The Cardbox Company Case study

1. Business Analysis
    a. The family business is located near an industrial suburb in Barcelona. This is good since it is near its industrial customers. It deals in paper & cardboards.
    b. It maintains a high inventory of its products making it available to the customers in a very short notice, giving it a competitive edge.
    c. The company uses to distribution channels namely online & wholesale distribution.
    d. Sales are reducing, which isn't a good sign of the company's future prospects, as the products' prices go up. The net income is also headed south.
    e. The customers asking for more credit days means the business will take longer to receive money from the debtors forcing the company to seek credit more credit, which will in turn hurt its bottom line further.

2. P & L Analysis
    a. Sales are going down, as well as the cost of goods sold. However, the gross & operating profits are also heading south fast as well as the net income (return on sales).
    b. Due to the economic slowdown, the interest expense is increasing as the company seeks more credit to fund its operations.
    c. Cost of goods sold has gone up, while the operating expenses have remained fairly stable.
    d. The company seems cyclical, & therefore this necessitates use of borrowed funds.

3. Balance sheet Analysis
    a. Payables are reducing, meaning more payments are being made, and therefore could lead to increased need of credit since debtors days have not reduced at the same time.
    b. Equity & reserves have started to reduce past year 2010. This will affect leverage, which may not be a good sign when seeking additional finance.
    c. Return on equity will deteriorate if net income starts heading south.
    d. The company's fixed assets are reasonably low, since they only distribute, not in production of paper & cardboards.
    e. Bad debts have started to eat into the quality of bad debts.
    f. Inventory is of low risk.
    g. The company's leverage is pretty good, about 25%. It should be watched however, for the sake of future borrowing.

4. Diagnosis
    a. The need of funds for operations (of €15,674.00) increases more than the required credit (of €15,000.00) and therefore not enough.
    b. Need of funds for credit need to be reduced, or working capital increased, or the credit line renegotiated with the bank.
    c. Sales are decreasing, and if not taken care of (more sales needed), the future is uncertain.

5. Action Plan
    a. The company should seek to reduce the days for the receivables, & seek to increase sales further, or
    b. Look for markets beyond the industrial suburbs, or
    c. Offer early payment discounts to encourage the clients to pay early, and this will help in reducing the receivables days.

The credit line of €15,000.00 is less that the credit gap of €15,674.00 in year 2009, and therefore not enough.

This leaves the company with few choices:

1. Renegotiate the credit line for more than €15,674.00, or
2. Seek ways to reduce the need of funds for operations e.g. reduce the receivables days, or inventory days, or
3. Increase the working capital.