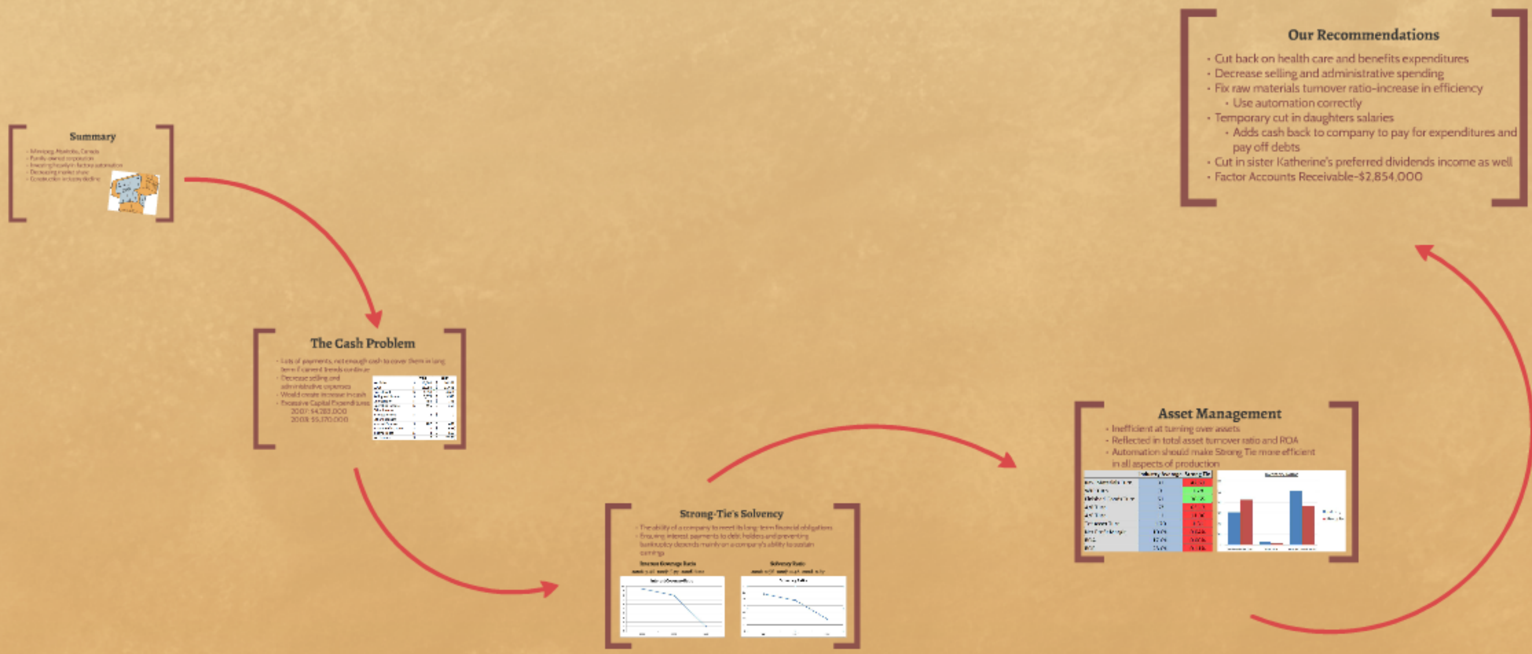
Strong Tie Ltd. Harvard Case Solution & Analysis



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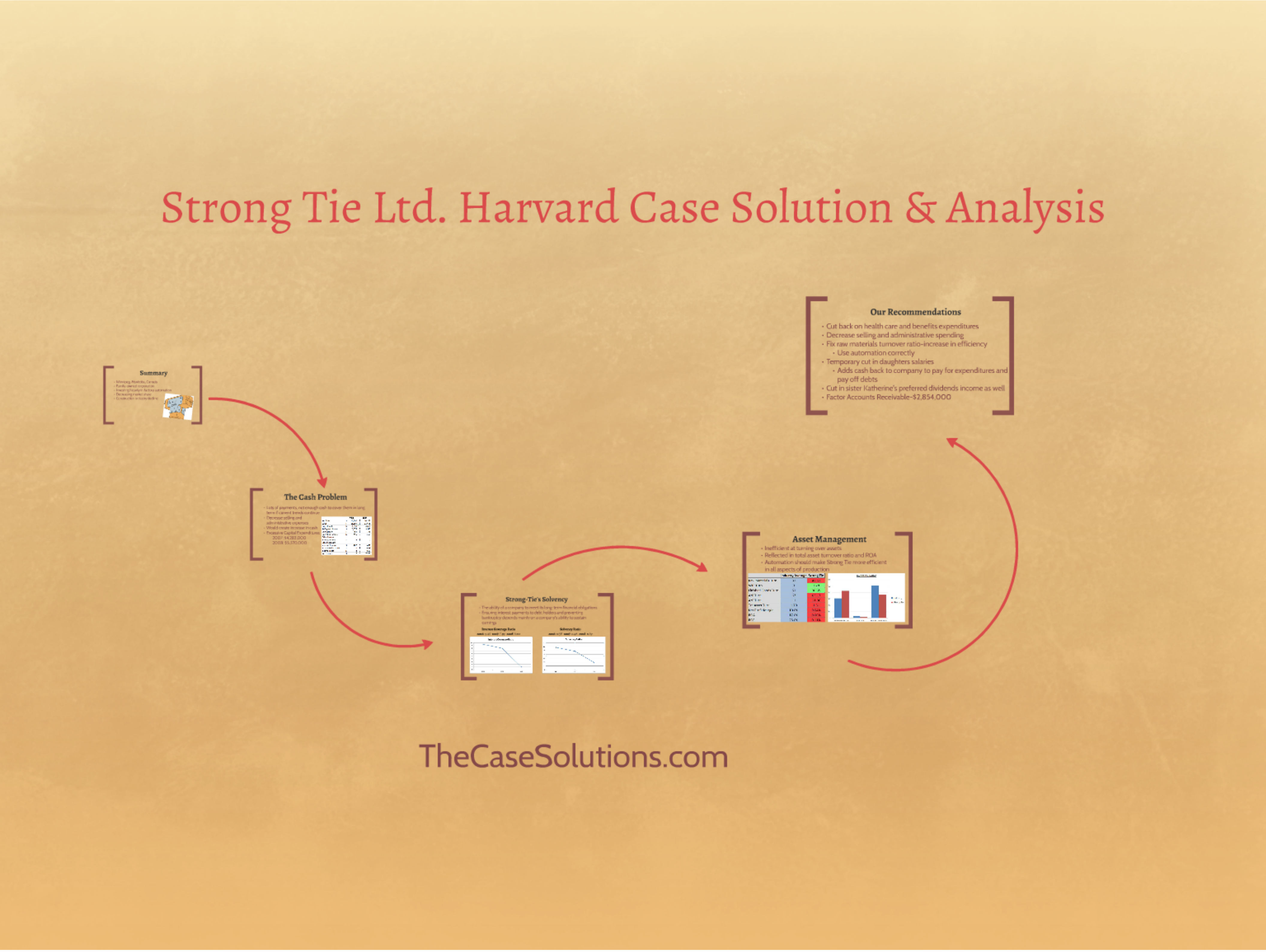
Strong Tie Ltd. Harvard Case Solution & Analysis
Summary
The Cash Problem
Decrease selling and administrative expenses
Would create increase in cash
Excessive Capital Expenditures
Strong-Tie's Solvency
The ability of a company to meet its long-term financial obligations
Asset Management
Inefficient at turning over assets
Reflected in total asset turnover ratio and ROA
Automation should make Strong Tie more efficient in all aspects of production
Our Recommendations
Cut back on health care and benefits expenditures
Decrease selling and administrative spending
Fix raw materials turnover ratio-increase in efficiency
Use automation correctly
Temporary cut in daughters salaries
Adds cash back to company to pay for expenditures and pay off debts
Cut in sister Katherine's preferred dividends income as well
Factor Accounts Receivable-$2,854,000
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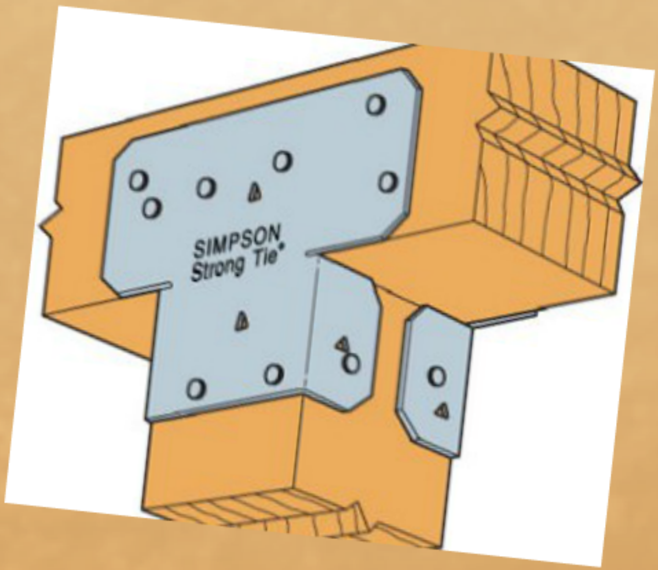
Summary

- Winnipeg, Manitoba, Canada
- Family-owned corporation
- Investing heavily in factory automation
- Decreasing market share
- Construction industry decline



The Cash Problem

- Lots of payments, not enough cash to cover them in long term if current trends continue
- Decrease selling and administrative expenses
- Would create increase in cash
- Excessive Capital Expenditures
    2007: $4,283,000
    2008: $5,370,000

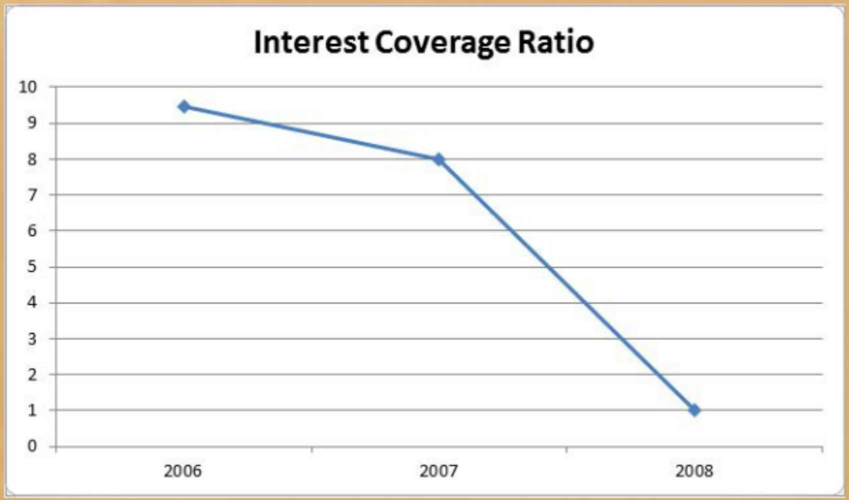
	2008	2009
Net Sales	$ 16,500	$ 16,362
COGS	$ 11,950	$ 11,698
Gross Profit	$ 4,550	$ 4,664
Selling and Admin	$ 3,379	$ 3,512
Depreciation	$ 756	$ 796
Operating Income	$ 415	$ 356
Other Income		
Interest Income	$ 2	$ 2
Other Expenses		
Interest Expense	$ 407	$ 431
Income Before Taxes	$ 10	$ (73.28)
Income Taxes	$ 3	$ 2.00
Net Income	$ 7	$ (75.28)

Strong-Tie's Solvency

- The ability of a company to meet its long-term financial obligations
- Ensuring interest payments to debt holders and preventing bankruptcy depends mainly on a company's ability to sustain earnings

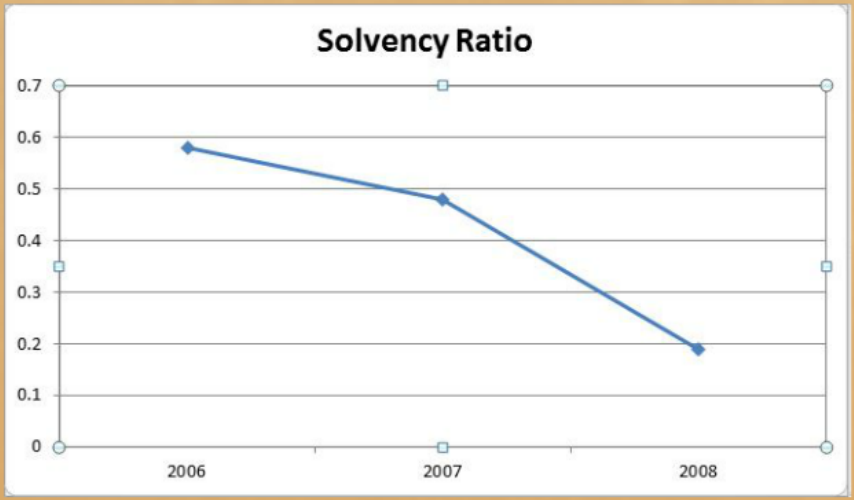
Interest Coverage Ratio

2006: 9.46 **2007:** 7.99 **2008:** 1.02



Solvency Ratio

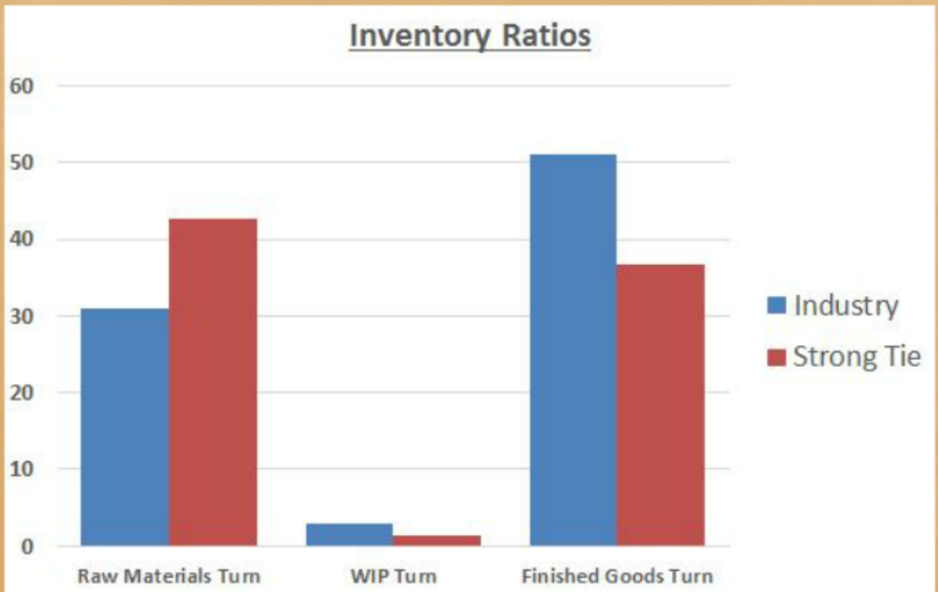
2006: 0.58 **2007:** 0.48 **2008:** 0.19



Asset Management

- Inefficient at turning over assets
- Reflected in total asset turnover ratio and ROA
- Automation should make Strong Tie more efficient in all aspects of production

	Industry Average	Strong Tie
Raw Materials Turn	31	42.61
WIP Turn	3	1.28
Finished Goods Turn	51	36.65
A/R Turn	63	63.13
A/P Turn	11	11.06
Tot Asset Turn	1.70	1.31
Net Profit Margin	10.0%	0.04%
ROA	17.0%	0.06%
ROE	28.0%	0.11%



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    - Use automation correctly
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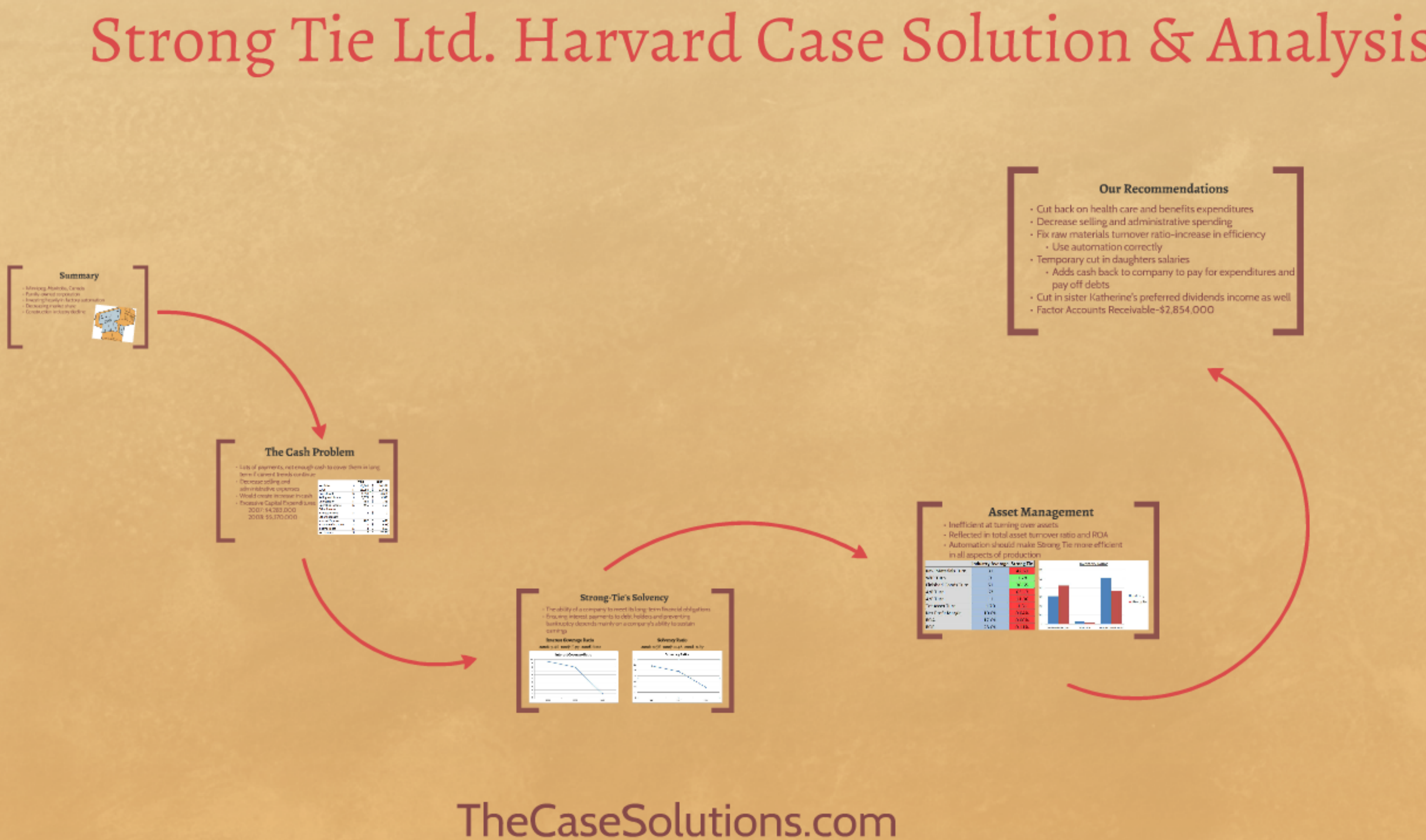

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