Fingame 5.0 case study essay

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The Box Inc. , where we think Term Project: The Box Inc™ University of the West Indies, Cave Hill Campus Lauriston Streekes Lecturer: Dr. Justin Robinson Date: 4 August, 2011 The Box Inc. , where we think 2 August, 2011 MEMORANDUM TO: Board of Directors FROM: CEO SUBJECT: Performance Report (Q1 to Q12) The Box Inc. was established eleven quarters ago to bring a high quality product to the marketplace, filing a void for boxes made out of 100% recycled material. From the outset the aim of the organization was to maximize shareholder wealth and mould the company into a leading manufacturer of packaging material.

Having been selected to lead that task, I was honored at the confidence placed in me to guide this new and energetic organization into the competitive world of business. As with all business ventures there are challenges along the way, and we at the Box Inc. had ours to face, namely a machinery fire in Quarter 5 (Q5) and industrial (strike) action in Q7. Both of these scenarios provided minor setbacks but the management team at the Box Inc. did not lose a beat, ensuring that any disruption faced had minimal effect on the organization.

The results of these events also placed a toll on our financial performance and a reevaluation of the financial strategy had to be implemented. At the end of Quarter 12, I am pleased to report to the Board of Directors that the Box Inc. has met all of the challenges which came its way and was able to keep the organization in a positive growth level, while maintaining shareholder wealth at a respectable value. It was a pleasure to serve this board during the last twelve quarters and I look forward to the next twelve quarters and the exciting path that lies ahead for this organization.

Sincerely, Lauriston Streekes Chief Executive Officer The Box Inc. , where we think A t the end of Q12, the financial position of The Box Inc. showed a slight decline compared to previous quarter, however, plans to chart the way forward for the organizations have started. After an analysis of the Q12 results, management thought that in hindsight, it is possible that a higher price point could have been utilized. In addition, the financial management policy of the last three quarters was reviewed and it was felt that it may have been more prudent in the long run to have reduced the payment amounts on the loans and secure additional financing to re-build the capacity.

This would have been a more long-term view compared with the short-term approach that was used. This fact has been noted, and a revised medium to long term strategy for the organization is being devised. While the strategy for the last three quarters was that of moderate growth and conservative financial management with the aim of maintaining positive growth and a relative stable shareholder value, the organization’s plans for Q13 to Q16 call for a more aggressive approach.

This will start with the purchase of 35, 000 units of plants at a cost of $8, 295, 000 and the purchase of 105, 000 units of machinery for $3, 485, 000. It should be noted that at the end of Q12, the per unit cost of plant and machinery (especially plant) has reduced, so the financial investment required, while substantial will still see the organization save around $3, 000, 000 compared to the plant unit prices which were in place the last few quarters. In an effort to finance these important upgrades to the physical plant, The Box Inc. will return to the credit market to secure a 10, 000, 000

3yr loan and a $4, 000, 000 bond. This raise in the debt financing will increase the principal repayment to around $2, 000, 000 per quarter, However, with the cash in hand and marketable securities available, the management team is confident that these transactions will be manageable once a structured re-payment plan is implemented and followed. This strategy will also increase the debt to equity ratio in favour of debt, which is a cheaper form of financing for an organization to pursue. However, firms must be careful not to have too much debt and should look to strike a balance.

Based on the pro-forma forecast for Q13, if such a debt arrangement as described above transcribed the debt ratio would be 0. 59, which still places the organization under the threshold of 1. As such, the management team feels confident of its ability to repay the loan requirements, also taking into consideration the additional revenue forecasted from the increased unit sales as a consequence of increased machine and plant capacity. 3 4 The Box Inc. , where we think Forecast Management will also be implemented from Q13 onwards.

This would comprise a special unit within the Strategic Planning Division which will closely monitor and analyze the forecasts and trends as it pertains to unit production and price elasticity of demand. While there are many ratios used to analyze and gauge a firm's performance, The Box Inc. chose five ratios/data points which shall be used as a baseline to the organization's overall performance. These ratios/data points were chosen as they were seen to give a good indication to how the firm is maintaining its goals of a balance between profits, debt management and shareholder value.

The ratios in the table below will be used as a guideline to assist in the organization’s future operations. In order for an organization to progress, it is important to look back at its past performance, see what was done right, what was done wrong and what could be improved. The matrix below, patented by the firm as “ The Box Inc. Performance Metrics Ratio-Analysis Dashboard™” shall be used as a guide and a benchmark for future performance analysis by the management team. The Box Inc. Performance Metrics Ratio-analysis dashboard ™

Ratio Current ratio Cash ratio Debt ratio Earnings per share Quick ratio Q1 2. 16 Q2 3. 36 Q3 3. 82 Q4 4. 23 Q5 3. 45 Q6 3. 61 Q7 2. 17 Q8 3. 00 Q9 2. 43 Q10 3. 05 Q11 Q12 2. 98 0. 57 0. 44 $0. 69 2. 98 3. 03 0. 8 0. 43 $0. 30 3. 03 0. 03 0. 33 $0. 74 1. 30 0. 27 $3. 87 1. 15 0. 20 $1. 08 1. 95 0. 16 $0. 53 1. 63 0. 49 $0. 29 1. 37 0. 50 $0. 49 1. 24 0. 55 ($2. 39) 0. 48 0. 56 $1. 01 0. 35 0. 57 $1. 35 0. 06 0. 47 $0. 59 1. 91 3. 21 3. 81 4. 23 3. 45 3. 61 2. 17 3. 00 2. 27 2. 27 T his section will examine the liquidity performance of the firm and related management decisions.

A matrix of The Box Inc. ’s cash management position can be found in Table 1. 1. 4 5 The Box Inc. , where we think A management decision was made to retain a cash balance of between $2, 000, 000 and $4, 000, 000. While it Item Box highlighted in yellow Description This shows that an extraordinary occurrence happened that quarter is well established that having too much cash on hand is not the best strategy for a business, management at The Box Inc. strongly believed that having ready access to this amount of cash would assist the organization in situations where a crisis may arise.

Such instances were experienced in Quarters 5 and 7 with a fire and labour strike respectively. The maintenance of a fairly substantial cash balance was one of the areas which assisted the firm to maintain positive overall growth. The organization also maintained an active short-term investment policy ranging from $300, 000 to $1, 000, 000 per quarter. This policy started modestly at $300, 000 in Q3 and was increased to $1, 000, 000 from Q5 to Q9. From Q10 to Q12 a re-adjustment to the policy was made as the organization's financial strategy was re-aligned to maintain moderate growth until Q12.

A decision was made to take a very moderate risk tolerance approach and a risk level of 1 on a scale from 1-9 was the highest risk level taken. The firm maintained an average quick ratio of 2. 99 during the 12 quarter period, which was within the organization's goal of 2. 5 to 3. 5 times. As such, based on the ratio, on average the organization had adequate levels of current assets to cover its current liabilities by 2. 99 times on a quick ration basis. Table: 1. 1: Cash Management Item Cash Balance Marketable Q2 $4, 906, 504 $200, 000 $0 Q3 $3, 521, 664 $752, 025 $0 Q4 5, 988, 601 $1, 052, 025 $0 Q5 $6, 955, 105 $2. 052, 025 $0 Q6 $4, 638, 155 $3. 133, 954 $0 Q7 $, 358, 738 $4, 037, 457 $0 Q8 $2, 208, 116 $5, 088, 685 $0 Q9 $2, 363, 725 $6, 150, 443 $0 Q10 $228, 905 $6, 799, 397 $0 Q11 $2, 062, 629 $7, 122, 482 $0 Q12 $3, 121, 953 $7, 577, 993 Securities Short-term penalty loan $0 * An extraordinary gain of $5, 000, 000 occurred in Q2, a fire in Q5 and a strike in Q7. KEY 5 6 The Box Inc. , where we think During the first year (Quarters 1 to 4) the share price increased by $39. 56 from $35. 57 to $75.

15. During this time the net returned earnings remained at a reasonable level.

The two biggest fluctuations were noted in Q2, with an extraordinary sum of $5, 000, 000 received and Q4 with a reduction in net earnings to $430, 163. While the extra funds from Q2 were invested into short-term investments, machines, plant and to service loan payments, a mis-interpretation of the forecasted plant and machinery capacity resulted in the firm’s capacity dwindling to 65, 000 in Q4. To compensate for this reduced capacity a decision was made to increase the sale price per unit to $110 which was more than $6 above the forecasted figure.

The strategy worked and no units remained at the end of the quarter. This initial result was seen by management as a possible situation of price inelasticity in the market, however, this could not be determined at this time as there was only data from one quarter which was insufficient to perform any analysis or view any trends. However, this situation was noted for future quarters as plant and machine capacity would still remain low (65, 500) for the next quarter. At the end of Q4 a strategy was devised for the up-coming year, especially as it pertained to plant and machinery.

A decision had to be made whether being solely driven by profit margins that could be experienced by the increased capacity could be justified when weighted against the increased debt burden the organization would face. A decision was made to maintain a balance between profits and debt tolerance, while continuing efforts to increase shareholder value and investor confidence. In addition, from Q13 onwards, a renewed effort will be placed

on evaluating the project options available each quarter to ascertain whether it would be beneficial to the organization based on the results of the NPV calculation and subsequent environmental analysis. 7 D The Box Inc. , where we think ecisions on project implementation were made from Quarters 2 to Quarter 12. Following accepted Corporate Finance procedures, the decision whether to accept or reject the project was based on the NPV (Net Present Value). A value of 0 or above and the project is accepted, while a value below zero, the project was rejected. While this principle was utilized, management of the Box Inc. did not utilize the correct cost of apital during the periods of Q2 to Q12, as such some of the decisions to accept or reject the project would have varied once the correct cost of capital figure was used. For this report, the calculations and decision for Q9 will be utilized. It must be noted that the cost of capital figure presented in this document is the revised number. After the revision of the cost of capital, the decision to accept Project A still stands, however, the decision to accept Project B should have been rejected. Management acknowledges that the utilization of incorrect data could have an impact on the firm’s bottom line.

We are happy to report that while the utilization of the incorrect cost of capital data resulted in bad project decisions being made, the overall management strategy utilized by the firm ensured its fairly stable position in the market place, including retained earnings of over $10 million dollars. However, we will endeavor in the future to be more stringent when it comes to capital budgeting analysis. Overall, the decisions made by the Box Inc. as it pertains to Capital Budgeting were sound and provided a platform for the

organization's satisfactory performance. Table 1. 2: Capital Budgeting Quarterly decisions

Q2 Project A Project B Q3 Q4 Q5 Q6 Q7 Q8 Q9 Q 10 Q 11 Q 12 Accept Reject Reject Accept Accept Reject Accept Accept Accept Accept Accept Reject Reject Reject Accept Reject Reject Accept Accept Accept Accept Accept Table 1. 3: Quarter 9 Capital Budgeting NPV decision sheet 7 8 The Box Inc. , where we think 8 The Box Inc. , where we think I n relation to production strategy, management has admitted that this is an area where a more formal approach should have been utilized. During the periods of Q1 to Q12 a semi-structured policy was taken in relation to this important area of business. Table 1. 4: Quarterly Performance Data (Production)

After a review of the organization's overall production strategy it is apparent that the forecasted demand information which was available was not utilized to the advantage of our firm. Even with these overall discrepancies there were situations during that corresponding period where a strategic approach was taken. One such instance was in Q3 where an upgrade of 5, 500 units each of plant and machinery was made in anticipation of up-coming forecasted product demand. The cost of this upgrade was around $2, 000, 000 and was partly funded using funds from the $5, 000, 000 extraordinary gain which was realized the previous quarter.

Throughout the 12 quarter period a maximum of 100, 000 units were produced. Except for Q1 which saw production and demand levels equal, Q10 was the only other quarter where production and demand 10 The Box Inc. , where we think were fairly close, the difference being 2, 389 units.

From Q5 production levels dropped to 65, 000. At this point, management came to the decision that an upgrade to the ageing plant and machinery was in order in the tune of 20, 000 units of machinery and 45, 000 units of plant. To assist in the funding of these assets a 10-Year bond was taken out.

Q5 was indeed a busy period for our firm as in addition to the above purchase, there was a fire at our production facility, which caused severe damage to some of the machinery. However, the physical plant was unaffected. The sparing of the plant from damage was good for the organization’s financial standing as the average per unit cost of plant is nearly $300 more than that for machinery. As a result of the fire, The Box Inc. had to make a Q6 investment into the purchase of 82, 200 units of machinery to bring the firm back up to the forecasted capacity level.

This investment at $49 each cost the firm $4, 027, 800. In Q7, the organization received word of an impending strike by the workers. With this information at hand, management realized the possibility of a loss of production. Three options were provided: maintain the current rate, increase by $6. 00 per unit or increase by $15. 00 per unit. If the later of the two options was taken, management was informed of the possibility of averting strike action. After contemplation, calculation of variable options and an analysis of the situation a decision was made not to offer any wage increase.

In the end, the workers did go ahead with their industrial action in Q7 which brought production to a halt (no units produced) and saw the firm make its first and only quarterly net loss. After the realization of the strike action and the corresponding net loss, management made a decision to maintain

production level between 75, 000 and 90, 000 units per quarter with the aim of sustaining quarterly profits. It must be noted that this production goal was modest when compared to the forecasted estimates but management of the Box Inc. ade a decision to follow a moderate strategic plan with the aim of keeping the organization profitable and increasing shareholder wealth. In Q9 a decision was made to purchase an additional 10, 000 units of plant. An overview of the forecast would have suggested a higher purchase amount, however, based on a basic cost-benefit analysis using 15, 000 units as the sample, a net loss of $515, 000 would be made as a result of the difference in the purchase cost of the extra 5, 000 units versus the maximum revenue potential.

The additional 10, 000 units purchased would bring the overall quarterly production total to the 70, 000 unit range, which is around the target the organization has set in order to maintain a moderate growth level and increase shareholder value and wealth. 10 11 The Box Inc. , where we think At the end of Q12 and a review of the production strategy for the last 3 quarters, it was felt that it would have been more prudent to seek additional debt financing and increase both plant and machine capacity to keep up with the forecasted demand and help to improve shareholder wealth.

However, in management, decisions can not be made in a vacuum and there are areas of inter-lap, including market demand versus market elasticity, which will be discussed in the following section on pricing strategy. T purchased. he firm made a decision to utilize the standard forecast products which carried no additional costs upon commencement of operations. Going into Q3, a decision was made to purchase a $30, 000 forecast. After

reviewing the potential benefits, it was felt that these results did not justify the initial cost output.

However, a decision was made to give this special product another try, and the more comprehensive $75, 000 report was purchased in Q5. Again, as with Q3, management did not feel that the results of the special report justified the cost of these products. As such, no further documents were As it relates to an overall pricing strategy, the management of the Box Inc. acknowledges that a comprehensive plan was not followed until Q5. During that quarter a decision was made to increase the per unit sale price to $130, around $27 per unit more expensive than the forecasted price.

The firm decided to gauge the demand dynamics of the market. When the sales results for Q5 arrived, it was reported that as in the previous quarter, all of the units were sold. This result led management to consider the possibility that the economy showed signs of price inelasticity of demand (that is demand is not affected by price changes.) However, management also gave consideration to the fact that these results could also be a result of underproduction for a demand that is inherently there. The management team was also aware that even if there was inelasticity of demand at that time, this situation may not remain.

For Q8, careful consideration was given to all of the factors and variables that could have an effect on the company’s performance for that quarter. With the view of maximizing sale potential as well as taking into consideration a slight increase in production capacity, a decision was made to adjust the per unit price slightly downward to $125 per unit (75, 500 units

produced). At the end of the quarter all units were sold, bringing in revenue of $9, 437. 500 and resulting in a net income of $1, 006, 077. The performance of that quarter saw a slight increase in accumulated wealth to $22. 0 11 12 The Box Inc. , where we think Starting in Q9, a potential change in the market elasticity of demand was seen. This came after the results showed revenue from sales at $9, 615, 105 which represented sales of 71, 233 units at $135. 00 per unit, thus leaving 14, 277 units as ending inventory, the first ending inventory in several quarters. With these results, the firm noted that it may have seen a potential change in the market with a move towards a more elastic economic demand, albeit, the $135. 00 per unit was the most expensive the Box Inc. had sold its units for.

The organization's strategy for the remaining three (3) quarters of the year would be to pursue a moderate growth policy in relation to revenue and ensure that net returns remain positive and that accumulated wealth continues to increase, thus maximizing shareholder value. Having seen the negative result in the previous quarter as it related to sales (a remaining inventory of 14, 277 units) a decision was taken in Q10 to reduce the per unit sale price to $123. 00. Again, signs of a possible change in the market to more of a price elastic demand was seen as a record low 59, 109 units were sold. This left The Box Inc. ith a staggering 35, 168 units available for sale. In addition, Accumulated Wealth dropped to $12. 13. At this point, management made the decision that the Box Inc. had to price closer to the market forecast, not only because of elasticity of demand but also to have a better chance of selling off the excess inventory. Taking the above points into consideration, at the end of Q11, management was pleased with the

results which saw its aggressive pricing and discount strategy paying off. Not only were all units produced sold (70, 500) but all of the opening inventory was also sold, bringing a grand total of 105, 668 units sold for $110. 0/unit. This performance helped to bolster the organization's Accumulated Wealth to $27. 14. Heading into Q12, management was very aware that it would be difficult to increase the Accumulated Wealth based on the capacity constraints (70, 500 units) and the more elastic demand being seen in the economy. Even with this in mind, management was determined to ensure that net income for the quarter remained positive and that the overall retained earnings figure still showed favorably. As such, a conservative approach was taken when it came to pricing and a decision was made to put the per unit price at $110. 0 per unit (around $5. 00 per unit more than the forecast price). From the analysis of the pro forma forecasts, the firm knew that approach would only result in a moderate profit and most likely would reflect in a reduced Accumulated Wealth but management of the Box Inc. wanted to maintain its goal of positive net income while ensuring overall company growth. At the end of the year (Q12), the management of the Box Inc. is pleased to announce that these goals were achieved and the only quarter which registered a loss in Net Income was Q7, as a result of the strike.

In addition, as forecasted by management, the Accumulated 12 13 The Box Inc. , where we think Wealth did decrease, dropping to $18. 11. For Q12, the net income was $195, 126. As with the previous quarter, all of the units produced were sold Table 1. 5: Unit pricing T he calculation of the Weighted Average Cost of Capital (WACC) was utilized to determine the organization's

capital structure. Management of the firm wanted to maintain a debt to equity mix of around 55% debt and 45% equity, as the cost of debt was cheaper than that of equity, ormally averaging around 2 to 4 per cent versus 10 to 11 per cent for equity. In addition, the firm would gain from the tax benefits associated with the utilization of debt versus equity. At the end of Q1, debt was 32% while equity was 68%. By quarters 5 and 6 the mix was roughly split at 50/50 while Q7 saw it climb to 54% debt and 46% equity and Q8 resulted in a mix of 57% debt and 43% equity. By Q12, the ratio fell to around 43% debt and 57% equity, partially due to a more conservative approach by the organization during the last three quarters as it related to debt financing.

From Q13 onwards, a return to a more aggressive approach will be facilitated. The dollar debt and equity issues for each quarter are presented in the table below. 13 14 The Box Inc. , where we think Table 1. 6: Financing matrix The Box Inc. mainly utilized medium and long-term debt as this form of financing generally carried a lower interest rate. In addition, the medium and long term loans affords the organization a longer repayment period. It must be noted that in Q4 a typing error caused the firm to make an early withdrawal on a bond issue which amounted to $200, 000.

A combination of efficient financing decisions as well as debt re-payments helped the firm to reduce its WACC from 8. 83% in Q4 to 6. 34% in Q12. The debt to asset ratio is calculated as total liabilities/total assets. Even though the organization’s aim was to utilize more debt financing than equity, which it managed to on a quarter to quarter basis, overall, the total financing of the firm was slanted more towards an equity basis as can be seen in Table 1. 9

below, Table 1. 7: Weighted Average Cost of Capital (WACC) for Quarter 9 Cost of Capital WACC kD1 wD1 kD2 wD2 kD3 wD3 kD4 wD4 T kP wP kE wE kE1

Quarter 9 5. 33% 2. 90% 0. 00% 2. 97% 6. 35% 3. 11% 19. 79% 3. 70% 31. 12% 40. 00% 4. 88% 0. 00% 10. 00% 22. 41% 10. 00% 14 15 The Box Inc. , where we think wE1 kRF kRM kRM – KRF bA bE D1 g kE Div growth kE CAPM 20. 32% 3. 70% 2. 89% -0. 81% 0. 51 1. 2 $0. 00 10. 00% 10. 00% 2. 73% Table 1. 8: Weighted Average Cost of Capital (Quarters 1 thru 12) Table 1. 9: Debt to Asset Ratio (Market Value) 15 16 The Box Inc. , where we think Q1 Debt to Asset ratio *(Market Value) 0. 33 Q2 0. 27 Q3 0. 20 Q4 0. 16 Q5 0. 49 Q6 0. 50 Q7 0. 55 Q8 0. 56 Q9 0. 57 Q10 0. 47 Q11 0. 44 Q12 0. 43 A ratio less than 1 means that the majority of financing is done through equity A s it relates to the organization's Dividend Policy a decision was made to use a standard and flat Dividend Policy each quarter. This decision was taken because it would satisfy the firm's shareholders as it relates to Dividend payouts and it would allow the firm to re-invest some of its excess profits back into the company for the shareholders benefit in relation to future capital gains. The firm started at a Dividend payment of $0. 10 per share and maintained it throughout the reporting period.

The exception to this was in Q8 and Q9 when shareholders did not receive a Dividend payment even though provision was made for it and the payment instructions were inputed into the computer system. In Q12, management was made aware of the non-payment in Q8 and Q9 and a decision has been made to investigate this situation and report back to shareholders. After the investigation, a special supplementary Dividend payment would be

facilitated. Table 1. 10: Dividend payout and Dividend Payout Ratio Quarter Dividend Dividend Payout Ratio (Dividend/EPS) 0. 13 0. 02 0. 9 0. 18 0. 34 0. 20 n/a n/a n/a 0. 16 0. 14 0. 33 1 $0. 10 2 $0. 10 3 $0. 10 4 $0. 10 5 $0. 10 6 $0. 10 7 $0. 10 8 $0. 00* 9 $0. 00* 10 $0. 10 11 $0. 10 12 $0. 10 *Computer error did not process dividend payment 16 17 The Box Inc. , where we think As it relates to Dividend Policy, firms with a payout ratio of greater than 50% are considered organizations that investors avoid because it is believed that they would not be able to support the current dividend payment based on their earnings. For The Box Inc. , our average Dividend Payout ratio for Q1 to Q12 was 0. 3, a figure that management is comfortable with and one that allows the firm to reinvest part of its earnings back into the organization. T he overall performance of the Box Inc. for Q1 to Q12 can be said to be satisfactory. From the outset, management wanted the firm to remain profitable and add to the shareholder’s accumulated wealth. While the performance can be said to be satisfactory, there are areas for improvement to be made. One such area is in relation to pricing strategy and capital budgeting. As stated previously, a more structured process is equired as it relates to these two important areas of operation. An analysis of the performance indicator table (Table 1. 11) would show a steady increase in the shareholder’s accumulated wealth from Q2 to Q6, however, the Q7 strike not only caused the firm’s first and only quarterly net income loss, it also sent the Accumulated Wealth and share price down dramatically. Through prudent management and planning, the organization was able to slowly rebound from Q8 to Q11, however, even though a net income profit was made in Q12, the overall Accumulated Wealth and Share Price values fell for only the second time.

Management has noted that the drop in Q12 was attributed to the absence of a comprehensive capital budgeting plan which resulted in the firm not having nearly enough stock to meet demand. While in previous quarters this situation could have been modified through an increase in the per unit selling price, starting from around Q9, a potential change in economic demand was seen with a move towards a more elastic demand. As a result, management made the decision in Q12, as in the Q11 to maintain the per unit selling price around that of the forecasted market price.

As a result the Accumulated Wealth for Q12 fell to $18. 11, down from $27. 14 the previous quarter. The share price also saw a similar decline, being reduced from $26. 09 in Q11 to $16. 92 in Q12. Looking at the Return on Investment (ROI) and Return on Equity (ROE) performance ratios, each quarter, with the exception of Q7 registered positive numbers with Q2 seeing the highest ROE with 103. 39%. That quarter also saw the highest Earnings Per Share (EPS) figure with $3. 87. 17 18 The Box Inc. , where we think

Ideally when looking at your organization's performance, an analysis of your competition would be completed. Unfortunately, up until the time of printing information for competitors in our market was unavailable. Table 1. 11: Performance Evaluation C ommencing from Q10, The Box Inc. started to use sales discounts for two reasons. The first was to improve cash flow and the second was to maintain and strengthen the product's market share. The rate options available to the firm were either a 1% or 2% discount. For each of the three quarters the discount was applied a 1% rate was utilized.

It must be noted that for quarters 10 through12 there was a reduction in the Accounts Receivable amounts, however, management is looking into whether this can solely be attributed to the discount policy. In relation to the improvement of cash flow, analysis of several pro-forma runs showed that an application of the discount possible would redound to the benefit of the organization in relation to its cash position. As it pertains to the firm's market share, borrowing from the marketing management concept of the Product Life Cycle (PLC) by Q10 (2 ? ears into the life of the product) the product would be at the mature stage. At this point of the PLC, organizations have to make decisions which would assist the growth of the product, especially as it would now face competition and its " new product" appeal would have diminished by that time. 18 19 The Box Inc. , where we think Thus at this point, an organization has to decide whether it wants to continue the product or to introduce a new product and retire the current line. In the case of the Box Inc. a decision was made to continue with the current product.

As such, the application of the discounts on receivable was looked at with the aim of improving sales by facilitating a discount for cash purchases (although there is no data for the Fingame economy to verify this). Table 1. 12: Discount on Receivables Quarter 1 2 3 4 5 6 7 8 9 10 11 12 Discount rate N/A N/A N/A N/A N/A N/A N/A N/A N/A 1% 1% 1% 19 The Box Inc. , where we think Quarterly Revenue $14, 000, 000 $12, 000, 000 $10, 000, 000 Revenue $8, 000, 000 Series1 $6, 000, 000 $4, 000, 000 $2, 000, 000 $0 1 2 3 4 5 6 7 8 9 10 11 12 Quarter Chart 1. 1: Quarterly Revenue totals ($) Quartlerly Net Income 4, 000, 000 $3, 000, 000 $2, 000, 000 $1, 000, 000 Net Income ($) $0 -$1, 000, 000 -$2, 000, 000 -$3, 000, 000 1 Quarter Series1 Series2

Series3 Series4 Series5 Series6 Series7 Series8 Series9 Series10 Series11 Series12 Chart 1. 2: Quarterly Net Income ($) 21 The Box Inc. , where we think Quartlerly Cash totals ($) $8, 000, 000 $7, 000, 000 $6, 000, 000 $5, 000, 000 Cash ($) $4, 000, 000 $3, 000, 000 $2, 000, 000 $1, 000, 000 $0 1 2 3 4 5 6 7 8 9 10 11 12 Quarter Series1 Chart 1. 3: Quarterly Cash totals ($) Quarterly Retained Earnings $12, 000, 000 $10, 000, 000 $8, 000, 000 $6, 000, 000 $4, 000, 000 $2, 000, 000 $0 1 2 3 4 5 6 7 8 9 10 11 12 Quarter Series1

Chart 1. 4: Quarterly Retained Earnings ($) Retained Earnings ($) 21 The Box Inc. , where we think Debt to Asset Visulization $40, 000, 000 $35, 000, 000 $30, 000, 000 $25, 000, 000 Total Assets $20, 000, 000 $15, 000, 000 $10, 000, 000 $5, 000, 000 $0 1 3 5 11 S1 7 Total Liabilities 9 $35, 000, 000-$40, 000, 000 $30, 000, 000-$35, 000, 000 $25, 000, 000-$30, 000, 000 $20, 000, 000-$25, 000, 000 $15, 000, 000-$20, 000, 000 $10, 000, 000-$15, 000, 000 $5, 000, 000-$10, 000, 000 $0-$5, 000, 000 Quarters Chart 1. 5: Debt to Asset Visualization The Box Inc. , where we think The Box Inc. , where we think 25 The Box Inc. , where we think 25