**NetSuite’s Unified CRM and ERP System**

**Increasing the average transaction amount per consumer visit to the store and website.**

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1. **NetSuite’s Unified CRM and ERP System**

As the CIO of *Walmart Inc.,* I have been asked by the other department heads to help complete a new project which shows all the signs of propelling the company forward. To accomplish this, I have been asked to review the company’s financial statements anddetermine the budget and cash flow for the IT department.The CEO has also requested that I propose an IT solution which aligns with the company’s strategic goal: *To Increase the average transaction amount per consumer visit to the store and website.* Thus, I have chosen *NetSuite’s unified CRM and ERP system* as the proposed IT solution.

**NetSuite’s Unified CRM and ERP Description**

First, I will provide a description of *NetSuite’s unified CRM and ERP system* along with the technologies involved and the desired outcomes of the project. *NetSuite’s unified CRM and ERP system* can massively *increase sales performance* by equipping sales with real-time access to prospective customers, existing customers, and order records. It has “integrated sales processes from opportunity, upsell and quote management to sales forecasting, order management, fulfillment and commission, sales performance is greatly improved” (Oracle NetSuite, n.d.).

**Aligns with Company Goals**

This means that implementingNetSuite’s unified CRM and ERP system aligns with the company’s strategic goal: *To Increase the average transaction amount per consumer visit to the store and website.* Many large companies, including, but not limited to, *Nestle, Wells Fargo & Company, T-Mobile Retail USA, Audi of America,* and *Accenture,* have found success in using NetSuite’s unified CRM and ERP system, and *Walmart* can too (Apps Run the World, 2021).

**Aligns with Project Cost**

Implementing NetSuite’s unified CRM and ERP system would cost $19,500,000 (over the next quarter). The initial project costs given in the company’s financial fact sheet is $19,500,000. This means that the cost of the project *aligns with the initial project cost* given in the company’s financial fact sheet.

1. **Description of the Current Financial Position Metrics**

An Evaluation of the Current Financial Position of Walmart will help us decide how the project will be funded. Therefore, his section contains a description of the financial position of the company. Walmart’s most recent 10-Q financial statements will be referenced and evaluated for accuracy to calculate the company’s net profit, retained earnings, liquidity ratios, solvency ratios, and profitability ratios. Since Walmart’s fiscal year has not yet ended, the current financial statements are showing some values only up to six months. All values which are less than one year will be annualized. We can summarize the overall financial position of Walmart, based on how the company’s 10-Q reports its profits or losses, and be able to tell whether there is a financial roadblock to moving forward.

# Net Profit

Firstly, it is necessary to look at the company’s net profit metric, also known as net income, from the *SEC 10-Q* *income statement*. The formula for calculating net profit is **total revenues - total expenses = net income**. The value for net profit can be found in the income statement within the field titled: *Consolidated net income attributable to Walmart.* According to the *September 2, 2021 – 10-Q: Quarterly report for quarter ending July 31, 2021,* the consolidated net income attributable to Walmart over the period: *Six Months Ended July 31, 2021,*is$7,175,000,000. When this number is annualized, the result is $**14,350,000,000**.

This is a *positive* sign and indication that Walmart generated an economic value of $7,175,000,000 within the last six-month period and will have generated an economic value of $**14,350,000,000** by the end of the year. From this, I understand that the company has the potential of funding the project from its net profit value.

## **Retained Earnings**

The next objective is to show the amount of net income which Walmart, has left over after dividends have been paid to shareholders, the retained earnings amount from the *SEC 10-Q balance sheet*, will be presented in this paragraph. According to the balance sheet, the retained earnings metric as of 07/31/2021, is a positive amount of **$84,572,000,000**. This amount is found in the *Equity* section titled: *Retained earnings.* From this, I understand that the company has the potential of funding the project from its retained earnings.

## **Liquidity Ratios**

In this section Walmart’s liquid position will be evaluated. “A high liquidity ratio indicates that a business is holding too much cash that could be utilized in other areas. A low liquidity ratio means that a firm may struggle to pay short-term obligations” (Geiser, 2020). “Liquidity analysis evaluates the ability of a company to convert current assets into cash” (Warren, et al, 2019**,** p. 694)*.* These ratios and measures focus upon a Walmart’s accounts receivable, and inventory.”

***Current Position Analysis***

To evaluate the company’s liquid state, we will use the *current position analysis.* The current position analysis serves to evaluate how efficiently a company is able to pay its current liabilities. This analysis includes two ratios, which we will evaluate in this section: the *current ratio* and the *working capital* (Warren, et al, 2019**,** p. 695). The values used for current assets and current liabilities are taken from the fields titled *Total current assets* and *Total current liabilities* in the balance sheet.

***Current Position Analysis Ratio 1: Current Ratio***

“The current ratio is a more reliable indicator of a company’s ability to pay its current liabilities than is working capital” (Warren, et al, 2019**,** p. 695). A company’s current ratio is computed as **current ratio** *equals* **current assets** *divided by* **current liabilities.** The values for current assts and current liabilities are taken from the balance sheet as described above. The current ratio for Walmart, for 2021 is shown in the bottom line of the following table:

|  |  |
| --- | --- |
|  | July 31, 2021 |
| Current assets | $ 78, 243,000,000 |
| Current liabilities | $81,122,000,000 |
| Current ratio = | 78,243,000,000  ÷ 81,122,000,000  **= 0.96** |

The positive information that we have here is that the current ratio for 2021 is 0.96, which is almost reaching Walmart’s highest quarterly current ratio from within the years 2008 to 2021, which is 0.97 (DiscoverCI, 2021). However, from looking at the results of Walmart’s current ratio, I understand that Walmart may *not be* in in the best position for liquidity, because a healthy current ratio should generally fall between 1.5 and 3 and Walmart’s is below 1. This could also indicate problems in *working capital* management. (Geiser, 2020)

***Current Position Analysis Ratio 2: Working Capital***

“The working capital is used to evaluate a company’s ability to pay current liabilities. A company’s working capital is often monitored monthly, quarterly, or yearly by creditors and other debtors” (Warren, et al, 2019, p. 695). A company’s working capital is computed as **working capital** *equals* **current assets** *minus* **current liabilities.** The working capital for Walmart for 2021 is shown in the bottom line of the following table:

|  |  |
| --- | --- |
|  | July 31, 2021 |
| Current assets | $ 78, 243,000,000 |
| Current liabilities | $ 81,122,000,000 |
| Working capital  = current assets – current liabilities | $ 78, 243,000,000  - 81,122,000,000  **$ -2,879,000,000** |

After evaluating Walmart’s working capital, I understand that the negative working capital from 2021 of $-2,879,000,000, indicates that Walmart can sell products to its customers before it must pay the bills to its vendors for the original goods. However, as I suspected in the section above: I see that the negative number indicates that the company *may not* be in the best position right now to pay its current liabilities. Therefore, working capital may not be one of the sources to help fund this project.

## **Solvency Ratios**

“Solvency analysis evaluates a company’s ability to pay its long-term debts” (Warren, et al, 2019**,** p.700). Generally, businesses that have solid solvency ratios have percentages lying above 20%, which means that they have the ability to close out their long-term debt obligations when they come due using operating income. (Geiser, 2020) This analysis includes two solvency ratios: the *ratio of fixed assets to long-term liabilities* and the *ratio of times interest earned.*

***Solvency Ratio 1: Ratio of Fixed Assets to Long-Term Liabilities***

“The ratio of fixed assets to long-term liabilities provides a measure of how much fixed assets a company has to support its long-term debt. This measures a company’s ability to repay the face amount of debt at maturity” (Warren, et al, 2019, p. 700). This ratio is computed as: **ratio of fixed assets to long-term liabilities** *equals* **fixed assets(net)** *divided by* **long-term liabilities.** The value for fixed assets can be found in the balance sheet, in the field that is titled *Property and equipment, net.* The value for long term liabilities can be found in the *Long-term debt* field in the balance sheet. The ratio of fixed assets to long-term liabilities for Walmart for 2021 is shown in the bottom line of the following table:

|  |  |
| --- | --- |
|  | **July 31, 2021** |
| Fixed assets(net) | $91,621,000,000 |
| Long-term liabilities | $39,581,000,000 |
| **Ratio of fixed assets to**  **long-term liabilities**  **=** | $91,621,000,000  ÷ $39,581,000,000  = **2.3** |

I understand that when I multiply the decimal of 2.3 by 100 to get the percentage, that Walmart’s ratio of fixed assets to long-term liabilities is 230% which shows that Walmart has a strong solvency, and a high ability to repay the face amount of debt at maturity. Therefore, fixed assets could be one of the possible sources for funding the project.

***Solvency Ratio 2: Times Interest Earned***

“The times interest earned, sometimes called the coverage ratio, measures the risk that interest payments will not be made if earnings decrease” (Warren, et al, 2019, p. 701). The ratio is computed as: **times interest earned** *equals* **income before income tax** *plus* **interest expense,** *divided by* **interest expense.** The income before income tax expense value is taken from the income statement from the field titled: *Income before income taxes.* The Income before income taxes value for six months ended is $9,767,000,000. The annualized value, which will be used here is **$19,534,000,000**. The Interest expense value is taken from the balance sheet from the field titled *Deferred income taxes and other.* The ratio of *times interest earned* for Walmart for 2021 is shown in the bottom line of the following table:

|  |  |
| --- | --- |
|  | **July 31, 2021** |
| Income before income tax | $**19,534,000,000** |
| Interest expense | $13,654,000,000 |
| **Times interest earned**  **=** | $**19,534,000,000**  + 13,654,000,000  = $33,188,000,000  $ 33,188,000,000  ÷ 13,654,000,000  **= 2.4** |

I understand that when I multiply the decimal of 2.4 by 100 to get the percentage, that Walmart’s ratio of times interest earned is 240% which shows that Walmart has a strong solvency. Therefore, the amount available to pay times interest earned could be one of the possible sources for funding the project.

## **Profitability Ratios**

Profitability analysis determines how capable of generating future earnings Walmart is. “This ability depends on the relationship between the company’s operating results and the assets the company has available for use in its operations. Thus, the relationships between income statement and balance sheet items are used to evaluate profitability” (Warren, et al, 2019**,** p. 702). This analysis includes two profitability ratios: the *return on total assets* and the *return on stockholder’s equity.*

***Profitability Ratio 1: Return on Total Assets***

“The return on total assets measures the profitability of total assets, without considering how the assets are financed. In other words, this ratio is not affected by the portion of assets financed by creditors or stockholders.”(Warren, et al, 2019, p.703)The ratio is computed as: **return on total assets** *equals* **net income** *plus* **interest expense**, *divided by* **average total assets.**

The value for this ratio is the annualized net profit, $**14,350,000,000**, which was computed above in the *Net profit* section. As stated above, the interest expense value is taken from the balance sheet from the field titled *Deferred income taxes and other.* It is in the amount of $13,654,000,000. The value for average total assets for the beginning and end of the year are taken from the balance sheet from the field titled *Total assets,* from July 31, 2020, for the beginning of the year, and July 31, 2021, for the end of the year.

The ratio of *return on total assets* for Walmart for 2021 is shown in the bottom line of the following table:

|  |  |
| --- | --- |
|  | July 31, 2021 |
| Net Income | $14,350,000,000 |
| Interest Expense | $13,654,000,000 |
| Net income + interest expense | $14,350,000,000  + 13,654,000,000  **= $28,004,000,000** |
| Average total assets  = | 238,552,000,000  + 237,382,000,000  =$475,934,000,000  475,934,000,000 ÷ 2 = **$237,967,000,000** |
| **Return on total assets**  **=** | $ 28,004,000,000  ÷ 237,967,000,000  **= 0.12** |

A resulting ratio of 2.5 or more is generally considered good. I understand that Walmart’s return on total assets ratio of 0.12 means that the profitability of total assets is low, and I will probably not want to use them as a source for funding this project.

***Profitability Ratio 2: Return on Stockholders’ Equity***

The return on stockholders’ equity measures the rate of income earned on the amount invested by the stockholders. The ratio is computed as: **return on stockholders’ equity** *equals* **net income** *divided by* **average total stockholders’ equity.** The value for net income is the same annualized amount of $14,350,000,000 as computed above. The value for average total assets for the beginning and end of the year are taken from the balance sheet, from the field titled *Total Walmart shareholders' equity,* from July 31, 2020, for the beginning of the year, and July 31, 2021, for the end of the year.

|  |  |
| --- | --- |
|  | July 31, 2021 |
| Net income | $14,350,000,000 |
|  | |  |  | | --- | --- | | **Addition:**  $ 75,310,000,000  + 80,529,000,000  $155,839,000,000 | **Average:**  $155,839,000,000 ÷ 2  = **$77,919,500,000** | |
| Return on stockholders’ equity  = | $14,350,000,000  **$77,919,500,000 = 0.18** |

The *return on stockholder’s equity* for Walmart for 2021 is shown in the bottom line of the

following table:

I understand that when I multiply the decimal of 0.18 by 100 to get the percentage, that Walmart’s return on stockholders’ equity is 18%. A resulting percentage between 15 to 20% is generally considered good. Therefore, *the return on stockholder’s equity* could be one of the sources for funding the project.

**Company’s Overall Current Financial Position**

According to Walmart’s fact sheet, the budgeted amount allotted to this project’s initial cost is $19,500,000. Therefore, I believe that the actual cost of implementing the analytical CRM solution of $19,500,000, is highly achievable. This is because Walmart is in an *excellent* position right now to fund this project. This can be confirmed by the following summary of the calculations above.

***Positive Net Profit Margin***

Walmart has an excellent net profit margin. By the end of the year, Walmart. will have generated an economic value of $14,350,000,000. Therefore, the company’s net profit could be a source for funding the project.

***Positive Retained Earnings***

Walmart has an excellent retained earnings amount of $84,572,000,000. This is the evaluated amount of net income which Walmart, will have left over, after dividends have been paid to shareholders. Therefore, the company’s retained earnings could be a source for funding the project.

***Low Liquidity Ratios***

The *current ratio* and the *working capital* were used as part of the *Current Position Analysis* to evaluate Walmart’s liquidity. A healthy *current ratio* should generally fall between 1.5 and 3 and Walmart’s is below 1 at 0.96. Also, the company’s negative working capital amount of $-2,879,000,000 indicates that the Walmart *may not* be in the best position right now to pay its current liabilities. A low liquidity ratio means that a firm may struggle to pay short-term obligations and liquid assets may not be one of the sources used to fund the project.

***Positive Solvency Ratios***

Although, Walmart’s liquidity ratios are low, its solvency ratios are high. When solvency ratios have percentages that are lying above 20%, this usually indicates that a business has a solid solvency. Businesses with a strong solvency can close out their long-term debt obligations at maturity using operating income. The two solvency ratios which were evaluated above were the *ratio of fixed assets to long-term liabilities* and *times interest earned.* Walmart’s *ratio of fixed assets to long-term liabilities* is 230%. Walmart’s ratio of *times interest earned* is 240%. Therefore, *fixed assets* and the *amount available to pay times interest earned* could be one of the possible sources for funding the project.

***Low and Positive Profitability Ratios***

The two ratios used to evaluate profitability were the *return on total assets* and the *return on stockholder’s equity.* The return on total assets measures the profitability of total assets and is not affected by the portion of assets financed by creditors or stockholders.”

For the *return on total assets*, a resulting ratio of 2.5 or more is generally considered good, but Walmart’s return on total assets ratio is 0.12. This means that the profitability of total assets is low, and I will probably not want to use them as a source for funding this project.

On the other hand, for the *return on stockholders’ equity,* Walmart’s percentage is 18%. A resulting percentage between 15 to 20% is generally considered good. Therefore, *the return on stockholder’s equity* could be one of the sources for funding the project.

***Summary of Current Position Metrics***

In summary, Walmart has a high net profit margin and high retained earnings. It is not in the best state for liquidity right now, but its solvency is high. For its profitability, the return on total assets is low, but the company has a good return on stockholders’ equity. Therefore, the possible sources for funding the project are net profit margin, retained earnings, fixed assets, the amount available to pay times interest earned, and the return on stockholders' equity.

1. **Budgeted Income Statement**

In this section I will display a table with a completed budgeted Income statement, with information derived from Walmart’s fact sheet. This budgeted income statement was prepared by integrating the sales budget, the cost of goods sold budget, and the selling and administrative expenses budget. “Estimates of other revenue, other expense, and income tax are also integrated into the budgeted income statement” (Warren, et al, 2019, p. 1115). The budgeted income statement shows whether Walmart will be in an excellent position to afford this project over the next quarter. I will then factor funding, financial risk, and profitability for the project.

|  |  |  |
| --- | --- | --- |
| **Walmart, Incorporated**  **Budgeted Income Statement**  **For the Quarter Ending October 31, 2021** | | |
| Revenue from sales |  | **$150,000,000,000** |
| Cost of goods sold |  | **$133,000,000,000** |
| Gross profit |  | **$45,000,000,000** |
| **Selling & administrative expenses:** |  |  |
| * Total cost for all selling & administrative budget |  | **$36,914,000,000** |
| Income from operations |  | **$8,086,000,000** |
| **Other revenue & expense:** |  |  |
| * Interest revenue |  | **$349,000,000** |
| * Interest expense |  | **$2,071,000,000** |
| Income before income tax |  | **$6,364,000,000** |
| Income tax |  | **$1,336,440,000** |
| Net income |  | **$5,027,560,000** |

**Explanation of the Budgeted Income Statement, Shown in the Table Above**

***Revenue from Sales***

The **revenue from sales** value of **$150,000,000,000** is a result of multiplying the *Desired Units to be Sold (15,000,000,000*) by *Products (10).* The values for *desired units to be sold,* and the *products* for Revenue from sales, for the Revenue from sales calculation, are taken from *Walmart’s Financial Fact Sheet,* from the fields titled *Desired Units to be Sold* and *Products.* This means that Walmart will have a sales budget in the amount of $150,000,000,000 over the next quarter.

***Cost of Goods Sold***

The **cost of goods sold** value of **$133,000,000,000 is** a result of adding the *desired units to be sold ($15,000,000,000)* to the *desired units in ending inventory ($7,000,000,000)*, then subtracting the *Estimated units in beginning inventory ($3,000,000,000)* to get the value of ($19,000,000,000); and then multiplying ($19,000,000,000) by the *Direct Materials Cost Including Labor (7).* The values for *desired units to be sold, estimated units in beginning inventory, desired units in ending inventory,* and the *direct materials cost including labor* for the Cost of goods sold calculation, are taken from *Walmart’s Financial Fact Sheet,* from the fields titled *Desired Units to be Sold* and *Direct Materials Cost including labor.* This means that the budgeted cost of producing the goods sold by Walmart over the next quarter is $133,000,000,000.

***Gross Profit***

The **gross profit** value of **$45,000,000,000** is a result of subtracting the *cost of goods sold (105,000,000,000)* from the *revenue from sales ($150,000,000,000).* The values for *revenue from sales* and *cost of goods sold* for the **gross profit** calculation, have already been calculated in *Section B* above. This means that over the next quarter, Walmart will receive an income of $150,000,000,000 and it will cost $105,000,000,000 to produce the goods sold. Therefore, the remaining amount is the gross profit of $45,000,000,000.

***Total Cost for All Selling and Administrative Budget***

The **total cost for all selling and administrative budget** value of **$36,914,000,000** is taken from the financial fact sheet from the field titled *total cost for all selling & administrative budget.* This means that Walmart’s operating expenses involved in selling products and managing business is budgeted at $36,914,000,000 over the next quarter.

***Income From Operations***

The **income from operations** value of **$8,086,000,000** is a result of subtracting *total cost for all selling and administrative budget ($36,914,000,000)* from *gross profit ($45,000,000,000).* The values for *revenue from sales* and *cost of goods* for the *gross profit* calculation, have already been calculated above. This means that the *total cost for all selling and administrative budget* in the amount of $36,914,000,000 is predicted to be subtracted from the *gross profit* amount of $45,000,000,000 over the next quarter.

***Interest Revenue***

The **interest revenue** value of **$349,000,000** is taken from the financial fact sheet from the field titled *interest revenue.* This means that Walmart is predicted to earn $349,000,000 in interest over the next quarter.

***Income Before Income Tax***

The **income before income tax** value of **$6,364,000,000** is a result of adding *income from operations ($8,086,000,000)* to *interest revenue ($349,000,000),* which is equal to$8,435,000,000, then subtracting *interest expense ($2,071,000,000).* This means that Walmart is predicted to earn **$6,364,000,000**before income tax during the next quarter.

***Income Tax***

The **income tax** value of **$1,336,440,000** is a result of multiplying *income before income tax ($6,364,000,000)* by the *tax rate (21%).* The value for the tax rate is taken from the financial fact sheet. This means that Walmart is predicted to owe $1,336,440,000 in taxes over the next quarter.

***Net Income***

The **net income** value of **$5,027,560,000** is a result of subtracting *income tax ($1,336,440,000)* from *income before income tax ($6,364,000,000).* This means that, over the next quarter, Walmart will have a net profit margin of $5,027,560,000 once the *income tax* is subtracted from the amount for *income before income tax.*

1. **IT Procurement Plan Description**

The procurement plan for implementing NetSuite’s Unified CRM and ERP System is simple and straightforward, allowing for the Walmart to have a smooth transition during the implementation of the project. Once the project is approved, the solicitation process with NetSuite will begin, followed by any careful evaluation and contract. Once the phase of order management is complete, invoice approvals and any necessary disputes will be conducted, and records will be kept (Procurement, 2021).

## ***IT Procurement Plan Resources***

The resources needed for the procurement plan, based on Walmart’s financial fact sheet*,* budgeted income statement, and IT investment project idea, include software, personnel, and hardware. For software, the company will be leasing NetSuite’s SaaS services, which is discussed in more detail in the next section titled: *Leasing Versus Buying.* As a result, it will not be necessary to procure any new hardware or equipment for this project implementation. For personnel, Walmart will hire several NetSuite consultants to assist with implementation and training. The consultants will work with and communicate with Walmart’s internal teams, review and interpret business requirements, respond to Walmart’s expectations, develop system design and related documents, provide support for technical and functional inputs, and lead projects from start to finish.

## ***IT Procurement Plan Leasing Versus Buying***

In order to implement NetSuite’s Unified CRM and ERP System, NetSuite *leases* services with qualified trainers available. Although NetSuite does not offer the option to *buy*, it is still beneficial to know why leasing is a better choice than buying. Leasing is convenient and beneficial because Walmart can have the option to pay for only those services which it actually uses, which means that although the initial implementation cost is $19,500,000 including taxes, this cost acts as an estimate for services Walmart will use, if the company is charged at the highest rate possible for a retail corporation *such as Walmart is*. This means that, if Walmart chooses to use less of the services available, if these services were not needed, then Walmart will end up paying less than the forecasted amount.

On the other hand, if Walmart was to *buy* a system like NetSuite’s Unified CRM and ERP System, it would be a custom implementation with a depreciating value over the next 5 years, unless specialist were hired on to continually develop and improve the system. Plus, data warehouses would be needed with personnel to run and upkeep them, and other unwanted expenses would incur if Walmart was to choose a *buying* option, versus leasing from experts at NetSuite. Therefore, Walmart will greatly benefit from leasing these services versus buying them.

**E. Funding the Project**

A firm usually “raises capital in a few different ways such as debt, equity, or instruments that show the characteristics of both debt and equity such as preferred stock” (Udemy, 2020). For this project, the planned percentages from sources for funding the project are:50% from the percentage of total capital represented by common equity; 40% from the percentage of total capital represented by preferred stock; and 10% from the total capital represented by debt. Thus, the dollar amount of *common equity* for the proposed project is $9,750,000 (resulting from $19,500,000 x 50%. (See the *Weighted Average Cost of Capital (WACC****)*** section below).The dollar amount of *preferred stock* for the proposed project is $7,800,000 (resulting from $19,500,000 x 40%. (See the *Weighted Average Cost of Capital (WACC****)*** section below).The dollar amount of debt for the proposed project is $1,950,000 (resulting from $19,500,000 x 10%. (See the *Weighted Average Cost of Capital (WACC****)*** section below).The dollar amount of total capital is $19,500,000. Finally, the tax rate of the company for the project is 21%. ( See the *Weighted Average Cost of Capital (WACC****)*** section below).

In order to decide whether to implement the project, I will need to build a forecast about the relevant cash flows and then calculate the net present value of the project. If the result of the net present value calculation is positive, then this would mean that its Walmart could greatly benefit from going ahead and implementing the project. However, if the result is negative, then it may not be the best time right now to implement the project. (Udemy, 2021)

**Plan for Funding the IT Investment Project**

The planned percentages from sources for funding the project were previously mentioned in the section above. The following table shows the amount of actual cash flows with their percentages that will be available for use after taxes are deducted.

|  |
| --- |
| **Sources of capital to fund the project** |
| Total Capital = $19,500,000  PTCCS = the dollar amount of *common equity*  PTCPS = The dollar amount of *preferred stock*  PTCD **=** The dollar amount of *debt*  50% of PTCCS equals $9,750,000  40% of PTCPS equals $7,800,000  10% of PTCD equals $1,950,000 |
| **Remove the tax amount from the Total Capital** |
| **21% tax equals $4,095,000**  $19,500,000 minus $4,095,000 equals $15,405,000  **$15,405,000** left to fund the project |
| **Fairly divide the tax amount among the two largest sources** |
| 60% of $4,095,000 equals $2,457,000  40% of $4,095,000 equals $1,638,000  •PTCCS 50% is $9,750,000 minus $2,457,000 = $7,293,000  •PTCPS 40% is $7,800,000 minus $1,638,000 = $6,162,000 |
| **Final amounts to use from sources** |
| PTCCS equals $7,293,000  PTCPS equals $6,162,000  PTCD equals $1,950,000 |

The final amounts from the table above will be applied to the resources, mentioned in the section above titled: *IT Procurement Plan Resources*. These resources include software (SaaS services), and personnel (NetSuite consultants). As the table above shows, the final amounts give us a sum of $15,405,000 to fund these resources. Out of the amount of $15,405,000, *$13,000,000* will be used to fund the software, and *$2,405,000* will be used to fund the personnel. Thus, the project will be fully funded, resulting in significant cash inflows over the next 5 years, from which Walmart will greatly benefit.

**Justification for Funding the IT Investment Project**

***Weighted Average Cost of Capital (WACC)***

The cost of capital represents the fund which suppliers require as compensation for their investment (Udemy, 2021). The capital which the company needs, will be acquired by borrowing from lenders(debt) or raising equity. The cost of the funds provided must be taken into account in both cases when determining the cost of capital. The formula for Walmart’s WACC is in in the table below, and the resulting value is in the bottom section of the table.

|  |
| --- |
| **Weighted Average Cost of Capital (WACC)** |
| **Formula**  WACC = (PTCCS)(CCS) + (PTCPS)(CPS) + (PTCD)(CD)(1-TR) |
| **Variables for WACC Formula**   * PTCCS is the Percentage of Total Capital from Common Stock (created by you) 50% * CCS is the Cost of Common Stock (from the Financial Fact Sheet) 9% (? Not on Sheet) * PTCPS is the Percentage of Total Capital from Preferred Stock (created by you) 40% * CPS is the Cost of Preferred Stock (from the Financial Fact Sheet) 12.00% * PTCD is the Percentage of Total Capital from Debt (created by you) 10% * CD is the Cost of Debt (from the Financial Fact Sheet) 5% * TR is the firm’s Tax Rate (from the Financial Fact Sheet) 21% |
| **Completed Formula** WACC = **(.5)(.09) + (.4)(.12) + (.1)(.05)(1-.21)**  WACC = (0.045) + (0.048) + (.005)(.79)  WACC = (.00216) + (.00395) = .00611 = **6%** |

As seen in the table above, the weighted average cost of capital (WACC) is equal to 6%. This value is the “rate of return fund suppliers require as compensation for their investment” (Udemy, 2021). Potential suppliers of funds will not invest in a company unless they are sure that the company’s return either meets or exceeds what they could earn from an alternative investment of comparable risk. (2021) A firm usually “raises capital in a few different ways such as debt, equity, or instruments that show the characteristics of both debt and equity such as preferred stock” (2021). Each of these sources of capital is a unique component of the company’s funding. Thus, it has its own required rate of return called the *component cost of capital.* (2021)

**Marginal Cost of Capital (MCC)**

Since cost of capital is used to evaluate investment opportunities, the company is dealing with a *marginal cost,* which represents the cost of raising additional capital for upcoming investment projects. The most popular way to estimate the cost of capital is to calculate the marginal cost of each of the sources of capital (e.g. preferred stock, debt, equity), and then calculate the weighted average. Refer to the section above, with the title: *Weighted Average Cost of Capital (WACC)* for more details. The WACC which has a value of 6%, is also called the *marginal cost of capital (MCC),* “because it shows the average cost of additional capital the company might raise (Udemy, 2021).

***Average Rate of Return***

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| **Average Rate of Return (ARR)** |
| **Variables for WACC Formula**   * PTCCS is the Percentage of Total Capital from Common Stock (created by you) 50% * CCS is the Cost of Common Stock (from the Financial Fact Sheet) 9% (? Not on Sheet) * PTCPS is the Percentage of Total Capital from Preferred Stock (created by you) 40% * CPS is the Cost of Preferred Stock (from the Financial Fact Sheet) 12.00% * PTCD is the Percentage of Total Capital from Debt (created by you) 10% * CD is the Cost of Debt (from the Financial Fact Sheet) 5% * TR is the firm’s Tax Rate (from the Financial Fact Sheet) 21% |
| **Formula**  **Average rate of return =** |
| **Completed Formula**  **Average rate of return = = = 1.211= 1.2%** |

The average rate of return formula is a method used to compare the profitability of different decisions over the expected life of an investment. “To do this, it compares the average annual profit of an investment with the initial cost of the investment. This is necessary to compare investments that might last for different periods of time” (Bitesize, 2021). As seen in the table above, the average rate of return value is 1.2%. This means that over a period of 5 years, Walmart would have received an annual profit of investment which is greater than the initial cost of the investment. This shows that Walmart could greatly benefit from going ahead and implementing the project.

***Net Present Value***

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| --- |
| **Net Present Value (NPV)** |
| **Formula**  **Net present value = expected cash inflows (over the next 5 years)– amount to be invested** |
| **Completed Formula**  Net present value = $23,625,000 – $19,500,000 = **$3,825,000**  *Multiplied by WAC = $3,825,000(6%) = $229,500* |

The value for expected cash flows over the next 5 years was derived by adding the values of the expected cash flows from year 1 through year 5 in the fact sheet. As mentioned above, if the result of the net present value calculation is positive, then this would mean that Walmart could greatly benefit from going ahead and implementing the project. However, if the result is negative, then it may not be the best time right now to implement the project. The Net Present Value should meet or exceed the 6% value. Since, the result of the net present value calculation is in the amount of $3,825,000, which exceeds 6%, then Walmart could greatly benefit from going ahead and implementing the project.

Therefore, I have evaluated the necessary elements in the process of making a long term asset purchase(*lease*) decision, *NetSuite’s Unified CRM and ERP System.* I have done this by comparing the present value of the cash *inflows* from a project to the present value of the cash *outflows* associated with the project (Stice, 2020).

If the purchase price is $19,500,000 then the cash outflow is $19,500,000. The present value of the cash inflows over 5 years is $23,625,000**.** The three formulas for WACC(MCC), ARR, and NPV above show that Walmart’s profit from investing in this project will be *greater* than the investment costs. Therefore, Walmart could greatly benefit from going ahead and implementing the project.

1. **Summary**

In alignment with Walmart’s strategic goal: *To Increase the average transaction amount per consumer visit to the store and website*; and at the request of the CEO of Walmart, Inc.,I havereviewed the company’s financial statements, and determined the budget and cash flow for the IT department. This document explains how I have chosen *NetSuite’s unified CRM and ERP system* as the proposed IT solution.

After evaluating Walmart’s current financial state, I was able to determines that some possible sources for funding the project were net profit margin, retained earnings, fixed assets, the amount available to pay times interest earned, and the return on stockholders' equity.

The budgeted income statement showed whether Walmart will be in an excellent position to afford this project over the next quarter. It helped determine funding, financial risk, and profitability for the project. The procurement plan for implementing NetSuite’s Unified CRM and ERP System is a simple and straightforward description, allowing for the company’s smooth transition during the implementation of the project.

The three formulas for WACC(MCC), ARR, and NPV above show that Walmart’s profit from investing in this project will be *greater* than the investment costs. The metrics and descriptions in this document including: the description of the current financial position metrics, the budgeted income statement, the IT procurement plan description, funding the project, and justification for Funding project, provided the information which helped me draw the conclusion, that Walmart is in an *excellent* position right now to fund the implementation of NetSuite’s Unified CRM and ERP System.

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