Guillermo furniture store

Finance

Guillermo Furniture Store is a company that was enjoying great success due to favorable market conditions. The company had cheap labor available, agreat supplier of timber, and a quality product that the company could sell at premium prices. During those times the financial statements of the company including its income statement showed great profitability. When costs are down and prices are up corporations can generate better profits. Guillermo Furniture Store in the late 1990's found out that in business one must adapt in order to continue success. The principle of valuable ideas states that new products and services can add value to a company (Emery & Finnerty & Stowe, 2007). Guillermo faced new competitors that utilized innovation in manufacturing processes to create an automated furniture manufacturing operation that required minimum labor. The competition was able to offer products of good quality with great precision at rock bottom prices. When the new competition came into the market Guillermo Furniture Store faced a variety of problems. During the same timeframe other factors affected the Sonora region as more people moved into the area due to social and economical progress; as a consequence the costs of labor climbed. Guillermo Furniture Store had an old school manufacturing system that was highly dependent on manual labor. When labor prices increased the cost structure of Guillermo Furniture Store went up a lot. As the company faced higher costs the revenues of the firm decreased simultaneously because the competition took a lot market share away from Guillermo Furniture Store. The company suddenly was faced with financial distress and liquidity problems. When a firm faces liquidity problems they lose their ability to pay off its obligations. A ratio that measures a company's ability to pay off its short term debt is the current ratio (Accountingformanagement, 2011).

Guillermo realized that the firm needed to make changes. In the business world change is inevitable and managers have to adapt to the changes in order to survive. A solution that was evaluated by Guillermo was a merger & acquisition. Despite the trend in the industry of consolidation by companies Guillermo did not want to give up control. A second option presented to Guillermo was to acquire another firm that could manufacture its products at a lower price. The problem with this solution was that Guillermo did not want to spend all of his time at work. Buying a new company would require a full commitment from Guillermo and he wanted to spend more time with his family. A third alternative for Guillermo was to invest in new machinery and equipment to automate the operation. Automation can increase productivity and reduce cost (Referenceforbusiness, 2011). One of the major financial issues with the automation alternative is the high capital requirements to implement the solution. The high tech approach could cost Guillermo over a million dollars to implement the solution and since there was other competition in the local furniture industry using the same approach the company had a high risk of a long payback period on the investment. The payback period can be defined as the time it takes for a company to recover its full investment (Valuebasedmanagement, 2011). Guillermo Furniture Store decided to seek a different option that required a low investment, but enabled the company the ability to lower its cost of goods sold. The solution the firm settled on was to form an alliance with a Norway company to distribute their furniture products in the Unites States. The strategic approach selected by Guillermo Furniture Store allowed the store to capitalize on its brand value and experience selling furniture products. The firm's competitive advantages were emphasized by this strategy, while its

weaknesses were neutralized. The use of financial concepts helped Guillermo Furniture Store assess the situation the company was going through in order to find the most viable solution. The firm realized that market changes had changed its cost structure due to higher labor costs and that new competition eliminated the edge the firm enjoyed for many years. The firm found a way to increase its profitability by changing the product offering of the company. Instead of producing its own goods the company realized that it could make more money by becoming a distributor. References

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