IESE Business School
University of Navarra

Coursera - IESE Foundations of Management Specialization

Operational Finance: Building a Robust Business

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Quiz 1 Answers & Explanations

1. Suppose that you are a bank manager and receive an application for a credit line of €100,000 from a small firm. What is the first thing you would look at?

    a. The Balance Sheet
    b. The Cash Flow Statement
    c. The Profit and Loss Statement
    d. The business

Answer: The correct answer is d). Remember that we always need to analyze the business before looking at the numbers, to understand the context, and to "know what to expect something from the numbers."

2. The main difference between a distribution and a production company is:

    a. The production company has less fixed assets than the distribution company.
    b. Distribution companies normally have lower margins.
    c. Distribution companies normally have better customers than production companies.
    d. There is no difference between distribution and production companies.

Answer: The correct answer is b). Distribution companies only buy and sell products, and the added value is small, and thus the margins they can charge are normally lower than production companies, with higher added value.

3. A business is very cyclical when:

    a. The revenues depend on many different customers.
    b. There are high revenues in certain months of the year.
    c. The revenues of the company depend highly on the economic cycle.
    d. Other companies in the same industry are not cyclical.

Answer: The correct answer is c). Cyclical companies are those that have their revenues very tied to the cycle of the economy.

4. Which of the following companies are very cyclical?

    a. Pfizer, a leading pharmaceutical.
    b. General Motors, a car manufacturer.
    c. Gillette Co., that makes razors and shaving supplies.
    d. Philip Morris, a tobacco company.

Answer: The correct answer is b). An auto-maker is very cyclical, because consumers can easily postpone the purchase of a car when the economy is not going so well. Pharma, personal care, and tobacco are examples of non-cyclical companies, as there is usually demand independently of how the economy performs.

5. If sales are growing and operational expenses are decreasing, then:

    a. The return on sales is probably increasing.
    b. The gross margin has to grow.
    c. There are not economies of scale.
    d. Operational expenses cannot decrease if sales increase.

Answer: The correct answer is a). If sales grow and operational expenses decrease, then the return on sale is probably increasing, because the net income is becoming higher as a percentage of sales. We say probably because we don't know if other lines like financial expenses or taxes are changing dramatically. The gross margin does not depend on the operational expenses, so it does not necessarily grow. A decrease of operational expenses with growing sales is precisely thanks to economies of scale. Yes, operational expenses can decrease even if sales increase, if the company becomes more efficient in managing costs.

6. If you have many and small customers:

    a. Your margins will be lower than in a situation with few and powerful customers.
    b. Your margins will be equal than a situation with few and powerful customers.
    c. Your distribution costs are lower than with few and powerful customers.
    d. Your margins will be higher, but distribution costs also higher.

Answer: The correct answer is d). If customers are many and small, they have less negotiating power, so we can charge higher prices. At the same time, if they are many and small, it's more costly to distribute than if you had very few and large customers.

7. When competition is strong, the margin as percentage of sales is also strong.

    a. True
    b. False

Answer: The correct answer is b). If the competition is strong, there is normally a price war, and the incentive is to lower prices. This directly translates into lower margins.

8. Airbus has fewer inventories as a percentage of sales than Procter & Gamble.

a. True
b. False

Answer: The correct answer is b). Airbus has a huge inventory because it takes a long time to build a plane, and thus you need a lot of work-in-progress material in your inventory compared to the smaller items sold by Procter and Gamble.

9. If gross margin falls, then by just looking at the sales and COGS, we can infer this change comes from a price decrease or from a cost per unit increase:

    a. True
    b. False

Answer: The correct answer is b). We need to look at the number of units sold in order to disentangle where the change is coming from: a price decrease or a COGS increase.

10. When competition is strong, the margin as percentage of sales is also strong.

    a. True
    b. False

Answer: The correct answer is b). If the competition is strong, there is normally a price war, and the incentive to lower prices is big. This directly translates into lower margins.

11. If receivables increase,

    a. It must be because sales have increased.
    b. It's because customers are paying late.
    c. It's either because sales have increased or days of collection have increased.
    d. It's unrelated to sales.

Answer: The correct answer is c). A change in receivables can come from a change in sales and/or a change in the days of collection.