 = .7025$ . The competition was able to secure a greater number of current assets and a lower number of current liabilities. The above mentioned figures ultimately signified that the competitor Digby has a greater ability to pay off its short term obligations.

**ROUND SIX:**

During round six my team's company Andrews had a Current Ratio of  $\$43,435/\$157,643 = .2755$ . Our top competitor Digby had a Current Ratio of

$\$106,228/\$122,740 = .8655$ . The competition was able to secure a greater number of current assets and a lower number of current liabilities. The above mentioned figures ultimately signified that the competitor Digby has a greater ability to pay off its short term obligations.

#### ROUND SEVEN:

During round seven my team's company Andrews had a Current Ratio of  $\$49,847/\$133,637 = .3730$ . Our competitor Digby had a Current Ratio of  $\$108,918/\$146,494 = .7435$ . The competition was able to secure a greater number of current assets. However during this round the competition had a greater number of current liabilities. Even with the competition having a greater number of current liabilities, Digby were still able to secure a higher Current Ratio. The competition still at the end of round seven has a greater ability to pay off its short term obligations.

#### ROUND EIGHT:

During round eight my team's company Andrews had a Current Ratio of  $\$55,503/\$135,961 = .4082$ . Our competitor Digby had a Current Ratio of  $\$139,398/\$145,337 = .9591$ . The competition was able to secure a greater number of current assets. However during this round the competition had a greater number of current liabilities, as they did in round seven. Even with the competition having a greater number of current liabilities, Digby were still able to secure a higher Current Ratio. The competition still at the end of round eight has a greater ability to pay off its short term obligations.

#### BALANCE SHEET:

A balance sheet is a financial statement that summarizes a company's

assets, liabilities and shareholders' equity at a specific point in time; it is also referred to as the statement of financial position (" Balance Sheet," n. d.). Those three particular segments from the balance sheet give investors an idea as to what the company owns and owes. The segment's also displays the amount invested by the shareholders. This is valuable information to a banker, when a company inquires about a loan. The information plays a key role in whether or not a banker will issue a company additional credit or loans. A company's balance sheet must follow the following formula:  $ASSETS = LIABILITIES + SHAREHOLDERS' EQUITY$ . I have analyzed the balance sheet of my team company Andrews and our top competitor Digby.

The company Andrews' assets increased at a steady rate until round seven when the company's assets declined from \$335, 965 in round six to \$237, 391 in round seven. The company's assets began to increase again in round eight (\$265, 964). The company Digby balance sheet displayed a continuous increase from round one through round eight. The Digby Company displayed an above \$10, 000 increase in assets with each passing round. During the analysis it was evident that team Andrews had a higher total of assets than team Digby, for each round except rounds seven and eight. In round seven team Digby had a total of \$53, 796 more assets than team Andrews. In round eight team Digby had a total of \$36, 901 more assets than team Andrews.

Assets by Round for Team's Andrews and Digby

ANDREWS

DIGBY

R1: \$123, 731

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R1: \$106, 327

R2: \$146, 652

R2: \$128, 941

R3: \$186, 363

R3: \$139, 133

R4: \$206, 595

R4: \$156, 181

R5: \$272, 019

R5: \$176, 459

R6: \$335, 965

R6: \$235, 268

R7: \$237, 391

R7: \$291, 187

R8: \$265, 964

R8: \$302, 865

#### INCOME STATEMENTS:

Income statements are one of the three major financial statements that measure a company's financial performance over a specific accounting period. The income statements are also known as the profit and loss statement or the statement of revenue and expense. The income statement is divided by the operating and non-operating sections. The income statement is valuable because it displays the profitability of a company during the specified time interval. The income statement shows revenues, gains, expenses, and losses. The profitability of a company is important to bankers, lenders, and creditors. These individuals can use a company's

income statement to verify whether or not a company is profitable (“ Income Statements,” n. d.). If a company is not able to operate profitably, the bottom line of the income statement will indicate a NET LOSS. If the company is operating profitably, the bottom line of the income statement will indicate a NET INCOME. I have analyzed the income statements for my team’s company Andrews and our top competitor Digby.

Based on the information discussed above the overall trend of my team’s income statements are the company is operating profitably. My team’s company displayed an increase in NET INCOME with each passing round until rounds six and seven. At the end of round six the team’s NET INCOME decreased to \$27, 894, from \$33, 555 in round five. At the end of round seven the team’s NET INCOME decreased for a second year to \$15, 184, from \$27, 894 in round six. At the end of round eight the team’s NET INCOME increased substantially to \$40, 649, from \$15, 184. Overall, the company Andrews was profitable at the end of each simulation round. The team Digby displayed an up and down trend in regards to NET INCOME.

The company increased its NET INCOME from \$5, 574 in round one to \$8, 198 in round two. The company’s NET INCOME decreased from \$8, 198 in round two to \$4, 629 in round three. The company’s NET INCOME increased from \$4, 629 in round three to \$8, 435 in round four. The company’s NET INCOME decreased from \$8, 435 in round four to \$3, 404 in round five. The company’s NET INCOME increased dramatically from \$3, 404 to \$17, 363 in round six. The company’s NET INCOME increased from \$17, 363 in round six to \$20, 952 in round seven. The company’s NET INCOME increased from \$20, 952 in round seven to \$34, 423 in round eight. The company was able to

begin a trend of steady increases from rounds six through eight. Overall, the company was able to be profitable at the end of each simulation round.

#### ETHICAL DECISIONS:

I have analyzed the ETHICS REPORTS for my team's company Andrews and our top competitors company Digby. Below I will discuss the trends, highs, and lows for both companies in regards to the impacts of their chosen ethical decisions. At the end of round one and two the company's displayed the same figures in their ETHICS REPORT. Please view chart below for the displayed figures in rounds one and two. TOTAL

During round three of the simulation each team member had to place a vote in regards to ethics, before moving on in the competition. The Andrews team consciously voted for action C in the Vignette: Greening the Message. Action C: indicated despite protests from the marketing department incorporate the green message into a corporate-oriented campaign, acknowledging improved energy efficiency and honestly stating that production waste has not yet been decreased but that the company is working to achieve it. Action C received 230 course votes. The impacts of choosing action C in round three increased the demand factor by 2%; it increased the administration cost impact by 50%, and increased the awareness impact by 7%, for the company Andrews. The company Digby only saw increases in its demand factor which increased by 1% during round three. All other numbers stayed the same.

During round four of the simulation the team Andrews displayed an additional 3% increase in the awareness impact, which brought the

awareness impact up to 110%. The company Digby didn't see any increases in any areas during round four. All other numbers stayed the same.

During round five of the simulation each team member had to place a vote in regards to ethics, before moving on in the competition. The Andrews team consciously voted for action B in the Vignette: To Speak Or Not To Speak.

Action B: indicated providing the vice president of production with marketing's sales forecast so he can continue working on the ISO certification, but say nothing further about the solvent issue. At the golf outing, casually mention your concerns to the senior vice president of production. Action B received 402 course votes. The impacts of choosing action B in round five had the following impacts on the company Andrews: decreased Other (Fees, write-offs, etc. by \$930, increased the demand factor by 5%, which brought the total demand factor up to 107%, increased the material cost impact to 105% from 100%, and The company Digby also experienced a decrease of \$930 in Other (Fees, write-offs, etc.), the demand factor total increased from 103% to 108%, and the material cost total increased from 100% to 105%. All other numbers stayed the same.

During round six of the simulation each team member had to place a vote in regards to ethics, before moving on in the competition. The Andrews team consciously voted for action C in the Vignette: Face Up To It. Action C: indicated notifying senior management of the tainted contract and let the General Counsel attempt to renegotiate it, despite the potential loss of wide margins built into the initial contract. Terminate the sales rep. Institute departmental training sessions, which underscores your company's code of conduct. Action C received 558 course votes. The impacts of choosing action

C in round six had the following impacts on the company Andrews: the demand factor displayed at 98%, which indicates that the demand factor fell 2%. The company Digby also experienced a 2% fall in the demand factor. The company Digby also experienced a decrease of \$200 in Other (Fees, Write-offs, etc.) under the Vignette Greening the Message. All other figures remained the same.

During round seven of the simulation the company Andrews experienced a 1% decrease in demand factor (104%) under the Vignette To Speak Or Not To Speak. However, under the Vignette Face Up To It the company experienced a 3% increase in the demand factor (103%). The demand factor remained the same under the Vignette Greening the Message at (102%) bringing the company's total demand factor to 109% at the end of round seven. During round seven of the simulation the company Digby experienced a 5% increase in demand factor (103%) under the Vignette Face Up To It. The company also experienced a 50% in administrative costs impact (150%) under the Vignette Face Up To It. The company experienced a 1% increase in demand factor (101%) under the Vignette Greening the Message at the end of round seven. The company also experienced a 1% increase in demand factor (105%) under the Vignette To Speak or Not at the end of round seven. All other figures remained the same.

During round eight of the simulation the company Andrews experienced a 10% decrease in the productivity impact (90%) under the Vignette Face Up To It. That was the only change in figures of the course of round eight for the Company Andrews; all other figures remained the same. During round eight of the simulation the company Digby also experienced a 10% decrease in the

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productivity impact (90%) under the Vignette Face Up To It. The Digby Company also experienced a 4% decrease in the demand factor under the Vignette Greening the Message at the end of round eight. All other figures remained the same under the Digby Company.

### 3. Stock Price Analysis (D3)

#### Ending Stock Price

Team TRAC had a stock market price at closing in round 8 of \$111. 50. While that was not the highest ending stock price for that round as competitor Digby had an ending stock price of \$124. 93. With that being said, TRAC improved the ending stock price each round, with the exception of round 7, and was typically ahead of the competition throughout all 8 rounds. Erie was the top competitor and the charts below show how the ending stock price for TRAC and Eric compare over the 8 rounds.

When compared to the top competitor Erie, TRAC outperformed the competition with overall end stock price round by round and had an average ending stock price of \$69. 79 over the 8 rounds compared to \$59. 63 for Erie. When specifically looking at TRAC's performance, the company had an ending stock price of \$34. 25 in round 0. In round 1, the price increased to \$38. 49, which was a \$4. 24 increase while top competitor Erie stock increased to \$39. 43, which is a \$5. 18 increase. In round 3, TRAC had an ending stock price of \$52. 15, which was an increase of \$7. 71 over round 2 while Erie had a stock price of \$39. 97 which was a decrease of \$1. 98 over round 2. In round 5, TRAC had an ending stock price of \$96. 00, which was

an increase of \$33. 80 over round 4 while Erie had a stock price of \$51. 52 which was an increase of \$ 12. 15 over round

4. Finally, in round 8, TRAC had an ending stock price of \$111. 50, which was an increase of \$33. 97 over round 7 while Erie had a stock price of \$115. 52, which was an increase of \$24. 16 over round 7. As shown in the chart above, the ending stock price for Team TRAC increased every round except round 7. The reason for this was drop in stock price was because our profits were impacted by investments into the company as well as a having a large amount of remaining inventory due to an error in forecasting. Our business strategy of broad differentiator was successful because we took the time to build our assets, products, and improve our marketing so that we were able to successfully obtain a greater percentage of the markets and increase our profit margins. Our stock price was also helped out because we did not take out any emergency loans which helped to keep our stockholders happy and our stock price stay strong. Dividends

A dividend is a distribution of a portion of a company's earnings that the company has decided to issue to its shareholders. It is standard business practice to not issue a dividend that is greater than the earnings per share of the company because that type of financial reward is not sustainable and would put the company in financial danger if it done on a continued basis as all the company's equity would eventually be paid out. The dividend that Team TRAC paid out per round is shown on the chart below as well as that of top competitor Erie.

Team TRAC agreed to pay dividends in rounds 0, 2, 4, 5, 6, 7, and 8. Erie paid out dividends in rounds 0, 2, 3, 6, and 8. TRAC ensured that the dividends did not increase over the earnings per share with the exception of round 7. In round 7, the company made the decision to issue an unusually large dividend so that its working capital and leverage would not be negatively impacted as those areas would have had more of a negative impact on the company than issuing the \$26.00 dividend. This was the only round where the company went over the earnings per share and stepped out of the business strategy but it was done with the understanding that it was a one-time decision made to correct other areas that were necessary.

It is to be noted that top competitor Erie kept their dividends under their earnings per share for each round that one was issued. We decided that we would not offer a larger dividend until later in rounds because we wanted to make sure we spent any excess funds in plant improvements as well as marketing and R&D. By making these investments early, it set the company up to be able to offer greater dividends in the future. Our earnings per share increased throughout the rounds, with the exception of rounds 6 and 7, and we were able to decide that we wanted to leverage our finances through stocks, bonds, and retained earnings. By doing this, as well as making other cuts in areas such as R&D, marketing, or production, we were able to stick with our financial plan and remain financially strong throughout the 8 rounds. Our dividends were from our profits that were not required in order for our growth in working capital or plant upgrades. Earnings Per Share

Earnings per share are the company's profits divided by outstanding shares. The EPS is used to determine the amount of wealth that is being generated

from each share of company stock. This can be used to forecast future earnings and is either paid out to stockholders as a dividend or it is kept by the company in order to invest back into the company. TRAC used our profits to pay dividends as mentioned above in several rounds but not at the expense of the overall financial health of our company and always, with the exception of round 7, had a dividend that was under the EPS.

TRAC was able to reinvest in our R&D for products, increase our marketing for those products, fully automate our plant operations, and also pay out the dividends as listed above so that we could continually grow our company and gain market share. We were able to do this while paying close attention to the EPS and ensuring that the decisions that were made, were done so with the full financial picture of the company in mind including the EPS. The top competitor Erie was able to keep their dividends under the EPS as well; however, their EPS fluctuated throughout the rounds and could signal that they had to make improvements or investments to their company. Bond

#### Rating

The bond rating for Team TRAC was affected by our company's leverage. Many times, the bond rating can be viewed as the "credit score" for a company and is rated by letters such as D, where the company is in default for non-payment of principal and/or interest; BB, B, CCC, CC, C, where the bonds have a low credit-quality and has a non-investment grade; AA and BBB, where the bonds have a medium credit-quality investment grade; and AAA and AA, where the bonds have a high credit-quality investment grade. The higher the bond rating, the less interest the company will be paying when money is borrowed.

As shown on the chart above, the bond rating for Team TRAC started out as a B in rounds 0 and 1, which was a low credit-quality and then in rounds 2 and 3, the company improved their bond rating to a BB which is slightly better than they were before. In round 4, the company improved again to a BBB rating which is a medium investment quality bond, before falling back to BB in rounds 5 and 6. In round 7, the company dropped to a CC rating and a CCC in round 8. Both of these ratings for rounds 6 and 7 are in the low credit quality rating so the company stands to improve on these ratings in future years. Top competitor Erie had a bond rating of B in all rounds except 4 and 6 where the rating was CCC. Even with the change, the company's bond ratings throughout the 8 rounds were in the low credit quality. With that being said, even with the struggles that TRAC showed in bond ratings, it still outperformed their top competitor in bond ratings as shown in the chart above. Again, this is an area that TRAC will want to improve upon in the future as the company moves forward and makes new financial decisions.

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