**Assignment 4.5: Strategy Outline**

Team # 01 Company: Elizabeth Arden Ticker: RDEN

The name of **the first strategy** is down-sizing.

This is what the strategy entails: Elizabeth Arden has store locations worldwide. Closing 50% of the overseas locations can help the company to lower the cost of operation and perform well.

The forecast bases that will be affected by this strategy are:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Forecast bases** | **goes up by** | **goes down by** | **no change** | **Reason** |
| **Sales Growth** |  | **-4.0%** |  | **Sales will decrease after closing overseas locations** |
| **COGS / Sales** |  | **50.8%** |  | **Downsizing will lower the COGS/Sales** |
| **Operating expenses / Sales** |  | **38.5%** |  | **Closing the overseas locations will lower the operating expenses** |
| **Non-operating expenses /Sales** |  |  | **0%** | **Should be the same, downsizing will not affect it** |
| **Depreciation / Net plant & equip.** |  |  | **38.5%** | **It will stay the same** |
| **Cash / Sales** |  |  | **4.7%** | **Still have the same ratio of cash on hand.** |
| **Accounts Rec. / Sales** |  | **7.0%** |  | **Sales will decrease which will result in less Account Rec.** |
| **Inventory / Sales** |  | **20%** |  | **Closing the overseas stores will result in need of less inventory** |
| **Other current assets / sales** |  |  | **3.3%** | **Should stay the same** |
| **Net PP&E / sales** |  |  | **10.9%** | **Downsizing will not affect PP&E** |
| **Other assets** |  |  | **28.9%** | **Downsizing should not affect other assets** |
| **Accounts Pay. / Sales** |  | **4.1%** |  | **Downsizing will increase cash on hand and less operating expenses which will help to payoff account payable** |
| **Accruals / Sales** |  | **9.4%** |  | **Downsizing will result in less expense adjustments** |

This strategy will increase the business risk (i.e. uncertainty of revenues or operating profits).

a. not change; b. **increase**; c. decrease

Reason:

If the sales decrease dramatically after downsizing, it can cause no or negative revenue.

This strategy’s impact on the capital structure of the company is that debt ratio will drop.

a. none; b. that debt ratio will rise; c. **that debt ratio will drop**

Reason:

Closing the overseas store locations will decrease cost of operations, which means the company will need less debt to operate. It will drop the debt ratio.

The name of **the second strategy** is Expansion/ Market Development.

This is what the strategy entails: Opening new store locations in India will increase sales. More sales mean more cash flow, more net profit margin. Currently the company’s NPM is -25.50%, this will bring the NPM to positive number.

The forecast bases that will be affected by this strategy are:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Forecast bases** | **goes up by** | **goes down by** | **no change** | **Reason** |
| **Sales Growth** | **8.6%** |  |  | **New market will result in more sales** |
| **COGS / Sales** | **75%** |  |  | **Inventory, marketing, production cost will go up because of new store opening at new locations.** |
| **Operating expenses / Sales** | **60%** |  |  | **By opening new locations, company will have more operating cost** |
| **Non-operating expenses /Sales** |  |  | **0%** | **New store locations should not affect this** |
| **Depreciation / Net plant & equip.** | **40%** |  |  | **More production and inventory will result in more depreciation** |
| **Cash / Sales** |  |  | **4.7%** | **Same cash ratio in hand.** |
| **Accounts Rec. / Sales** | **13.8%** |  |  | **New sales at new locations will increase account receivable** |
| **Inventory / Sales** | **40%** |  |  | **Company will need more inventory for new locations** |
| **Other current assets / sales** |  |  | **3.3%** | **It should remain the same** |
| **Net PP&E / sales** |  |  | **10.9%** | **Just want to use same equipment for production** |
| **Other assets** |  |  | **28.9%** | **It should remain the same** |
| **Accounts Pay. / Sales** | **13%** |  |  | **To operate new store locations, company will need more debt, new loans** |
| **Accruals / Sales** | **13%** |  |  | **New sales will have more adjustments to be made** |

This strategy will increase the business risk (i.e. uncertainty of revenues or operating profits).

a. not change; b. **increase**; c. decrease

Reason:

If company is unable to make sales, this can affect the company dramatically. Company will have less incoming cash flow and because of the new debt, Elizabeth Arden will have worst Net profit margin which is already - 25.50% for 2015 year.

This strategy’s impact on the capital structure of the company is that debt ratio will rise.

a. none; b. **that debt ratio will rise**; c. that debt ratio will drop

Reason:

Elizabeth Arden already have high debt ratio. To operate new store locations in India, company will need to borrow more which will increase the debt ratio.