SOFT DRINK INDUSTRY

A COMPANY PERFORMANCE ANALYSIS

A RESEARCH TOPIC

PRESENTED TO BUSINESS DIVISION

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FOUAD K.EL HAGE

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P.O.BOX: 143 13 - 5053

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APPROVAL OF RESEARCH TOPIC

CANDIDATE: FOUAD K. EL HAGE DATE: JUNE, 1985

DEGREE : M.S. In Business Management ADVISOR: Dr.Mithilashwar Singh

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The following professor nominated to serve as the advisor of the above candidate has approved this research work.

ADVISOR: Dr. Mithilashwar Singh

[redacted]

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TO DR. MITHILESHWAR SINGH

WITH MANY THANKS AND REGARDS

CHAPTER 1

INTRODUCTION

Lebanon like many other Arab world is trying to grow. But the growth is slow or stgnant because of many factors such as civil war.

Among many factors, lack of organisation, planning and continued civil strife affected the industries and caused many of them to shut down. Some of them went bankrupt, some sunk in huge losses and a small percentage survived despite all obstacles, but somehow managed to stay on the edge of the survival.

Looking from organisational point of view, most of the companies operating in Lebanon suffer from lack of planning.

They do not care to plan; and in cases when they do their plan tend to be short term and not for long run. The short time-horizon of their planning has hurt them and to a great extent has been responsible for their present plight.

The company under consideration is no exception until the management passed into the hands of an young energetic mechanical engineer in the year 1980. Being the youngest son of the founder of the company and concerned with the welfare of the company, he wanted to raise the company from its present position. Theoretical and practical planning by studying the weak points of the company, and finding the best possible solution for each problem.

The company under consideration is involved in soft drink industry. Its products are known for quality and taste. But due to strong competition, the company finds it hard to compete and thrive as much as it could.

2- HISTORICAL BACKGROUND:

The company under the sole properietor-ship is owned by a family. The company was established in 1940 and registered in Chambre De Commerce in 1952 under the name of its founder.

In 1960 the name was adjusted to establishment meant "to do the manufacturing and distributing of soft drink and fruit juices."

The aim of the company is to produce soft drink and alcohlic drink. The company produces five kinds of products: N. product, P. product, T. product, and L.LE. product. All these products are marketed in returnable, non returnable bottles, in addition to N. and A. products by litter returnable bottles.

The company started its production in year 1940. The production was limited to alcohol, arak, and cognac. In 1945, the company diversified its production line to soft drinks, without making any substantial investment in machines and equipment. They kept using old machines untill 1954, when they introduces modern automatic machines.

In 1960, the plant shifted to the other side of the town on a new location with a new building on a land of 6527 square meters owned by the founder shared with refrigerater warehouse for fruit keeping. The company since then has kept a modernised equipment to take care of the increased production.

The production capacity of the company is 12000000 non returnable bottles of 250 centiliter and 6,000,000,00 liter returnable bottle and this for two shifts during peak season and oneshift for the rest of the year.

In 1976 the management of the company underwent a change with the youngest son who was a B.S. graduate in mechanical engineer, taking over the management of the company replacing the management represented by his father, the founder of the company.

The father was the general manager of the company until he passed away in 1985, but the son has the greater role in executing most of the decisions. The son had the greater part to play in product diversification by introducing the P. product and the 1W. product that helped extricate the company from a very critical situation.

3- OBJECTIVES OF THE COMPANY:

The objectives of the company are stated as follows:

- Producing high quality soft drinks that satisfy the consumer in taste, quality and price.
- Seeking growth by generating more sales and profit.
- Dominating major share of the market.
- Diversification through creation of new products.

4- STATEMENT OF THE PROBLEM:

a) In analysing the company, the analyst finds the company facing many problems, which may be attributed to the past operation and to political situation in the country.

b) Marketing: Since the product are seasonal in nature, the people cannot consume these products if there is not peace in the country. The products faces loss of sale due to distribution problems, caused by violence and closing of different areas of the country.

The analyst finds among many other, the following problems under lining the operation and working of the company.

4.1- Financial problems:

- Financial losses.
- Liquidity problems.
- Inadequate use of assets.
- Lack of financial planning and control.
- Lack of finacial date.

4.2- Marketing:

The seasonality in case of the company plays an important role for the company growth and sales.

Political stability affects company sales and distribution. Peace plays an important role in providing a regular sale of the product, otherwise the product cannot be marketed and it would not reach the consumer.

4.3- Sales:

Sales volume are low to justify the level of assets since assets turnover are low. Increase in sales or employment of assets on much smaller scale is needed to justify the current ratio of assets turnover.

CHAPTER 2

PRESENTATION AND ANALYSIS OF COMPANY OPERATION

1.1. Ingredients:

The soft drink contains treated water, acidulant, falvoring ingredients, sugar, colors and preservatives. Bottling syrup is to be produced first in the manufacture from the concentrate.

1.2. Syrup Manufacture:

The formula quantity of sugar is added to a tank which contains treated water. At a temperature of 75°c activated carbon is heated with an effect to remove colour from the sugar.

For 20 seconds the temperature is kept at the same level and by this the sugar is sterilized. After this period the sugar is pumped through a filter to remove the carbon and then it is passed through a pasteurezer which heats the syrup up to 92°c for few seconds and then cooled down to 20°c. The sugar is then pumped through a finished simple syrup mixing tank.

After the above operation when the syrup is in the tank, it is stirred, at the same time the other ingredient are added to the syrup, as mentioned in the formula prepared. After mixing the syrup, it is analysed by taking a sample by the laboratory. If it is found satisfactory, then it is passed for bottling. (Exhibit 1)

1.3- Finished Beverage Production:

Treated water and syrup are pumped to the proportioner and carbonator. The treated water is deaerated by vacuum and then cooled. It is then injected with carbon dioxide which results in carbonated water. The corbonated water is then mixed with bottling syrup through proportioning pump. The typical ration is 1 part syrup to 4 parts water. The two parts are mixed and this results in the finished beverage, which is passed to the bottle filling machine.

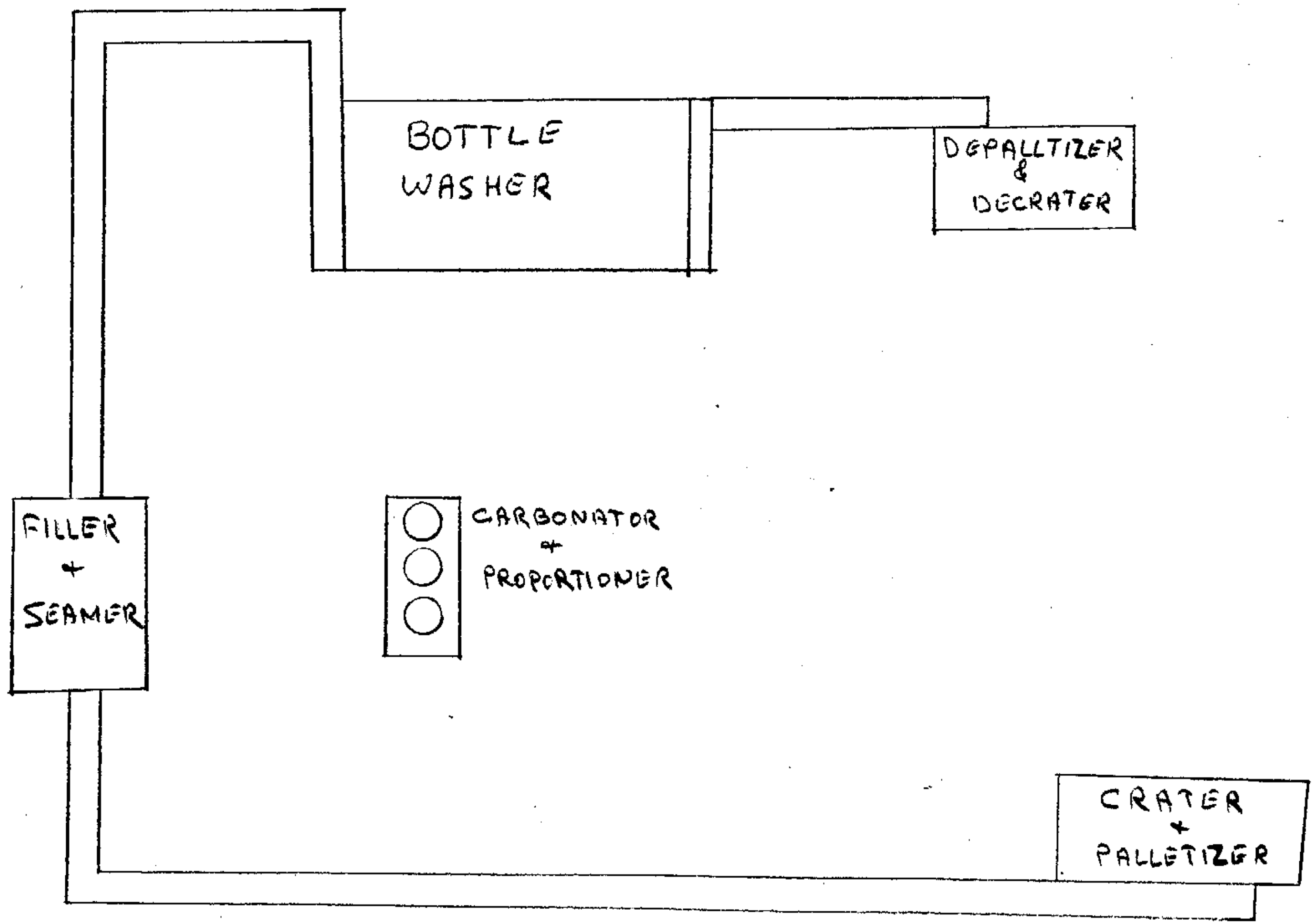
1.4- Typical Bottling Line:

Pallets containing cases of empty bottles are transported to the end of the bottling line with fork lift trucks.

The cases are manually placed onto the crate conveyor. The bottles are then removed from the crates, either manualy or by decrating machine and they pass down the bottles conveyor into the bottle washer. It takes about 15 minutes for the bottles to pass through the washer.

During this period, the bottles are washed inside and out with caustic soda solution at 80°C and then finally with water again. When the bottles leave the washer, they are

EXHIBIT I - BOTTLING LINE



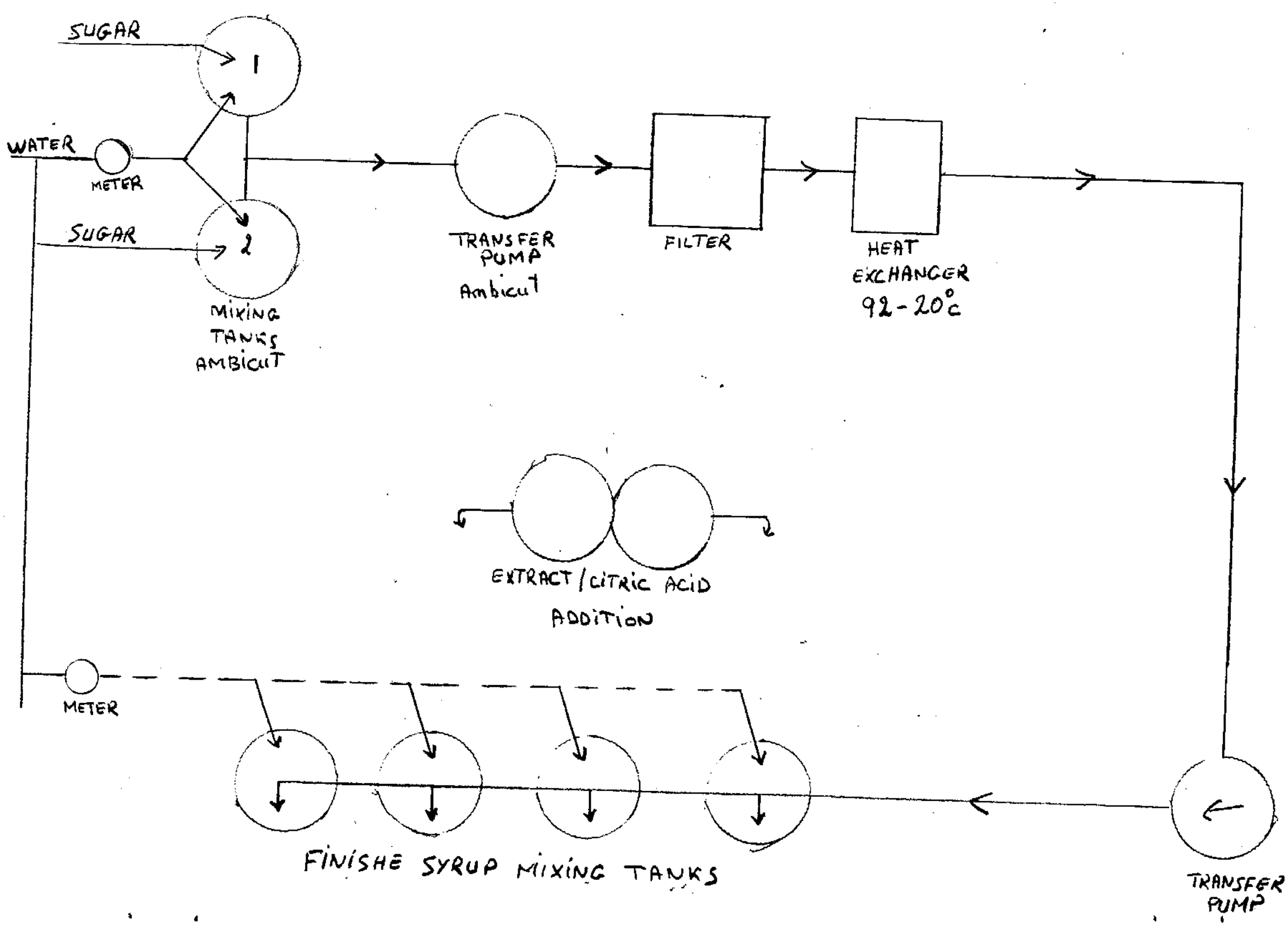
clean, bright and sterile. These bottles then pass infront of sighting screens where they are visually inspected to ensure that they are not chipped etc... the bottles then pass to the filler, where they are filled with beverages from the carbonator, the proportioner and they are then crowned. The bottles are visually inspected again to ensure that none are under filled. Finally the crates full of bottles are stacked on pallets and moved with fork lift trucks into the warehouse ready for distibution.

Samples are taken throughout the process to ensure that the product is meeting precise standards for flavor, odor, appearence, sugar content, carbonation, acidity level, etc.. ....(Exihibit 2)

1.5- <u>Treated Water</u>:

In order to produce high quality soft drinks, it is essential to use treated water. Raw water is taken either from a well or the main supply and various chemicals are added to it to reduce its hardness. At the same time,6 or 8 parts are added to sterilize the water. After the water has been held in contact with the chlorine for two hours, it passes through a sand filter which removes any particles from it and then through a carbon filter which removes the chlorine. The resulting water is odorless, colourless, flvorless and has maximum total alkalinity of 50P.P.M.

EXHIBIT 2 - SYRUP MANUFACTURE



2- MANAGEMENT:

Looking at the management of the company we can divide it into two periods:

a- 1940 - 1976 .

b- 1976 - Till the present period.

a- Looking through this period which could be regarded as classical, one finds concentration of all decision making power in the hands of the founder of the company with no planning and growth objectives.

It is true that the company adopted automation in production, but did not carefully plan the use of automation in planning the future growth and development of the company. Price manipulation was extensively used to save the company from incurring losses without paying much attention to econmic consequences of such policy. Such a short sighted policy of the company resulted into loss of market and consumer's faith and loyalty in the company's products. The period was characterised by falling sales and increasing losses.

b- 1976 - Till the present period:

In 1976 the engineer Took over the company with his two brothers, having in mind to improve the company operations both technical and managerial. He did not mind to operate and organize the company's operations along the lines of modern management on the basis of careful scheduling and planning.

b.1- Motivational System:

i- Incentive program:

Management behavior towards employees changed and the employees were given a new sense of belongingness.

Due to the above, the employees became self motivated. Their feelings of alienation considerably decreased making them rather more productive.

ii- Technical Know-How:

Employees were motivated to learn more by " doing and practicing". They were encouraged to learn the process of production beginning with the first step, up to the end.

Every one was and is ecncouraged to know exactly what he is doing and how. This management tool was able to reduce mistakes of the employees and hence the cost. This innovation on the part of management became successful due to the introduction of new automatic machines and the computer which helped the company in their accounting and finance operations considerably.

iii- Right Person In The Right Place:

By recruiting educated and experienced staffs and employees, staff selection was made on the basis of qualification.

The two periods stay in great contrast to each other. The one period planned on hunches and memories while the other period took planning, costing, and forcasting more seriously. Recording was not left to memory but it was commited to computer memory and made retrievable at minutes notice. The decision making was made relatively more scientific.

3- ORGANISATIONAL STRUCTURE

Since its foundation, the company was headed by its founder, who was the general manager, and all deceisions were taken by him.

Company structure was comprised of the labarotary and production department, sales department and accounting department. All matters of substative nature offered by him were reported to the manager,and mostly solutions judged as final. There was complete centralization of power and authority into the hands of general manager. .....(Chart no. 1.)

The new organization of the company,embraced the pholosophy of power sharing and group decisions based on group participation. ....(Chart no. 2.)

The management flow starts from the head manager down till it reache general manager. The general manager was in charge of all departments, concerning problems and operations, supervising the operation of each department.

3.1- Lab.Research and Development:

The department is responsible for retesting the product, taking care of all important aspects of their products, namely the quality and development of new products; in consultation with the general manager,and the management. If the new product is accepted,they are reported to the accounting department for costing purposes,then to the sales department to review its given price by the accounting department and comparing it with the accepted pricing level of similar products in the market.

3.2- Sales Department:

The department is responsible for the sales and distribution of the products. The comparison of prices, the projected volume of sales are compared to similar products in the market.

3.3- Production Department:

The department is responsible for production inventory control, and quality testing of product during their production and bottling operation.

3.4- Accounting and Computer Department:

The department is responsible for all accounting transactions, related to the entire operation of the firm including the entering of all financial data on the computer, and reporting all the financial statements to the general manager of the firm.

The firm does not have any personnel department, dealing with recruitment, maintenance, and development of personnel in the firm. All aspects of employee development and relation activities rest into the office of General manager of the firm.

A- Organizational Chart :

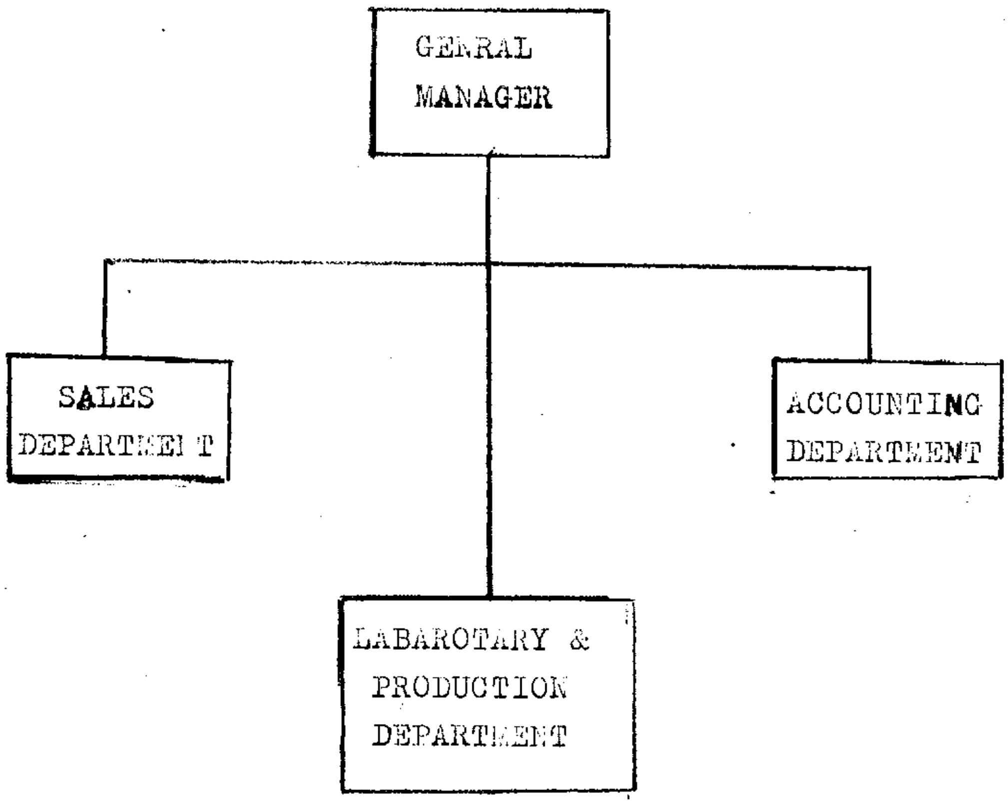


CHART NO. 1.

A.1- Sales Department:

- Disribution.
- Comparison of prices.
- Comparison of sales volumes.

A.2- Production Department:

- Production operations.
- Inventory control.
- Inspecting.

A.3- Accounting and Computer Department:

- Transactions.
- Entringmon computer
- Financial statement reports.

B- Organizational chart:

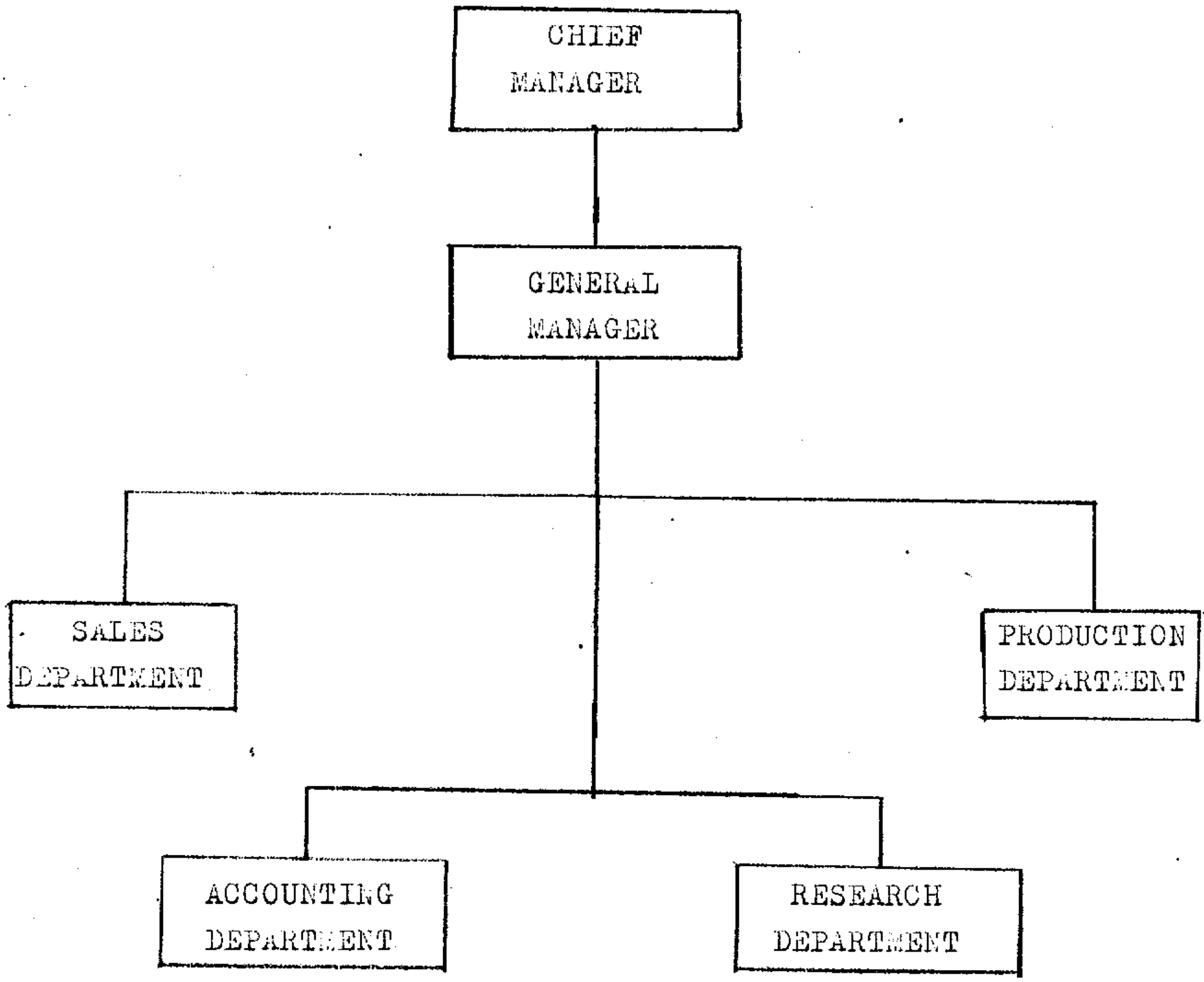


CHART NO.2.

B.1- Chief Mnager:

- Review reports.
- Makes decision with respect to resource allocation: Physical, human and financial.
- Analyse and study reports.

B.2- Gneral Manager:

- Receives operating Reports, claims.
- Provides direct supervision over the whole company and responsible for reruitment, promotion and development of man power.

B.3- Sales Department:

- Review chart no;1.

B.4.- Production Department:

- Review chart no. 1.

B.5- Accounting and Computer Department:

- Product development, Product Design, and maintenance with special reference to: a) Testing
  b) Quality
  c) Development
- Retesting products.
- Healthy aspect.
- Creating new products.
- Management advising.

........(Chart NO.2).

4- MARKETING:

A firm without marketing cannot survive, for marketing is the life and blood of a company.

Marketing can be defined as " Those activities that relates an organization successfully to its environment. The main activities are the identification of unmet needs, the development of products and services to meet these needs, pricing, the distribution of goods to the market place and the communication of the ability of the products and services to meet the needs[1]".

In studying the marketing policy of the company, it is important to analyse marketing problems such as competition, pricing, product, advertising and promotion.

4.1- Competiton:

Every industry faces competitors which will try to dominate the market by different means, such as reducing prices, heavy advertisement, offering more services .....etc.

1- G.DAVID HUGES, Marketing Management(Addison-Wesley Publishing company,Massachusetts Calif,1978),P.3.

In the industry of soft drinks, competition plays an important role in determining the share of the market.

Multinational competitors with resources, such as advertising and volume can compete successfully against local company with limited resources or financing sources.

Overhead costs of large companies tends to be much less than the firm producing on much smaller scale or low volume.

As far the financing strength of competitors is concerned, they enjoy financial backing from the parent company. They can secure easy finance compared to national company, that can be financed through borrowing, which will add to their cost.

But the firm enjoyed an adventage over the competitors, with respect to investment decisions in new products or new machines. The company therefore, experienced flaxibility in executing its decisions, while competitors needed a span of time for such decisions, since the implementation of investment decisions depended on the Head office.

4.2- Production Strategy:

To a consumer, a product is a bundle of percieved benefits that will meet his or her needs. The manufacturer views the product as a bundle of attributes that, ideally will meet consumer's needs. The product mean package for easiness of use, may mean service before and after sale, may include prestige associated with product brand name, because this prestige adds or contributes to consumer's satisfaction with the product.[2]

For a company the product is related to packaging, which diversifies through it , by using returnable, non returnable bottles, and with plastic boxes used for P.Product.

By the P.Product the company was able to dominate the market, and to cannibalize the market since the introduction of the P.product. Competitors were not able to compete the company since the company is paying good attention concerning the quality and the taste of the product, share with heavy advertising campaign.

2- IBID. P. 278.

" The company now produces seven kinds of products, all these products are imitated by competitors. Up till now the competitors were not able to compete. The sales of these products kept increasing ever since they were introduced" Said the general manager.

As regards life-cycle of the product, known as P.product and 1W. they are in their growth stage, since their sales are still increasing.

Concerning the returnable products, their life-cycle is in the declining stage. They cannot drop such products since they are prestige product of the company and are associated with the company for they were their long time product.

The company now is in the process of introducing new products related to the P.product and another product related to the 1W. product, but in different sizes . The package could be of multiple use to the consumer after consuming the content.

4.3- Pricing Policy:

Every company has to put a value for its products to be sold. This value is called the price. A simple pricing strategy is to " Sell the product for more than it costs".[3]

Still such a simple strategy is not easy to conduct, since pricing is important to the economy and the firm. In the economy it is the mechanism for allocating resources and reflecting degrees of both risk and competition; in the firm it is the basis for generating profits".[4]

Looking at the prices of the company products, we find it compared to competitors, less by L.L.2 /Case for the P. company,L.L.6/Case for the S.Company, while it is the same for J.company; these prices are for the 1W.product, as for the T. product, we find that the price is higher by L.L.o.5/case for the T. company product, and B. company product, while it is less by L.L.1.50/case for the BRA.company product.

3.4. IBID.P.305.

COMPANY PRICE	P	S	J	M
1W. L.L.	32	36	30	30
RET. L.L.	22	22	-	19

PRODUCT	T	B	BRA.	P.pro.
L.L.:	12	12	14	12.50

On examining the price structure, one can find the price of P.product higher than

> " Since we were the first in introducing P.product at higher price, the quality and advertisement played its role in dominating the market".

answered the general manager.

As for the 1W.and the Returnable product their prices are lower because of technical advantage the company had in producing such products which require a lower investment compared to competitors. This advantage are going to be used in introducing new products, where it will cost millions before competitors will be able to market them."

4.4- Distribution Strategy:

Marketing is defined as "Having the right product, at the right price, in the right place,at the right time".[5]

It depends on the firm's flexibility in adopting to the environment,specially for the company which is working in a non-stable political situation.

For the firm under consideration the distribution channel is wide enough to cover the entire country except for the areas and places where civil war and Isreali's invasion prohibit the firm to carry on the distribution. But still the company is waiting for the right moment to extend its distribution to these places.

The channel of distribution as it exists cover all the northern area , mount of Lebanon, Beirut and its suberbs, Bekaa and Baalbeck. As for the South due to the Isreali's occupation, the firm has not been able to reach but according to its plan the firm is ready to move in soon the area is evacuated by the occupying forces.

These areas are covered by a net-work of company warehouses. The warehouses are either owned by the company or facility is leased. This speaks highly channel of distribution set-up.

The related strategy of the firm is " to dominate and meet the demand of the market at the national level, first, before making an attempt to cover the outside market such as the Arab countries and the Gulf". said the general manager.

5- G.David Huges, Marketing Management. Ibid P.333.

4.5- Advertising and Promotion:

Advertising can be defined as" Selling through print or electronic media. It is a sponsored communication designed to influence buying behavior of consumer. Their communications are known as promotions. Packaging plays an important role in the communication process.[6]

The company depended heavily on advertising for the year 1982 and 1983, it led them to pay around L.L.650,000. in 1983.

The aim of this aggressive promotional policy was to plan for the long-run in terms of growth and sale. The policy was adopted with a view to keeping the market share intact.

Through this the firm made the consumer aware of the products and their quality. The advertising campaign persued by the company was for the period of three years, and it was carried both through T.V. promotional film, and cartoons and stickers, for the P. product and the 1.W. product. It helped keep and maintain the consumers awareness in the company's products.

6- Ibid.P.353.

The cartoon stickers, is designed in such a way as to help promote repeat purchases on the part of consumers for unless the buyers were able to collect the whole set of the sticker, they would not qualify for the prizes.

This was totally oriented towards children of age five years through fifteen years of age.

This campaign proved very successful, but it was very costly. The T.V.promotional film after being regularly used, for the last two years, was felt to be old. The problem arose as how the advertising be done on regular basis without incurring heavy losses of obsolescence.

5- FINANCE

5.1- Break-Even Analysis:

Break- Even analysis is a mathematical model, through which one can determine the level of out-put of zero profit, that is to break-even.

The break-even point is that level where total revenue equal to total cost, and profit is zero. It can also be utilized to determine what level of profits or losses will be achieved at a particular level of out-put, to determine the effect on profit of different price and out-put combinations.[7]

It is related to fixed cost, variable cost and a selling price. Fixed costs are costs that do not vary, up to a certain limit of production. But as the quantity produced increases beyond that limit the fixed cost per unit decreases and it becomes more economical to produce.

As for variable cost, it varies per unit of production i.e as the production increases, the more variable cost increases. The formula applied to the determination of break-even production is:

7- Anthony & Reece. Accounting text & cases, 7th ed. Homewood Illinios:Richard D.Irwin,Inc.1983,P.P.524,525.

$$\text{Break-Even quantity in units (B.E.Q.)} = \frac{\text{Fixed cost}}{\text{Selling Price-variable cost}}$$

Break-Even in L.L.= B.E.Q. x Selling Price.

For the company, if we look at table 1, it gives all the facts concerning the break-even and cost analysis for each product related to N.product. Q' & Q" represents quantities produced (Q') and quantities sold (Q"), and it goes the same for the rest of the products. The break-evenfor N. Product are 120744 for L.LE. product 391656, for O.product 196832, for T.product, and 148777 for L.product.

As for table 2, Q' & Q", represent the quantities for P. product at price of L.L.12 and at price of L.L.12.5, Out of this we get the break-even of the different product related to P.product. Because of the change in prices, we have different break-even point for products.

Out of this we have diffrent costs, and revenues. At the net break-even point of revenues and cost, we have a loss of (L.L.187668) for O.product, and a loss of (L.L.48333) for A.product. This might add to the loss, since the company is not breaking-even; theoretically the company should not produce such product. As for table 3, it is the same explanation.

TABLE 1
BREAK EVEN & COST ANALYSIS PER PRODUCT

		N.PRODUCTS		
	LLE.PRODUCT	O.PRODUCT	T.PRODUCT	L.PRODUCT
antity produced Q'	12400	41746	20858	16350
antity sold Q"	11362	37679	18016	15604
ariable cost	5.4251	5.0622	5.12	4.7538
ixed cost	6.2157	6.2157	6.2157	6.2157
rice	15	15	15	15
rice-variable cost	9.5749	9.9378	9.88	10.2462
otal fixed cost Q'	77074	259480	129647	101626
otal variable cost Q'	67271	211326	106792	77724
al variable cost Q"	61639	190738	92241	74178
otal revenue	170430	565185	270240	234000
reak-even quantity	8049	26110	13122	9918
reak-even L.L. (1)	120744	391656	196832	148777
reak-even per cost price (2)	93704	294471	148748	108800
.E.(1) - B.E.(2)	27040	97185	48083	39976

TABLE 2

BREAK EVEN & COST ANALYSIS PER PRODUCT

		P.PRODUCT		J.PRODUCT
		O.PRODUCT	A.PRODUCT	O.PRODUCT
Quantity produced		371638	166200	24895
QUANTITY SOLD	Q'	187560	94072	21781
	Q"	146332	55214	
Variable cost		8.1435	8.0153	6.6423
Fixed cost		4.2888	4.2888	3.1493
Price	P'	12	12	8.75
	P"	12.5	12.5	8.75
Total fixed cost	Q'	1593881	712798	78401
Total variable cost	Q'	3026434	1332142	165360
Total variable cost	Q"	2719049	1196572	144675
Total revenue	TR'	2250720	1128864	190583
	TR"	1829150	690175	
Break-even quantity	Q'	413297	17883	37197
	Q"	365862	158940	
Break-even L.L.(1)	B.E.'	4959567	2146606	325480
	B.E."	4573284	1986750	
Average price	B.E."'	4754666	2061960	
B.E./Cost price(2)	B.E.'	5138235	220100	364225
	B.E."	4548515	2035084	
(B.E.1)-(B.E.2)	B.E.'	(178668)	1926505	(38745)
	B.E."	24768	(48333)	

== ================

TABLE 3

BREAK-EVEN & COST ANALYSIS PER PRODUCT

	L.LE.PRODUCT	1W.PRODUCT O.PRODUCT	T.PRODUCT	L.PRODUCT
Quantity produced Q'		13060	27260	20560
Quantity sold Q"		11207	18227	17909
Variable cost	18.5494	18.1462	18.2104	17.8538
Fixed cost	6.2157	6.2157	6.2157	6.2157
Price	27	27	27	27
Price - variable cost		8.8538	8.7896	9.1462
Total fixed cost Q'		81177	169439	127794
Total variable cost Q'		236989	496415	367074
Total variable cost Q"		203364	331920	319743
Total revenue		302589	492129	483543
Break-even quantity		9168	19270	13972
Break-even L.L. (1)		247552	520487	377255
Break-even per cost price(2)		223364	470869	336309
B.E.(1) - B.E.(2)		24187	49617	40946

=====================

Total break even L.L........... 9434961 ......At Price of P.PRODUCT L.L.12

=== == == == .... 8888819 ......= == = = === L.L.12.5

=== == == == .... 9145413 ......AT AVERAGE PRICE ** L.L.12.25

=== = == (Average)..... (9434961+8888819) % 2 = 9161890

N.B.

N.B. Break-even quantity = $\dfrac{\text{Total fixed cost}}{\text{Price - Variable cost}}$

=== == == L.L. = Break-even quantity X Price

OR = $\dfrac{\text{Total fixed cost}}{1 - \dfrac{\text{Total fixed cost}}{\text{Total revenue}}}$

Break-even in cost price= Break even quantiy x totol cost

5.2- Analysis of Fund Flow Statement:

A fund flow statement, officially called a statement of changes in financial position, provides information about an entity's investing and financing activities during the accounting period. The concept of funds embodied in this statement can range from very liquid (cash) to only moderatly liquid (working capital) resources.

A working capital flow statement focuses attention on the major funds flow in the firm, in contrast with the recrurring flows among current assets and current liability accounts.

A cash flow statement reveals the same major funds flows but inter-mixes them with the shorter turn flows among the current accounts.[8]

The net amount of funds generated by opertaions is not the same as net income. Some expenses "notably, depreciation" that were subtracted in arriving at net income for the period do not use funds. In practice, the amount of funds generated by operations is derived from the net income figure by adding back depreciation and other expenses which did not use funds.

However, one must not infer from this calculation that depreciation in itself is source of funds, for it definetly is not.

For our analysis, it was not easy to calculate figures of net increase or decrease in cash from the cash flow statement, because the company depended heavily on the revaluation of its assets.

As for the working capital flow statement, the net figure arrived at differed from the change we got from the balance sheet figures and from the change in working capital accounts. This is mainly due to the revaluation of company's assets, and the classification of its current and fixed assets accounts.

As a result of the analysis, it is obvious that the company is poor in liquidity position since there is negative amount figures i.e it has liquidity problem. This shows that generating funds through borrowing did not help the company to overcome that problem at all.

The current assets of the firm are not enough to meet their current obligations. The amount of borrowing is

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8- IBID. P.P.337, 338, 339.

excessive, the revaluation of assets played the role in making the borrowing possible on such a large scale.

WORKING CAPITAL FLOW STATEMENT

SOURCES OF FUNDS:		
1- **FROM OPERATIONS:**		
Net income	(233308.41)	
Add: Depreciation	222167.28	
Total funds generated from operation		(11141.13)
2- **OTHER SOURCES OF FUNDS:**		
Revaluation of capital	1934269	
Prepaid insurance	3358.7	
Prepaid L/C Reserves	7006.8	
Total sources of funds		1933493.3
3- **USES OF FUNDS:**		
T.V.Promotional film	129412.5	
Acquisition of trucks	115500	
"""""""""" of office furn.& computer	21014.6	
N.wooden & plastic cases	16910	
N.litre plastic cases	11363	
N.coolers & Kiosks	(20149)	
N.returnable bottle	66843	
N.returnable litre bottle	42135	
Institutional fees for P.Prject	28500	
Therforming equipment & machines	184880.7	
Revaluation difference of land	1631750	
Total uses of funds		2246294.8
Net increase(decrease)in working capital		(312801)

CASH FLOW STATEMENT
FOR THE YEAR 1983

SOURCES OF CASH:

From operations:		
Sales	8810653	
Adjustment to convert to cash basis:		
Increase in account receivables........	(17919)	
Decrease in interest expenses..........	21545	
Cash generated from sales.............		8814279.5
Expenses:..............................	9206646.5	
Adjustment to convert to cash basis:		
Inc.in inventory of Fin.Prod.ST........	65278	
Dec.in inventory of Raw materials......	(70361.7)	
Dec.in notes receivables..............	2475	
Dec.in Account Payables................	170208	
Depreciation expenses..................	(222167.28)	
Interest	(540673.29)	
Inc.in bank loan.......................	(266645.7)	
Cash disbursed for expenses............		8344759.5
Net cash generated from operations		469520
USES OF CASH:		
Institutional fees for P.Project.......	28500	
Therforming equipment&Machines.........	184880.7	
T.V.Promotional film,..................	129412.5	
Acquisition of trucks..................	115500	
Acquisition of equip.&Computer.........	21014.6	
Total uses of cash.................		479307.8
Net increase(decrease)in cash..............		(9787.8)

CHANGE IN WORKING CAPITAL ACCOUNTS

ACCOUNT	WORKING CAPITAL INCREASE(DECREASE)
Cash	(9569.3)
Account receivable	17919
Notes receivable	(2475)
Finished product stock	65278
Inventory of raw materials	(70361)
Prepaid insurence	3358.95
Prepaid L/C RESERVES	(7006.8)
Prepaid raw materials purchase	3777.20
Notes payables	(619164.65)
Accounts payables	170207.95
Bank loan	(266645.7)
Increase (Decrease)in working capital	(714682)

5.3- Financial Condition & Performance:

Over a period of forty years the company has passed through different stages of product and operational development. Starting with alcholic drinks as beer and cognac, the company ended with present production line of soft drinks.

For the last ten years, the company has witnessed fluctuation in its business profit and loss. As the manager said" From 1977 till 1980, the company was at a stagnant period of growth, faced with a strong competition from other companies. This period could be explained as rough period."

From 1981 to 1983, the company faced through a growth period compared to 1977 - 1981 enjoying 1982 as a good year operationally since the company witnessed a profit of L.L. 17630.34. For 1983 the company encurred a loss of L.L. (233308.84) compared to 1982 showing a 300 % decline in profit. It is a rough loss , but as explained by the management it is not since such a loss did not represent the long term prospective of the company.

The loss was due to heavy capital expenditure on advertisement campaign, in the depreciation expenses, the company incurred on the introduction of the P.Project.

Since there is no comparable industry figures for similar business it is hard to compare the financial performance; but judging from management report, their operation can be characterized as better.

1- Advertising campaign was huge compared to competitors who have not followed any advertising policy.
2- Reorganization policy of the company, followed by the new management, caused an additional cost which may be characterized as beneficial and necessary.
3- Related to the P.Project since it is in the growing stage, the introduction cost was very high almost 50 % of sales.
4- The same applies for the N.1Way.
5- An addition to the above, the political situation compounded the problem of the company.1983 operation was a troublesome for the company since they witnessed a decline in sales volume in different areas of the country. Based on about 8 months of sales excluding the south due the military situation .

It is important to note that despite all non encouraging environment, the company kept operating, the management is doing their best to overcome this situation and to raise the company from the present situation.

To evaluate any company's operation, the best guide is the ratio analysis. Considered conservatively it can give a clue as what is going on in the company.

Ratio analysis is useful when compared with the industry figures and to the past operating years, but since we have a lack of related figures or rates; it is difficult to do so.

For our research purpose we considered the two financial years of the 1982 and 1983. Based on these two years we made our comments in order not to overestimate or underestimate the position of the company.

5.4- Overall Performance Measure:

- Return On Assets(R.O.A.):

Total assets and the effectiveness of their use by the management are analysed by relating profit defined in variety of ways to the commitment of assets used to generate them.

The tool related to this is the R.O.A., which reflects how much the firm has earned on the investment of all financial resourses commited to the firm and how well the company has utilized its funds. The formula related to it is:

$$R.O.A. = \frac{\text{Net income before interests \& taxes}}{\text{Total assets}}$$

From the table of ratios, R.O.A. is 0.99 & (1.04) for the 1982 and 1983 respectively. This tels us about the return for every one pound invested into assets. The decline has almost doubled in the last two years showing the inefficient use of company assets. The points that can be made on the efficient utilization of assets of the firm are:

1- Total assets have increased almost by 12 % due to the revaluation of assets in 1983. No additional investment was made into the expansion organisation of any asset.

2- Loss has resulted because:

- Sales have increased by 17% from 1982 to 1983,
- cost has increased by 20 %.

Sales increase may not be said to be disappointing, but cost increase were rather unfortunate.

- As for expenses, we note that operating expense has increased 24.43 %. This is due mainly to the heavy expenditure on the advertising campaign which caused an increase of 26.12% and to salaries and production cost which increased to 27.35 % of total revenue.

- Another point to be noted that in 1982 no depreciation expense while in 1983 the figure stands at L.L. 222167.28 causing a big loss. Looking at this ratio from different angle, we note the earning power has an effect, by increasing the turnover of assets or increasing the net profit margin or both.[9]

9- Anthony And Reece. IBID. P. 414

$$\text{EARNING POWER} = \frac{\text{SALES}}{\text{T.A.}} \times \frac{\text{NET INCOME}}{\text{SALES}}$$

- Return on Invested Capital

Usually companies borrow money to increase their profit by investing the loan in the company. Hence unless the return out of borrowing is higher than the cost of borrowing, the loan is worthless to invest. Related to the above we have:

$$\text{RETURN ON EQUITY} = \frac{\text{NET INCOME}}{\text{EQUITY}} \quad \text{------- (R.O.E.)}$$

AND

$$\text{RETURN ON INVESTED CAPITAL (R.O.I.C.)} = \frac{\text{NET INCOME}}{\text{LONG TERM LOAN + EQUITY}}$$

From table of ratios, we note that the R.O.E. decreased for 1983, this shows that the use of equity has generated a loss. The same holds good of the R.O.A.,Borrowing added nothing to the profitability of the company instead they increased the cost that is the interest cost rose sharply. Adding to that, capital had increased of 16 % due to management's revaluation of assets and liabilities and not to the increase of profit or retained earnings if they occurred.

5.4.II- Profit Analysis:

Every company objective is to grow and to make profit which will help in the growth strategy they adopt, as reinvesting the profit in the bussiness leads to the growth.

Profit analysis is a measure of overall profitability. This is referred to the gross margin percentage and to the return on sales. Both shows management ability to operate the company with sufficient success.

$$\text{GROSS MARGIN PERCENTAGE} = \frac{\text{GROSS MARGIN}}{\text{NET SALES}} \quad \text{------(G.M.\%)}$$

$$\text{RETURN ON SALES OR PROFIT MARGIN} = \frac{\text{NET INCOME}}{\text{NET SALES}} \quad \text{----(R.O.S.,P.M.)}$$

These two formulas shows the return for every L.L.1 of sales made. Gross margin shows that the cost of production is almost 50 % of net sales. This is due to the following:

From the indexed income statement:

- Cost of raw materials of N.product have an increase of 20 % from 1982 to 1983, caused by an increase of 289 % in raw materials of N.1W. product, on a sales increase of only 17 %.

- Cost of goods sold of each product compared to sales volume is almost 50 % or more. This means that the cost is 50 % on L.L. 100 sales.

As to the R.O.S or P.M., they show the relative efficiency of the firm after taking into account all expenses and income taxes but not extra ordinary charges.[10]

In our project we note that R.O.S. has declined 200 % from 1982 to 1983 .

If we look at the expenses as we noted earlier salaries and production cost, advertising and depreciation contributed greatly in the decline of net income.

It is important to note here that the strong competition the company is facing, has put the company in a very sensitive position. Since the company is planning for a long term profit and not for the short term, they had to incur an additional level of advertising expenses which counts about 26 % increase which is 6 % of sales, as the common size income statement shows.

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10 - JAMES C. VAN HORNE, FINANCIAL MANAGEMENT AND POLICY, 5th. ed.,(Englewood Cliff, New Jersey, Prentice- Hall, Inc. 1980) P.P. 725 - 726.

5.4.III- <u>Test of Investment Utilization</u>:

In this type of ratio analysis, it judges on the effectiveness of management utilization of capital or investments.

It shows the amount of assets commited in the operation for a given level of income, or the sales generated for every L.L. of investment. The ratios related to it is given by the followings:

$$\text{ASSETS TURNOVER} = \frac{\text{NET SALES}}{\text{TOTAL ASSETS}} \quad \text{-------(A.T.O.)}$$

$$\text{INVESTED CAPITAL TURNOVER (I.C.T.O.)} = \frac{\text{NET SALES}}{\text{LONG TERM LIABILITIES + EQUITIES}}$$

$$\text{EQUITY TURNOVER} = \frac{\text{NET SALES}}{\text{EQUITY}} \quad \text{-------(E.T.O.)}$$

$$\text{CAPITAL INTENSITY} = \frac{\text{NET SALES}}{\text{PROPERTY + LAND + EQUIPMENT}} \quad \text{------(C.I.)}$$

From the table of ratios, we notice that an increase of 0.02 % time for A.T.O., that is for every L.L.1 of assets is turned by 0.40 time, almost less than $\frac{1}{2}$ time a year. This shows that the utilization of assets is not efficient compared to sales. In this case the revaluation of assets has played this role of low turnover. Here the assets value increased on revaluation without any concurrent increase in the sales volume or profit.

- <u>Increase in Sales Volume</u>:

  This could be increased by generating more sales with the same amount of investment or reducing the amount of assets required for a given level of sales volume. Here advertising plays the role of increasing the sales volume.

As for I.C.T.O. it is 0.48 time in 1982 and 0.50 in 1983. In 1982 we can say that the turnover is loww compared with the high level of investment. For 1983 it is no better than the year 1982, since the revalueing of assets played its role in inflating the level of equity.

E.T.O. has been on a low level with a little increase of 0.01 time.

C.I. is no better than the other, we can apply the same reasoning.

In continuing our analysis we reach to the examination of a Day's cash, Day's receivables and Day's inventory, show whether or not the company is tieing up excessive amounts in current assets.

$$\text{DAY'S CASH} = \frac{\text{CASH}}{\text{CASH EXPENSES} \div 365}$$

This is to show how the company is meeting its expenses during operation. For the company the day's cash is 3.36 and

1.82 for the years 1982 and 1983 successively, showing a decline of 1.54. This ratio is low, however this means they are meeting their daily and the long term needs.

$$\text{DAY'S RECEIVABLES} = \frac{\text{ACCOUNT RECEIVABLES}}{\text{SALES \% 365}}$$

In 1982 it was equal to 2.32 compared to 2.74 in 1983, It shows the average collection period for the company's receivables.

These figures are the company indications that their sales are mostly in cash basis and they have no specific credit policy.

$$\text{DAY'S INVENTORY} = \frac{\text{INVENTORY}}{\text{COST OF SALES \% 365}}$$

The inventory on hand in 1982 was 12.11 days and 9.46 days in 1983.

Another index of measurement could be that of stock to the finished product stock. That will give us a ratio of 125 days in 1982, AND 95.81 in 1983 which is clearly a decrease.

Another ratio that can have a relevance to this fact is:

$$\text{INVENTORY TURNOVER} = \frac{\text{COST OF SALES}}{\text{INVENTORY}} \quad \text{-----(Inv.T.O.)}$$

$$\text{OR} = \frac{\text{COST OF SALES}}{\text{FINISHED INVENTORY + RAW MATERIALS INVENTORY}}$$

The table of ratios shows a decline for inventory turnover indicating 77.51 time and 2.9 time for 1982 and 38.56 time and 3.49 in 1983.

The company carries a high level of raw materials (inventory), the following may be the factors contributing to this phenomenon.

- The political situation may be causing the hoarding of raw materials on part of the company.

- The high rate of inflation may be another important factor forcing the hands of company to hoad excessive amount of inventory (raw materials) to save itself from day to day exchange fluctuations. Recent months the inflation rate and exchange rate fluctuation have been quite high.

From the above it appears that the management could not depend on the seasonality of their business in scheduling their needs of raw materials.

$$\text{WORKING CAPITAL TURNOVER (W.C.T.O.)} = \frac{\text{SALES}}{\text{CURRENT ASSETS - CURRENT LIABILITies}}$$

For 1982, this ratio is (6.24) and (4) in 1983, indicating a negative figure, this shows the risk that the company is facing ahead, because it reflects How well the company is managing its current assets.

The turnover analysis reflects the company utilization of its assets. For low turnover, it means that they are tieing excessive amount in assets which is not very productive. The operation require capital and there is a cost associated with the capital. To the extent the debt could be reduced by cutting the level of assets, interest cost would fall, increasing net income, and causing the investment base to decline paving the way for favorable return on investment.[11]

5.4.IV- **Financial Conditions:**

Looking into this area, we are examining company's liquidity and solvency. Liquidity refers to the company ability to meet its current obligations.

Thus, liquidity test focuses on the size and relation-ship of current liabilities and current assets which presumably will be converted into cash in order to pay the current liability. Solvency on the other hand, retains the company's ability to meet the interests cost and repayment schdule associated with its long term obligations.[12]

Ratios related to the above are:

$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

The above ratio is equal to 0.52 and 0.40 for the 1982 and 1983, respectively. That figure is low, and that shows the risk that the company is exposed to, in case of meeting its short obligations.

$$\text{DEBT / EQUITY RATIO} = \frac{\text{NON CURRENT LIABILITIES}}{\text{EQUITY}} \qquad \text{----- } 1$$

or

$$= \frac{\text{TOTAL LIABILITIES}}{\text{EQUITY}} \qquad \text{----- } 2$$

11- Anthony & Reece. OPCIT.P.423.

12- IBID. P.423.

This ratio is 27.94 and 26.9 or 46.07 and 46.5 %. They both show the firm's ability in meeting their obligations, specifically long term liabilities.

The liquidity ratio of the company is not bad even after it declined in 1983. Still it is an average of 26.5 of equity.

For ratio 2, it is high rate showing the company's capacity in meeting long term liabilities.

$$\text{DEBT/ CAPITALIZATION} = \frac{\text{NON CURRENT LIABILITIES}}{\text{NON C. L. + EQUITY}}$$

This ratio is amounted to 21.15 for both years, it is almost the same.

$$\text{EQUITY RATIO} = \frac{\text{EQUITY}}{\text{TOTAL ASSETS}}$$

This ratio is amounted to 67 % and 66 % for the two years of analysis. It is not a poor ratio but the revaluation of assets may be said to be the reason for this high equity ratio.

TABLE OF RATIOS

NAME OF RATIO		1982	1983	CHANGE
- RETURN ON CAPITAL		0.99%	(1.04)%	(2.03)%
- RETURN ON INVESTED CAPITAL		1.18%	(1.23)%	(2.41)%
- RETURN ON EQUITY		1.48%	(1.49)%	(2.97)%
II- PROFITABILITY MEASURE				
- GROSS MARGIN PERCENTAGE		53.34%	52.4%	(0.94)%
- PROFIT MARGIN		2.43 %	(2.43)%	(4.86)%
III- TEST OF INVESTMENT UTILIZATION				
- ASSET TURNOVER		0.40 TIME	.42	0.02
- INVESTEDCAPITAL TURNOVER		0.48 =	0.50	0.02
- EQUITY TURNOVER		0.60 =	0.61	0.01
- CAPITAL INTENSITY		0.51 =	0.53	0.02
- DAY'S CASH		3.36 DAYS	1.82 DAYS	(1.54)DAYS
- DAY'S RECEIVABLES		2.32 =	2.74 =	0.42 =
- DAY'S INVENTORY		12.11 =	9.46 =	(2.65) =
	OR	125 =	95.81 =	(29.19)=
INVENTORY TURNOVER		77.51 =	38.56 =	38.95 =
	OR	2.9 =	3.49 =	0.59 =
- WORKING CAPITAL TURNOVER		(6.24)TIME	(4)TIME	2.24TIME
IV- TEST OF FINANCIAL CONDITION				
- CURRENT RATIO		0.52	0.40	0.12
- ACID TEST RATIO		0.031	0.026	0.005
	OR	0.050	0.061	0.011
- DEBT/EQUITY		27.94%	26.9%	(1.04)%
	OR	48.07%	46.5%	(1.57)%
- DEBT/CAPITALIZATION		21.15%	21.24%	0.09 %
- EQUITY RATIO		67 %	67 %	

TABLE OF RATIOS

NAME OF RATIO		1982	1983	CHANGE
- Incase of loss :				
- DEBT/EQUITY			27.4%	
	OR		47.29%	
- DEBT CAPITALIZATION			21.15%	
- EQUITY RATIO			66 %	

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5.5- Common Size and Indexed Analysis:

For the purpose of analysis, we entered in this kind of analysis for the balance sheet and income statement of the company where the items of the balance sheet and the income statement are considered as percentages. The percentage can be related to totals as assets or total sales, or to some base year.

This analysis provides an insight into the trend or movement of funds over years.

In this analysis we express the variouse components of a balance sheet as percentage of total assets of the company. The same can be done for the income statement, but in this case items are related to sales

This expression of individual financial statement items as percentages of totals usually permits insight not possible from a review of the raw figures.[13]

Looking at the common size balance sheet, we note that the current assets for the two years as percentages of total

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13- JAMES VAN HORNE. IBID. P.748.

assets are low ,i.e. they are less than 1 % for most of the items, while fixed assets have high percentages.

This is due to the large investment in fixed assets. That large investment has been mainly due to the revaluation of fixed assets.

Comparing 1983 to 1982, assets have shown an increase, although it is small increase but this shows the performance.

As for cash items, there is a decrease. The cash has been low, this might be due to high production costs and operating expenses. As for other assets the percentages increased due to the reason given earlier.

On the liabilities side we note that current liabilities like current assets have been low, and the capital tended to be large because of revaluation. The notes payables increased, along with a decrease in account payables. Bank loan has increased, due to the company's reliance on borrowing. The long term borrowing showed a decline although the value of the loan remained the same.

COMMON SIZE BALANCE SHEET

ASSETS

	1982	1983
CASH	0.16 %	0.09 %
ACCOUNT RECEIVABLES	0.26 %	0.32 %
NOTES RECEIVABLES	0.013=	
FINISHED PRODUCT STOCK	0.25 =	0.55 =
INVENTORY RAW MATERIALS	6.5 =	5.52 =
PREPAID INSURANCE	0.012 =	0.02 =
PREPAID RAW MATERIAL PURCHASE		0.01 =
PREPAID L/C RESERVE	0.038 =	
T.V.PROMOTIONAL FILM		0.64 =
TRUCKS	0.16 =	2.07 =
WOODEN & PLASTIC CASES	2.27 =	2.11=
LITRE PLASTIC CASES	0.16 =	0.20 =
COOLER & KIOSKS	0.07 =	0.05 =
RETURNABLE BOTTLES	4.6 =	4.46 =
RETURNABLE LITRE BOTTLES	0.05 =	0.25 =
OFFICE FURNITURE & COMPUTER	0.18 =	0.26 =
TOTAL CURRENT ASSETS	16.41 =	19.44=
LAND	36.22 =	40.37=
FACTORY AND COLD STORAGE	24.33 =	21.69=
OTHER PROPERTIES	6.87 =	6.12=
EQUIPMENT & MACHINERY	5.64 =	5.03=
THERFORMING EQUIPMENT & MACHINERY	6.68 =	6.12=
INSTITUTIONAL FEES FOR P.PROJECT	1.05 =	0.79=
KEY MONEY BEIRUT OFFICES & WAREHOUSE	2.77 =	2.47=
TOTAL FIXED ASSETS	83.58 =	82.59=
TOTAL ASSETS	1.00 =	1.00 =

COMMON SIZE BALANCE SHEET

LIABILITIES

	1982	1983
NOTES PAYABLES	2.56 %	5.34 %
ACCOUNTS PAYABLES	4.32	3.01
O.C.B.BANK LOAN	6.93	7.5
RETURNABLE BOTTLE DEPRECIATION RESERVE	0.022	
PENSION RESERVES	1.19	0.87
RETURNABLE BOTTLE ACC. DEP.RESERVE	0.30	
SOCIAL SECURITY TAX FINE RESERVE	0.19	0.17
INCOME TAX RESERVE	0.05	
LONG TERM LOAN	16.64	14.84
CAPITAL	67.09	69.39
PROFIT (OR LOSS)	0.65	(1.15)
TOTAL CURRENT & LONG TERM LIABILITIES	1.00	1.00

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COMMON SIZE INCOME STATEMENT

	1982	1983
SALES REVENUES & OTHER INCOME	1.00%	1.00%
LESS:		
COST OF GOODS SOLD:		
RAW MATERIALS GENERAL	11.44	8.83
RAW MATERIALS N. PRODUCT	2.63	2.7
RAW MATERIALS P. PRODUCT	33.56	27.99
RAW MATERIALS 1W.PRODUCT	0.05	8.81
RAW MATERIALS J. PRODUCT	---	0.43
GROSS PROFIT	52.32	51.21
LESS:		
OPERATIVE EXPENSES:		
SALARIES & PRODUCTION COST	29.25	31.72
GENERAL EXPENSES	2.95	2.43
MAINTENANCE	3.17	3.27
INSURANCE	0.54	0.53
ADVERTISING	6.50	6.98
	42.41	44.93
LESS:		
OTHER EXPENSES:		
DEPRECIATION		2.52
INTEREST	7.49	6.13
NET INCOME BEFORE INTEREST & TAXES	2.39	(2.38)
LESS:		
TAXES	0.82	0.26
NET INCOME AFTER INTEREST & TAXES	1.56	(2.64)

As for the income statement, we noticed that total cost of goods sold have increased approximately by 1 %. Income statement shows a good operating performance . Raw materials in general, and raw materials of P. Product have decreased and there has been an increase in sales of N.and P. products.

Raw materials for 1W.Product increased by 8.81 % due to introduction of 1W.Product to the market in 1983.

Over the two year period, the gross profit declined, due to the increase in the product cost. As for operating expenses, all expenses showed an increase. This was due to the fact that company operated on a high utilization capacity to generate sales.

- Indexed Balance Sheet and Income Statement:

Here indexed analysis shows the increase or the change from base year to the next year. Compared to the common size analysis, it gives approximately the same analysis, but in comparison with a base year.

Obviously assets have increased. Cash inventory of raw materials, and other assets showed a decline. The change from 1982 to 1983, shows a sharp fluctuation in some items like account receivables, finished product stock, prepaid insurence. etc......... The same applied for the items on the liability side.

As for the income statement, there has been a decline in net sales. This is not shown in the common size analysis since items are percentages of total sales, while here shows change for every item from a base year.

In general, there has been an increase of 17 % of gross income followed by an increase of 20.12 % in cost of good sold and 24.12 % of operating expenses. This increase in cost and expense over gross income lead to a fall in income.

Comparing to the common size analysis, gross profit showed a decrease while in the indexed analysis it showed an increase.

INDEXED BALANCE SHEET

ASSETS

	1982	1983
CASH	100	68 [illegible]
ACCOUNT RECEIVABLES	100	138.2
NOTES RECEIVABLES	100	----
FINISHED PRODUCT STOCK	100	241.4
INVENTORY RAW MATERIALS	100	94.1
PREPAID INSURENCE	100	248.9
PREPAID L/C RESERVES	100	-----
TRUCKS	100	137.9
WOODEN & PLASTIC CASES	100	104.12
LITRE PLASTIC CASES	100	138.31
COOLER & KIOSKS	100	84.86
RETURNABLE BOTTLE	100	108
RETURNABLE LITRE BOTTLE	100	448.7
OFFICE FURNITURE & COMPUTER	100	162.87
TOTAL CURRENT ASSETS	100	132.88
LAND	100	125
FACTORY & COLD STORAGE	100	---
OTHER PROPERTIES	100	---
EQUIPMENT AND MACHINERY	100	---
THERFORMING EQUIPMENT & MACHINERY	100	115.34
INSTITUTIONAL FEES FOR P.PROJECT	100	85
KEY MONEY BEIRUT OFFICES & WAREHOUSE	100	---
TOTAL ASSETS	100	112.15

INDEXED BALANCE SHEET

LIABILITIES

	1982	1983
NOTES PAYABLES	100	234.02
ACCOUNT PAYABLES	100	78.15
O.C.B.BANK LOAN	100	121.33
RETURNABLE BOTTLE DEPRECIATION RESERVES	100	-----
PENSION RESERVES	100	99.82
RETURNABLE BOTTLE ACC.DEP. RESERVES	100	-----
SOCIAL SECURITY TAX FINE RESERVES	100	-----
INCOME TAX RESERVES	100	-----
LONG TERM LOANS	100	-----
CAPITAL	100	115.99
PROFIT (OR LOSS)	100	(198)
TOTAL CURRENT & LONG TERM LIABILITIES	100	112.15

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INDEXED INCOME STATEMENT

	1982	1983
SALES INCOME:		
N.RETURNABLE	100	99.78
P.PRODUCT	100	103.85
1WPRODUCT	100	-----
J.PRODUCT	100	213.05
NET SALES	100	117
OTHER INCOME:		
VARIOUS	100	607.74
BOTTLE BREAKAGE	100	------
JUNOR	100	------
FNSHD PRO.STOCK VARIATION	100	110.9
GROSS INCOME	100	117.44
LESS: COST OF GOODS SOLD		
RAW MATERIALS GENERAL	100	99.90
RAW MATERIALS N.PRODUCT	100	120.73
RAW MATERIALS P.PRODUCT	100	99.97
RAW MATERIALS 1WPRODUCT	100	287.07
RAW MATERIALS J.PRODUCT	100	------
GROSS PROFIT	100	115.07
LESS: OPERATING EXPENSES		
SALARIES & PRODUCTION COST	100	127.35
GENRAL EXPENSES	100	99.96
MAINTENANCE	100	121.11
INSURANCE	100	116.70
ADVERTISING	100	126.12
GROSS OPERATING INCOME	100	99.74
LESS: OTHER EXPENSES		
DEPRECIATION	100	------
INTEREST	100	99.96
NET INCOME BEFORE TAXES	100	(117.0)
TAX EXPENSES	100	99.37
PROFIT (OR LOSS)	100	(198.0)

CHAPTER 3

CONCLUSIONS, RECOMMENDATIONS and SUMMARY

The leveling off of sales and the declining trend in profit and R.O.I. are symptoms of staghant company. The relative lack of a unified sense of direction and some of the resultant functional problems of the company are apparent.

The researcher recommends that the general manager in consultation with key executives (a) establish a competitive niche and based on written long range business objectives of the firm, (b) establish specific long and short range plans for moving toward these objectives and restructure the organization and make personnel changes to achieve better functional responsibilities and a unified sense of direction.

We recommend that the present strong product strategy be continued. It is important that the product policy should be formulated and written to achieve the long run business objectives and to guide the functional operations of the firm.

We recommand that in the marketing function:

a) Appropriate sales forcasts be prepared.

b) Sales analysis and distribution cast analysis be prepared to the extent that they are needed and used by managers and other employees.

c) Advertising expenditure be kept up to include radio and bill board advertising.

For the system function, the researcher recommends a short management seminar on management information systems so that managers may learn the role of information in their decision making and the role of the system function in serving them. At the same time, the accounting division should be coached to search for information needs of managers.

Marketing problems are evidenced by flattening of sales trend. There are many economic problems the company is encountering. The economic problem is not company's making but it has been caused by political and other factors in the country. A committee consisting of personnel from key departments should be constituted to the development of product lines and advertisement program of the firm including the sales program the firm may undertake from time to time. It is the considered opinion of the researcher, that once the company is able to develop a unified sense of direction, the company would be able to contribute to the solution of many of these problems, but more specific action must be stipulated.

Sales forcasting and analysis is required in any modern business.The questions for the company are: Who uses such information for decision making? How often do users require it up-dated? How accurately must it be performed? What detail is needed? and who at the company shall be responsible?

- An annual sales forcast of total L.L. sales only and a revised forcast should be made each quarter for units of each product(item) distribution center and profit contribution should be made at the end of each year.

- Weekly forcasts are necessary for good production control and merchandising.

- Centralization of forcasting is necessary in case of small firms. This enables the use of the computer application of statistical forcast models consolidation of the latest field information and prompt reporting.

- Since the general manager has the responsibility for product lines pricing and packaging; he must bear the responsibility for obtaining information for decision making and evaluation.

- Product Line Selection: A unified sense of direction will emerge as soon as a committee consisting of important segment of the firm is established and the responsibility for all merchandising and product selection is entrusted to it with chief manager as a person accounatble.

3.1- Product Strategy:

Continue as manufacturer of soft drink products competing with the wide variety of price lines and products. In brief, compete across the board with all kinds of competitors and and attempt to obtain a fair size of the total industry market in the country.

Company's image has been established over the years by its line and quality. A change to fewer items in product line is not desirable for it might end up with the wrong item. At such a critical time, such error would be disastrous. Rather a policy of increasing product lines would be benificial. Product line in the area of tomato or fruit pastes can be undertaken with great advantage to the use of existing facilities. The equipment and machinery not optiona-lly used will have a year round use.

The researcher recommends that the company increase the number of product line. The chief manager should develop related line of product in the proper price range leading to an increase of about 10 - 20 % of the present number of products.

Seek a competititive niche at the medium to good quality products.

- Increase in number of products will enable the company to realize economies of scale, reduction in selling cost due to savings affected in distribution and billing costs.

- Inventory accummulation on the part of the firm is excessive. An investment of this size is relatively high in comparison to output and sale. The company needs every cost reduction possible to keep afloat.

- Proper product strategy will lead to good scheduling based on good forcasting and help company solve many of its production problems.

The information concerning competition and the industry is not available. But considering what little information is available, the researcher will list basic categories of strategic action with some relatives alternatives:

- Multiple product lines.
- Related product line i.e. fruit and tomato paste.

1-Product Breadth and Overlap Alternatives:

- Development of competing lines.
- Identifying company's quality items and developing brand name for medium price range.
- Giving emphasis to customised items,and sizes.

2- Product Pricing:

Pricing alternatives have been reffered to these alternatives depend heavily on the originality of product, product quality, competitive strategy and consumer vagaries.

3- Market Segmentation Alternatives:

- Family
- Family and restaurants
- Family, restaurants and bars
- Expend items by segmenting the market and produce seperate lines for the market i.e. children only.
- Segment by quality/price and select one or more segments to aim at, with perhaps different brand names.

- Competitive Strategy Alternatives:
  - Compete head-on against principal competitors.
  - Find niches around principal competitors.
  - Compete head-on if possible, by one product at a time.

3.2- Sales Management:

Since all the information pertaining to average purchases, number of accounts and number of sales are not available, it is difficult to determine as how efficiently the sales are managed. This is important to know in order to develop a motivation system for channels handling the company products.

An incentive system,if possible, be instituted to encourage large sale by the distributiors.

3.3- Manufacturing Problems:

The production problems of make-up time, short runs,late deliveries, shortages of findings and inefficient use of materaials will tend to be eliminated by the actions recommended earlier. It is important that the effectiveness of production control be carefully monitored for the first six months in which sales and production forcast are instituted and the number of products are increased. The budget for research should be given proper consideration for an increase, because of its past success and maintaining high quality of the product.

Of course, the amount should depend on an evaluation of the detailed proposals.

3.4- Company Strategy:

Since the area is becoming one of the most important area, its potentials on opportunities for market development and sales expension are wide. In building its strategy toward the area, the company should take into consideration the above factor besides many other factors such as ethnic, cultural and religiouse.

The company has been able to develop a basic trust in its product among the consumers. The pricing stratégy of the company should be to preserve a minimum of 10 % margin between its prices and other competitors. Its higher prices are regarded as a sign of quality. The advertising strategy of the company should be built around slogans successfully thus far generated and sold to consumers.

Other manufacturers,on the other hand ,use an entirly different strategy in the area. Their key weapon used in penetrating the area is their lower prices, elastic creditsfacility and brand name of the product. Since the company has to fight well established companies in the area, the company should resort to intensive advertisement on radio and T.V. to create a brand awareness of their products.

3.5- Maketing Research and Advertisement

The company should have market research staff, busy in collecting data from the market, analysing it, assembling it and presenting conclusion and finding to the marketing staff and sales people. At the begining of each year, a series of meeting should be held between the sales people and adminstrative department. From these meetings should spring an action plan for the company and adminstrative department based on marketing needs and information requirements. Throughout the year, the market research staff should carry on the project included with the action plan with priority given to those qualified as"urgent".

The advertising staff should hold the similar meetings at the begining of the year with the sales people. Projects assembled in an action plan result with timetable and estimated values. At high peak or special occasions, the T.V. commercials should appear on television sets in one big advertising campaign. The company, if relies solely on T.V. as a mass communication means should think of shifting its advertisement effort to the radio and a part on bill board along the different route in the country. The company should think in terms of importance the retailers can play in company sale and reputation through his asses and influence on different segments of consumer in the country. Pleasing the dealer and supporting them should, hence,be a an important aim of the company.

3.6- Management Control: M.B.O. Applied:

The importance of establishing specific performance objectives should be emphasized as an essential part of the firm's performance appraisal and review process. In depth interview of the company officials indicate, however, that not sufficient prominence is given either to the sales or the process of setting specific performance goals or objectives.

It is important that the company should develop ways and means not only to established objectives but more through the planning and control phases to achievement. The concept will help employees not only to have a clear idea about their job but help them understand what the job is in terms of actual accomplishment. Thus objectives can provide basic purpose and direction to activity.

With this objective- centered approach the emphasis will be laid on mutual planning and problem solving. The benefits to the company can be numerious but the greatest benefit will be improvement in the management.

3.7- Competitive Activity:

The quality of the products mixed with prompt and effective service and heavy advertisement has caused relatively good acceptance for its products in the area. Their performance during the past four years has been encouraging. The prices are relatively higher, yet the consumer's awareness of those facts is behind the expanding share.

In order to maintain its share in the market, the firm needs to strenghten its service to distribution and offer the products at competitive prices. A special attention is needed on the prices of company products by not allowing it to vary by a wide margin. This requires a tight control on the quality and the cost of the product. Since all the data pertinent to the cost is not available to the researcher, it is not possible to come up with some specific recommendation as to the cost containment.

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N. COMPANY S.A.L.
BALANCE SHEET

ASSETS	1982	1983
CASH	29357.60	19788.30
ACCOUNT RECEIVABLES	46889.65	64808.65
NOTES RECEIVABLES	2475.00	
FINISHED PRODUCT STOCK	46158.00	111436.00
INVENTORY RAW MATERIALS	1187176.75	1116815.79
PREPAID INSURANCE	2255.30	5614.25
PREPAID L/C RESERVE	7006.80	
PREPAID RAW MATERIAL PURCHASE	3777.20	
T.V.PROMOTIONAL FILM	129412.50	
TRUCKS	304500.00	420000.00
WOODEN & PLASTIC CASES	409690.00	426600.00
LITRE PLASTIC CASES	29857.00	41220.00
COOLER & KIOSKS	13285.00	11273.00
RETURNABLE BOTTLES	835535.25	902378.70
RETURNABLE LITRE BOTTLE	9390 .00	51525.00
OFFICE FURNITURE & COMPUTER	33423 .85	54438.45
TOTAL CURRENT ASSETS	2957000 .20	3929402.04
LAND	6527000.00	8158750.00
FACTORY & COLD STORAGE BUILDING	4384900.00	4384900.00
OTHER PROPERTIES	1237970.00	1237970.00
EQUIPMENT & MACHINERY	1016763.00	1016763.00
THERFORMING EQUIPMENT & MACHINERY	1205145.35	1390025.75
INSTITUTIONAL FEES FOR P. PROJECT	190000.00	161500.00
KEY MONEY BEIRUT OFFICE AND WARE HOUSE	500000.00	500000.00
TOTAL FIXED ASSETS	15061778 .35	16849908.75
TOTAL ASSETS	18018778 .55	20208969.59

N.COMPANY S.A.L.
BALANCE SHEET

LIABILITIES	1982	1983
NOTES PAYABLES	461963.65	1081128.35
ACCOUNTS PAYABLES	778734.83	608526.88
O.C.BANK LOAN	1249787.81	1516433.52
RETURNABLE BOTTLE DEPRECIATION RESERVES	4094.00	
PENSION RESERVES	215414.70	176947.00
RETURNABLE BOTTLES ACC.DEP. RES.	55528.90	
SOCIAL SECURITY TAX FINE	35792.17	35792.17
INCOME TAX RESERVE	10623.70	
LONG TERM LOAN	3000000.00	3000000.00
CAPITAL	12089208.45	14023477.08
PROFIT OR (LOSS)	117630.34	(233308.41)
TOTAL LIABILITIES	18018778.55	20208969.59

N. COMPANY S.A.L.
INCOME STATEMENT
1982 - 1983

	1982	1983
SALES INCOME		
N.RET.	1586649.00	1239915.00
P.PRODUCT	5679875.00	5898909.00
N.1.W.		1278180.00
J.PRODUCT	89452.25	190583.75
OTHER INCOME		
VARIOUS	9571.95	58167.20
BOTTLE BREAKAGE		3705.55
JUNOR	90000.00	90000.00
FINISHED PRODUCT STOCK VARIATION	46158.00	51193.00
GROSS INCOME	7501706.20	8810653.50
LESS:COST OF GOODS SOLD		
RAW MATERIALS GENERAL	858507.25	778352.00
RAW MATERIALS N. PRODUCT	179319.35	238237.47
RAW MATERIALS P. PRODUCT	2517897.70	2466879.74
RAW MATERIALS 1W.PRODUCT	4128.00	776358.10
RAW MATERIALS J. PRODUCT		33088.17
TOTAL COST OF GOODS SOLD	3577852.30	4292915.48
GROSS PROFIT	3923853.90	4512738.02

N.COMPANY S.A.L.
INCOME STATEMENT
1982 - 1983

	1982	1983
LESS: OPERATING EXPENSES		
SALARIES & PRODUCTION COST	2194668.58	2795060.86
GENERAL EXPENSES	221309.19	214141.65
MAINTENANCE	238026.29	288295.15
INSURANCE	40581.55	47360.30
ADVERISING	487641.60	615032.65
TOTAL OPERATING EXPENSES	3182227.21	3959890.61
GROSS OPERATING PROFIT	741626.69	552847.41
LESS: OTHER EXPENSES		
DEPRECIAITON		222167.28
INTEREST	562218.15	540673.29
TOTAL OTHER EXPENSES	562218.15	762840.57
NET INCOME BEFORE TAX	179408.54	(209993.16)
TAX	61778.20	23315.25
NET PROFIT OR (LOSS)	117630.34	(233308.41)

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