**STRATEGIC PROFIT MODEL SCENARIO EXERCISES—PART A**

This exercise requires you to evaluate Flextronics under various scenarios using the Strategic Profit Model.

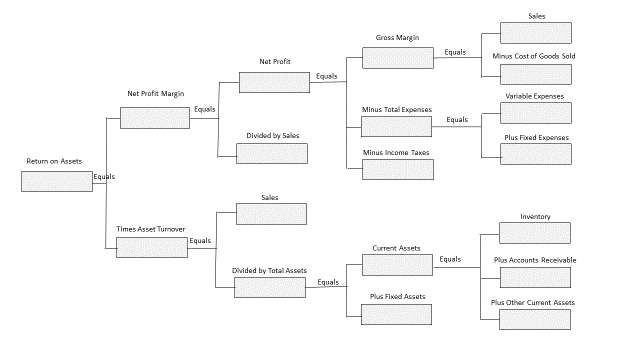
Using the following financial data and template, answer the following questions. When populating the model with data, be sure to work from right to left.

**Income Statement: FLEXTRONICS**

|  |  |  |  |
| --- | --- | --- | --- |
| Period Ending | | **Mar 31, 20XX** | **Mar 31, Previous Year** |
| **Total Revenue** | | **26,108,607** | **23,569,475** |
| Cost of Revenue | | 24,668,386 | 22,403,227 |
| **Gross Profit** | | **1,440,221** | **1,166,248** |
|  | Selling General and Administrative | 874,796 | 805,235 |
|  | Non Recurring | 16,663 | 11,600 |
|  | Others | 28,892 | 29,529 |
| **Operating Income or Loss** | | **519,870** | **319,884** |  |
|  | Total Other Income/Expenses Net | (57,512) | 65,190 |  |
|  | Earnings Before Interest And Taxes | 400,454 | 328,815 |  |
|  | Interest Expense | - | - |  |
|  | Income Before Tax | 400,454 | 328,815 |  |
|  | Income Tax Expense | 34,860 | 26,313 |  |
|  |
|  | Net Income From Continuing Ops | 365,594 | 302,502 |  |
|  | Discontinued Operations | - | (25,451) |  |
| **Net Income** | | **365,594** | **277,051** |  |
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| |  |  | | --- | --- | | **Balance Sheet: FLEXTRONICS** |  | |

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| |  |  | | --- | --- | |  | All numbers in thousands |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | |  |  |  |  | | --- | --- | --- | --- | | Period Ending | | **Mar 31, 20XX** | **Mar 31, Previous Year** | |  | Cash And Cash Equivalents | 1,593,728 | 1,587,087 | |  | Short Term Investments | - | - | |  | Net Receivables | 2,697,985 | 2,111,996 | |  | Inventory | 3,599,008 | 2,722,500 | |  | Other Current Assets | 1,509,605 | 1,349,818 | | **Total Current Assets** | | **9,400,326** | **7,771,401** | | Long Term Investments | | - | - | | Property Plant and Equipment | | 2,288,656 | 2,174,588 | | Intangible Assets | | 377,218 | 343,552 | | Other Assets | | 433,950 | 302,014 | | **Total Assets** | | **12,500,150** | **10,591,555** | |  | Accounts Payable | 5,102,668 | 4,056,980 | |  | Short/Current Long Term Debt | 32,575 | 416,654 | |  | Other Current Liabilities | 2,521,444 | 1,699,151 | | **Total Current Liabilities** | | **7,656,687** | **6,172,785** | | Long Term Debt | | 2,070,020 | 1,650,973 | | Other Liabilities | | 571,764 | 521,039 | | Minority Interest | | 38,629 | - | | **Total Liabilities** | | **10,337,100** | **8,344,797** | | Common Stock | | 7,614,515 | 8,015,142 | | Retained Earnings | | (4,937,094) | (5,302,688) | | Treasury Stock | | (388,215) | (388,215) | | Other Stockholder Equity | | (126,156) | (77,481) | | **Total Stockholder Equity** | | **2,163,050** | **2,246,758** | | |

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1. Place the company’s current financial numbers in the Strategic Profit Model spreadsheet and calculate the company’s Return on Assets. The current scenario is the **Base Model**.

Base Model ROA:

Next, place the company’s previous year’s financial numbers in the Strategic Profit Model spreadsheet and calculate the company’s Return on Assets Base Model:

If there is a difference between the current and previous year’s ROA, what caused the change?

Calculate and discuss the effect on Return on Assets using the base model for the following scenarios. Evaluate the effect of each scenario individually against the base model. Treat each scenario separately:

* + **Scenario 1:** The supply management group negotiates a series of longer-term contracts with suppliers that lower the company’s cost of goods sold by 4%.

Effect on Base ROA:

* + **Scenario 2:** An inventory management team puts in place a new planning system that increases inventory turns by 35%.

Effect on Base ROA:

* + **Scenario 3:** Flextronics negotiates agreements with third-party logistics providers that transfer 12% of the company’s total fixed assets to the supplier and increases costs of goods sold by 4%.

Effect on Base ROA:

* + **Scenario 4:** An inventory management team develops a new forecasting system that, along with Lean improvements, reduces the total inventory requirements in terms of dollar value by 11%.

Effect on Base ROA:

Looking at the scenarios independent of each other, which has the greatest expected impact on ROA? Which has the least effect?

**STRATEGIC PROFIT MODEL SCENARIO EXERCISES—PART B**

This exercise requires you to evaluate Micron Technology under various scenarios using the Strategic Profit Model.

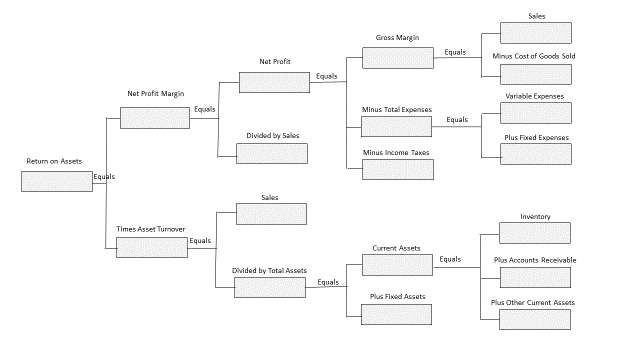
Using the following financial data and template, answer the following questions. When populating the model with data, be sure to work from right to left.

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| --- | --- |
| **Income Statement: MICRON TECHNOLOGY** |  |

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| |  |  | | --- | --- | |  | All numbers in thousands |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | |  |  |  |  | | --- | --- | --- | --- | | Period Ending | | **Aug 28, 20xx** | **Aug 29, Previous Year** | | **Total Revenue** | | **16,358,000** | **9,073,000** | | Cost of Revenue | | 10,921,000 | 7,226,000 | | **Gross Profit** | | **5,437,000** | **1,847,000** | |  | |  | Research Development | 1,371,000 | 931,000 | |  | Selling General and Administrative | 939,000 | 554,000 | |  | Non Recurring | 40,000 | 126,000 | | **Operating Income or Loss** | | **3,087,000** | **236,000** |  | |  | |  | Total Other Income/Expenses Net | (2,000) | 1,280,000 |  | |  | Earnings Before Interest And Taxes | 3,085,000 | 1,516,000 |  | |  | Interest Expense | 352,000 | 231,000 |  | |  | Income Before Tax | 2,733,000 | 1,285,000 |  | |  | Income Tax Expense | 128,000 | 8,000 |  | |  | Minority Interest | (34,000) | (4,000) |  | |  | |  | Net Income From Continuing Ops | 3,045,000 | 1,190,000 |  | |  | | **Net Income** | | **3,045,000** | **1,190,000** |  | |  | | |
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| |  |  | | --- | --- | | **Balance Sheet: MICRON TECHNOLOGY** |  | |

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| |  |  | | --- | --- | |  | All numbers in thousands |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | |  |  |  |  | | --- | --- | --- | --- | | Period Ending | | **Aug 28, 20xx** | **Aug 29, Previous Year** | |  | Cash And Cash Equivalents | 4,150,000 | 3,436,000 | |  | Short Term Investments | 384,000 | 221,000 | |  | Net Receivables | 2,906,000 | 2,329,000 | |  | Inventory | 2,455,000 | 2,649,000 | |  | Other Current Assets | 350,000 | 276,000 | | **Total Current Assets** | | **10,245,000** | **8,911,000** | | Long Term Investments | | 1,790,000 | 895,000 | | Property Plant and Equipment | | 8,682,000 | 7,626,000 | | Intangible Assets | | 468,000 | 386,000 | | Other Assets | | 497,000 | 439,000 | | Deferred Long Term Asset Charges | | 816,000 | 861,000 | | **Total Assets** | | **22,498,000** | **19,118,000** | |  | Accounts Payable | 2,698,000 | 2,115,000 | |  | Short/Current Long Term Debt | 1,638,000 | 1,585,000 | |  | Other Current Liabilities | 475,000 | 425,000 | | **Total Current Liabilities** | | **4,811,000** | **4,125,000** | | Long Term Debt | | 4,955,000 | 4,452,000 | | Other Liabilities | | 1,102,000 | 535,000 | | Minority Interest | | 802,000 | 864,000 | | **Total Liabilities** | | **11,670,000** | **9,976,000** | | Misc. Stocks Options Warrants | | 57,000 | - | | Common Stock | | 107,000 | 104,000 | | Retained Earnings | | 2,729,000 | (212,000) | | Capital Surplus | | 7,879,000 | 9,187,000 | | Other Stockholder Equity | | 56,000 | 63,000 | | **Total Stockholder Equity** | | **10,771,000** | **9,142,000** | | |

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1. Place the company’s current financial numbers in the Strategic Profit Model spreadsheet and calculate the company’s Return on Assets. The current scenario is the **Base Model**.

Base Model ROA current year:

Next, place the company’s previous year’s financial numbers in the Strategic Profit Model spreadsheet and calculate the company’s Return on Assets Base Model:

If there is a difference between the current and previous year’s ROA, what do you think caused the change?

Calculate and discuss the effect on the current year’s Return on Assets using the base model for the following scenarios. Evaluate the effect of each scenario individually against the base model. Treat each scenario separately:

* + **Scenario 1:** The supply management group negotiates a series of longer-term contracts that lower the company’s cost of goods sold by 5%

Effect on Base ROA:

* + **Scenario 2:** An inventory management team puts in place a new planning system that increases inventory turns by 30%

Effect on Base ROA:

* + **Scenario 3:** Micron Technology negotiates agreements with third-party logistics providers that transfer 12% of the company’s total fixed assets to the supplier and increases costs of goods sold by 4%.

Effect on Base ROA:

* + **Scenario 4:** An inventory management team develops a new forecasting system that, along with some Lean improvements, reduces the total inventory requirements in terms of dollar value by 19%.

Effect on Base ROA:

Looking at the scenarios independent of each other, which one would have the greatest expected impact on ROA?