Case #3

Company: Deloitte (Round: NA)

Topic: Accounting, operations

Industry: Medical Devices

About the Case

This is a financial accounting case focused on a medical device company. The discussion should be conversational but exacting on details. There are no handouts so the candidate should rely on the general data given/created by the interviewer. The basic objective of this case is to test knowledge of the Balance Sheet and how it applies to business operations.

Defining the Problem

A medical equipment manufacturer in the southeastern U.S. has called you in because it feels its working capital requirements are much higher than those of its competitors. How will you help it solve its problem?

Information Gathering

Read this information well before you administer the case. Manage the case discussion and allow the candidate to formulate a plan based on the assumptions and key evidence provided below (case-specific). Offer prompts when necessary and provide the following information if he/she responds correctly and directly to the stimulus offered.

Prompt 1: Financial Data – *Have the candidate identify the CA and CL.*

Answer: Current assets consist of cash, inventory, and accounts receivable and current liabilities consist of accounts payable and short term debts.

Prompt 2: Company Information - *In this section provide background information on the company.*

The company is made up of three divisions. The high inventory problem can be traced to a division acquired by the client about two years ago. The division manufactures equipment for arthroscopic surgery, namely capital equipment and blades which sell are similar to razors and razor blades, just much more sophisticated and expensive.

Prompt 3: Inventory – *Ask the candidate to discuss possible reasons why inventories might be so high.*

Answer: sales, poor forecasting, obsolescence.

Prompt 4: Reasons for Inventory problem – *Explain to the candidate that technology has been changing rapidly and the rate of obsolescence is extremely high. As earlier sales forecasts (shortly after the acquisition) had been overly optimistic, the client now finds itself loaded with obsolescent finished goods inventory. Then ask the candidate to recommend correction actions to remedy the problem*

Answer:

- Determine appropriate levels of inventory such that excess inventory is reduced and customer demands are met.
- Factors that should be considered - Product demand, manufacturing lead times, customer expectations on order lead times.

Prompt 5: Next Steps - *Tell the candidate that the client has 2.5 years of capital equipment finished goods inventory while NONE needs to be carried since these items can be manufactured after receiving the order (i.e. The finished good product is no longer sold.) Then have the candidate wrap up the conversation.*

Model Answer

With respect to technology, while certain aspects of the product may have changed substantially, other are just as likely to have stayed similar to what was previously used and could be salvaged. One could dismantle the product and reuse parts to manufacture the new devices. Selling off the inventory to distributors in less advanced healthcare markets is another way to salvage some of the investment. Alternately write off the non salvageable component parts.

Author's Commentary/Notes

Working capital consists of current assets minus current liabilities, then look at each element of CA and CL to find the problem. Interviewer pressed for a list of CA's and CL's before we talked more about the company details.