

# Dupont model analysis assignment



**ASSIGN  
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DuPont Model Analysis: Assignment 1 DuPont Model Analysis: Assignment 1  
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Introduction The DuPont Method is a financial method that was first introduced by the DuPont Company in the 1970's (Brooks, Callahan & Stetz, 2007). It is used to highlight how a company's finances affect its return on investment. This assignment uses the DuPont Method to analyze the finances of Dick's Sporting Goods Company.

In addition, the results of the analysis are compared to imaginary industry standards. Based on the comparison, recommendations will be provided to ensure that Dick's Sporting Goods remains competitive in its market. Analysis Financial records for this analysis were taken from the 2008 annual report for Dick's Sporting Goods. In analyzing the records in accordance to the first level of the DuPont Method, it could be mistakenly agreed upon that the sporting goods company is in good financial shape because its return on equity and capital are both significantly higher than that of industry standards.

However, after further analysis using the DuPont Method, it is clear that compared to industry standards, a problem with Dick's Sporting Goods does exist. The net profit margin, which is a company's percentage of each dollar that remains from a sale after all costs and taxes are paid, is roughly .67% lower than the standard (Brooks, Callahan & Stetz, 2007). At this point one could make the assumption that to resolve this issue the company could raise the price of its products to return a large sale, but to get to the root of the problem, further investigating is needed.

Calculating the finances of Dick's Sporting Goods according to the DuPont Method further revealed that their operating profit margin and their tax rate are both below industry standards. This is significant because these two ratios combined make up the net profit margin which was previously noted as being a problem. The operating profit margin discloses the percent of each dollar remaining after expenses are paid; this excluded income taxes (Brooks, Callahan & Stetz, 2007). The tax rate discloses the percent of each dollar owed to the state/federal government (Brooks, Callahan & Stetz, 2007).

Although we really can not do anything about what we owe in taxes, we can adjust in other areas to reduce our taxable income or expenses. With further analysis of the sporting goods company with the DuPont Method, it was discovered that the gross profit margin and the operating expense ratio are in addition, below industry standards. These two ratios make up the operating profit margin. The gross profit margin shows the percent of profit remaining from a sale after paying for manufacturing costs such as operating and interest expenses and income taxes (Brooks, Callahan & Stetz, 2007).

The operating expense ratio shows the percent of profit remaining from a sale after paying for administrative expenses (Brooks, Callahan & Stetz, 2007). It is clear that there is a problem with the percent of funds being used to pay company expenses. Another below standard area that, according to the DuPont Method, indirectly impacts the gross profit margin and operating expense ratio is the net property, plant and equipment ratio. This ratio shows how effective the company is using its depreciating fixed type assets to produce sales (Brooks, Callahan & Stetz, 2007).

This is critical because a decrease in operational efficiency and productivity could be the result of improper or inadequate maintenance of inefficient fixed assets. Overall, the five areas that are impeding the success of the sporting goods company are: 1. Net profit margin – the company is not receiving a profitable return on its sales 2. Operating profit margin – the company is not maintaining a high percentage of profit after it pays its expenses (excluding income taxes) 3.

Gross profit margin – the company is not maintaining a high percentage of profit after it pays manufacturing costs to produce the sales 4. Operating Expense Ratio – the company is not maintaining a high percentage of profit after it pays fixed asset type expenses 5. Net profit, plant & equipment ratio – the company is not effectively utilizing their depreciating fixed assets. The chart below outlines, in accordance to the DuPont Method, the problem areas and their connectivity to the other areas in the financial model. [pic] Chart 1: DuPont Model of Dick's Sporting Goods

Please note that the areas in red are the problem areas. The arrows show how each area impacts other areas. The table below lists the ratios of Dick's Sporting Goods and their standing compared to industry standards. [pic] Table 1: Comparison chart Recommendations It is recommended that Dick's Sporting Goods execute one critical problem resolution process to regain their competitive edge in the industry. Working from the bottom up, the company should replace the failing fixed assets. New or well maintained fixed assets would increase productivity and result in reduced downtime and costly repairs.

In addition, the net profit, plant & equipment ratio, gross profit margin and operating expense ratio would all increase to at or above industry standards. The direct result of their effort would be seen in the increase net profit margin. Funding for the hardware replacement refresh should be provided through the capital funds on hand. Although the company does not have a large amount of capital to invest at one time, spreading the hardware refresh over a two year period would allow them to execute the refresh without adding to their debt; although their leverage is above industry standards, it is only above by 1. points. Utilizing debt to replace the hardware would potentially put them over the leverage standard. References Brooks, L. M. , Callahan, K. R. , & Stetz, G. S. (2007). Project Management Accounting: Budgeting, Tracking, and Reporting Costs and Profitability. Hoboken, NJ: John Wiley & Sons, Inc. Dick's Sporting Goods Company. (2008). 2008 Annual Report. Retrieved September 14, 2009 from <http://phx.corporate-ir.net/phoenix.zhtml?c=132215&p=irol-irhome>