A short Business Analysis

The Card board company is a Distributive Company which sells Papers and Card boards.Distributive Companies tend to have very low Margins and Fixed Assets.It is located in the Industrial suburban areas of Barcelona which is a stable place for running a company .We donot have any evidence on the Seasonality of the Firm , But since the Spain's Economic Crisis is affecting the business negatively in a significant way , we can conclude that the company is Cyclical in nature.The company's Clients are of two types : Wholesale Distributors who have some power to bargain and Individual Clients who contact the Company through the web page, who donot have much bargaining powers.The Clients seem to be deafulting regularly which is not a good sign.The company has a number of few suppliers which reduces its power to bargain.

The Strategy of the company seems to be a Quick 24 hour delivery service and the Availablity of large number of References in the Catalouge , which means that the company's competitors charge less compared to it .Which is a good strategy for capturing Clients from the Web Page who donot mind to pay a little extra for the hassle free Service , but Wholesale Distributors prefer a lower price more than Quick Service.

This Business is a Family Business , which implies that Alberto Puig, CEO of The Cardbox Co has a good experiance in this field and knows what he is doing. This Company has been running for atleast over a Generation , so the chance of its success in this Economic Crisis is way better than Startups.But still this is the first time the company has faced a reduction in sales which is a significant point to note.

A Brief P&L Statement Analysis

The Gross margin is heavily reduced by 5 % as the COGS grew around 5% between Dec-07 and Dec-08 due to Increase in Material Price . Considering that this firm is a Distributive company which already have very low margins , a 5% reduction in Gross margin is a huge blow to the Profitablity an ROS.

OPEX/Overhead ratio to sales remains same (14%) implying the firm has reached its highest Operational efficiency but as the Sales has dropped around 8% , so did it's OPEX.

The Bad Debt , which is nothing but unpaid sales has increased from 0% to 1% which is a very bad sign.This implies that the clients are also facing a the negative effects of Economics Crisis.

Operating Profit/EBITDA has plummeted upto 5% due Increase in the COGS.Taxes and Depriciation seems to be Stable but the Financial Expense has increased by 1% due an Increase in Interest Expenses due to higher credit borrowing, Which shrunk the EBT upto 6% (from 7% to 1%) ,which devastates the Net income.

The Net Income and ROS has shrunk from 5% to 1% due to Increased COGS and Financial Expenses which is a bad sign.

A Brief Balance Sheet Analysis

Assets: The Receivables have decreased but the Inventory has also increased proportionately , meaning that the Goods are just Accumulating in the warehouse without being sold , this can be seen easily as the Sales have dropped around 8%.This is a big problem as it has Increased our Days of Inventory from 159 to 184 (i.e) a delay of 25 days which generates a loss of 2,326,000 € which is very bad . The Fixed Assets have also Depreciated Signicantly reducing our Total Assets

Liabilities: Payables have decreased significantly due to the drop in sales . Both Short term Credit and Longterm Loan is Increased significantly due to the Increase in NFO% to sales (from 51% to 62%) .Long Term Debt has increased due to Additional borrowing. Equity has increased since no dividends were distributed and small but positive net income.Taxes have dropped due our ver low profit.All the signs point that Liablities are dwindling and increased credit is necessary for survival.

Diagnosis

The First problem here seems to be the Cyclicality of the Company .The Economic Crisis is affecting the Company . The Crisis is reducing the buying power of Customers and thus reducing the sales and also results in the increased bad debt/Client Defaulting due to Extended Payment times.This problem may end once the Crisis ends and Clients recover their Purchasing power but nothing can be done by the firm to affect it.

The second problem is the price of COGS is Increasing rapidly due increase in the price of the Material.This Problem ends only when the cost of the raw material goes down and similiarly the firm has no power to affect it.

The Operational ratios of Days of Collection and Days of Payment seems to be within policy range , But the Days of Inventory has increased due to a drop in sales accumulated Inventory.

The NFO% has significantly increased from 51% to 62% , while the WC has just increased from 12% to 17%. (that too only because of additional long term borrowing)The Net income and ROS has dropped to Negligible amount.

The Forecast (assuming drop in sales by 15%) even after rectifying Days of Inventory , shows an Negative Net Income and ROS with a Huge need for Extra credit of 14.8 Million for 2009.But if the Bank Plans to give 15 million Credit , the firm can survive in 2009

Action Plan

Since the Sales Growth is already dropping , Gross Margins are Squeezed by Increasing COGS and already Efficient OPEX there is nothing we can do in the P & L statement .Similiarly the Operational ratios of receivables and payables are also well within policy Nothing can be done .Reduction in Inventory is not possible , as Huge Inventory with a variety of references is one of the Main strategy of Card Board Company.

Since the Main two problems of the business being Economic Crisis and Increase in COGS cost , both of which cannot be affected by the Company, There is no solid Action plan to resolve the Company's Problem ***Effectively***.

All it can do is , Get Credit from the Bank (which is ready to give upto 15 Million) and survive 2009 as Card Board Company has a Forecasted credit need of around 14.8 Million .

Also the sales in 2010 is forecasted to Increase upto 40 million from (around) 36 Million in 2009 .Which is a Good sign so that the firm can now gain profit and pay back the loans and credit in the upcoming years.