

HBSP Working Capital Simulation

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Some materials adapted from Harvard Business Publishing

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Available in your coursepack online:

- SIMULATION**
Working Capital Simulation: Managing Growth V2
Sandeep Dahiya
7070-HTM-ENG | 45 min

ONLINE SIMULATIONS


HARVARD BUSINESS PUBLISHING

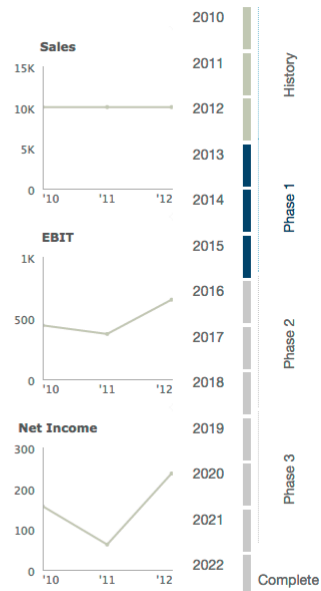
TERMINOLOGY PRIMER

Working Capital Simulation: Managing Growth

Income Statement

(data in thousands of dollars)	2010	2011	2012
Sales	\$10,000	\$10,000	\$10,000
Cost of Sales	\$9,560	\$9,630	\$9,350
EBIT	\$440	\$370	\$650
Interest Expense	\$180	\$267	\$256
Pre-Tax Income	\$260	\$103	\$394
Income Taxes	\$104	\$41	\$157
Net Income	\$156	\$62	\$236

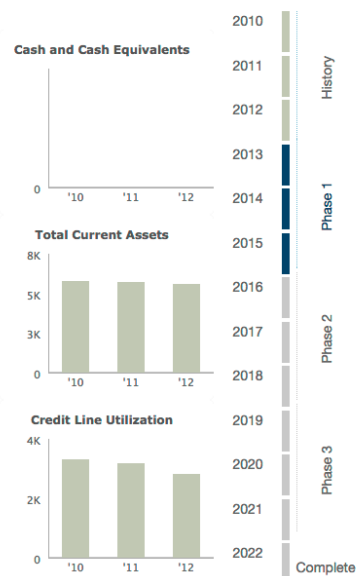
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Balance Sheet

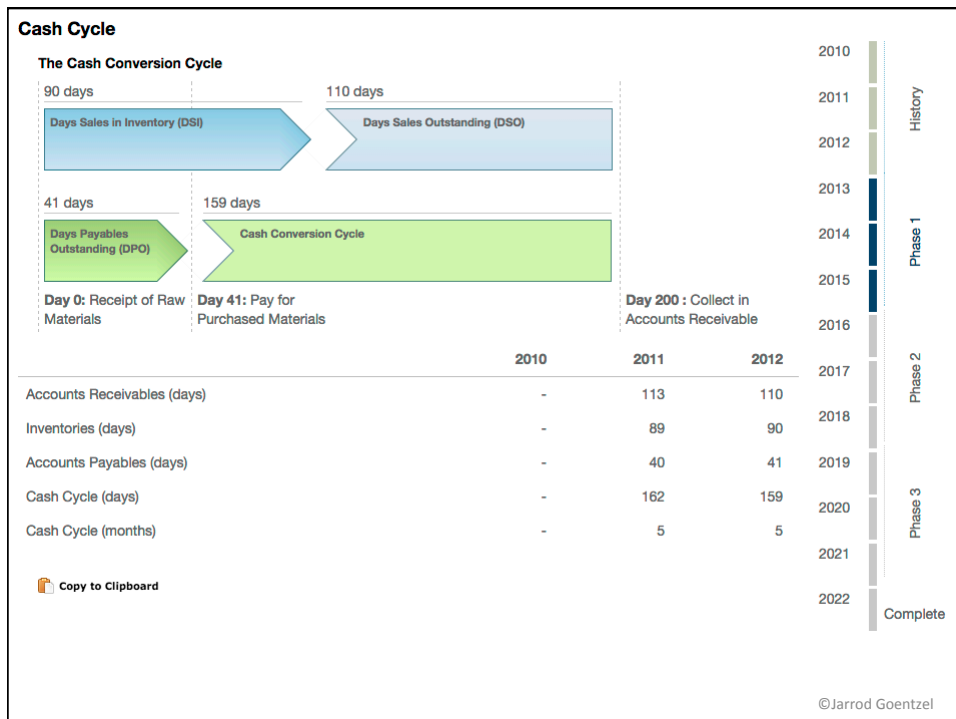
(data in thousands of dollars)	2010	2011	2012
Minimum Cash Requirement	\$300	\$300	\$300
Cash & Equivalents (Shortfall)*	\$0	\$0	\$0
Accounts Receivable	\$3,123	\$3,096	\$3,014
Inventories	\$2,357	\$2,348	\$2,305
Other CA	\$0	\$0	\$0
Total Current Assets	\$5,781	\$5,744	\$5,619
Net PP&E	\$40	\$40	\$40
Other FA	\$0	\$0	\$0
Total Assets	\$5,821	\$5,784	\$5,659
Accounts Payable	\$1,021	\$1,055	\$1,050
Accrued Expenses	\$0	\$0	\$0
Total Current Liabilities	\$1,021	\$1,055	\$1,050
Amount Borrowed from Credit Line	\$3,332	\$3,200	\$2,844
Total Liabilities	\$4,353	\$4,255	\$3,894
Common Stock	\$200	\$200	\$200
Retained Earnings	\$1,267	\$1,329	\$1,565
Total Stockholder's Equity	\$1,467	\$1,529	\$1,765
Total Liabilities & Equity	\$5,821	\$5,784	\$5,659



Analysis: Cash Conversion Cycle for SNC

- Calculate the following for 2012
 - DSO - Days Sales Outstanding
 - DPO - Days Purchases Outstanding
 - DSI – Days Sales in Inventory
 - Cash Conversion Cycle (in days)

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Decisions Phase 1: 2013 - 2015

Acquire a New Customer

- Leverage Supplier Discount**
- Tighten Accounts Receivable**
- Drop Poorly Selling Products**

Opportunities Selected

No opportunities selected yet.

Submit Decisions

SNC is considering an opportunity to add Atlantic Wellness, a large, successful health food chain as a new corporate customer for its herbal nutraceutical product line. Taking on this customer would immediately increase SNC's sales by \$4 million per year (a one-time increase of 40%) and EBIT by \$260,000. The profit margins and net working capital terms would remain the same as for SNC's existing business.

What would you like to do about this opportunity?

Accept
Decline

	2013	2014	2015	Post 2015
Incremental Summary Income Statement (\$ in thousands)				
Sales	\$4,000	\$4,000	\$4,000	\$4,000
Cost of Sales	\$3,740	\$3,740	\$3,740	\$3,740
EBIT	\$260	\$260	\$260	\$260
Incremental Balance Sheet (\$ in thousands)				
Accounts Receivable	\$1,205	\$1,205	\$1,205	\$1,205
Inventories	\$922	\$922	\$922	\$922
Accounts Payable	\$420	\$420	\$420	\$420

- You make decisions about business opportunities
- There are 10 opportunities over the next 8 years (1024 solutions if you want to completely enumerate them)

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Working Capital Simulation

- You are the CEO
- I am the shareholder
- Make me happy
- Obtain your best performance with a \$3.2 million credit line.
- Later I may reduce the credit line and see how it affects your performance.

- Resources available
 - Video (6 minutes) to describe the game
 - Copy to clipboard option (may need to refresh the browser)
 - Terminology Primer

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Questions to consider for the debrief

- What is the key to SNC success?
- What was your objective in making decisions?
- What approaches did you use to evaluate options?

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