Financial Project

Name of the Writer

Name of the University

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**Q1**

**Income statement**

**Sales**

With an expansion plan a higher expectation of sales to occur is always on the mind of the owners of the business. With a higher expansion base an increase in revenue will be expected. This increase in revenue will be documented in the sales component of the income statement. However, this may take some time in order to realize the full value of the changes that will affect the sales component of the income statement. In order to put a positive effect on the sales, the marketing, operations and the management team need to work on attracting as many customers as possible to their new locations.

**Expenses**

Another component of the income statement that will be affected by the expansion efforts are the expenses. These expenses can be of two nature, operating costs and capital expenditures. This increase in expenditure can be witnessed due to increase in operations in the form of increased number of employees and a higher number of inventories. Other costs such as the capital expenditures only arise due to the fact that new locations are being developed and new equipment needs to be bought for those new locations as well. These costs need to be kept within the budget as much as possible.

**Net Income**

At the end, the Net income is the major component that takes on the effect of both sales and expenses. Bothe costs related to expansion and the revenue generated from the sales would have a profound effect on the Net income. Furthermore, within the first year of expansion the value of net income would be negative. This is because of the expenses that will occur will be upfront. However, the revenue generated will not be fully realized till the further down the line. This is why the marketing, operations and the management team needs to make sure that the expansion proves to be profitable, in order to increase the value of net income.

**Balance Sheet**

**Assets**

The asset would be the primary component of the balance sheet that will be affected by the expansion plans. This represents any and all items of property and cash that the company owns. In this regard whatever new property, plant or equipment that the company buys would be listed in the company’s balance sheet in the asset portion. This will significantly imbalance the whole balance sheet. If a company spends any amount on buying any piece of land or property within the expansion plan, it will be listed on the balance sheet. However, it would be listed as a positive asset and as a negative cash.

**Liabilities**

Liabilities would be also another component of the balance sheet that will affected by the expansion plans. These will mostly be affected in case of the financing done in order to expand the business. In order to expand if the company if any debt is taken this would come onto the liabilities. To be more specific, any debt under one year would be listed on the current liability section of the liabilities. On the other hand, if the debt is of more than one year than this will be on the long term liabilities section of the balance sheet. The most important thing is that the liabilities are not more than the assets of the company.

**Shareholders’ Equity**

Finally, the Shareholders’ Equity of the company will be heavily affected once a business expansion goes into effect (Favato, et al, 2015). In one instance if the company uses capital stock in the form of financing for the business expansion. This capital stock will be would be listed on the shareholders equity. This is will be affecting the net worth of the company as well.

**Q2**

**Gross margin**

This ratio is important as it will be verily effected when operations are conducted in a new market. Under this ratio, the revenue that a company retains after the cost of goods sold are accounted for. This is a very basic form of figure but is very important for business who are expanding into new markets. This ratio measures the level of profitability that the business will witness once it enters into the new market. Furthermore, it can also be very helpful once the expansion is done. Through this ratio the amount of money that could be made against the cost of making or in this case implementing the expansion plans in relation with the products being sold. The gross margin for Starbucks was calculated at 58.84 for the year 2018 and 59.65 for the year 2017.

**Debt to equity ratio**

This ratio will be important once the company uses debt in order to finance its operations. These operations more importantly relates to expansion of business activities into a new market. Furthermore, it is a great indicator of a company’s financial health and is of great help to investors as well. A delicate balance needs to be maintained between the debt used and the shareholders equity. If the debt used within the business expansion is far more in comparison to the shareholders equity then the business might be in trouble. This is why when going for an expansion into a new market businesses need to keep this value as low as possible. Furthermore, businesses such as Starbucks need to keep this value low in order to attract investors for their future. For Starbucks, the last two years of debt to equity ratio is 8.03 for 2018 and 0.72 for 2017.

**Return on assets**

In term of business expansion, there is always an increase in the number of assets of the company. These assets need to be profitable in order for the expansion to seem profitable for the company. ROA or Return on Asset is an important ratio to be considered when a company goes into expansion into new markets (Abraham, et al, 2017). This type of ratio determines the profitability of the company in relation to the assets of the company. The more assets the company buys in the new market the more it has to show that these assets will prove to be profitable for the company. Furthermore, it is also a good indicator of the company’s management and how effectively they have been able to use their assets. For Starbucks the return on Assets is 18.70 for 2018 and 20.08 for 2017.

**Competitor**

The competitor chosen in relation to Starbucks is Costa Coffee. The reason for choosing this competitor is because Costa Coffee is the biggest competitor of Starbucks coffee all over the world. However, the financial ratios for the year 2018 for Costa Coffee paint quite a picture for the company. The company’s Gross Margin was around 53.50, which was much less compared to Starbucks during the same year. The Debt to Equity ratio for Costa Coffee was around 13.22, which compared to Starbucks was far more. Lastly, the Return on Assets for Costa Coffee is around 3.28, which compared to Starbucks is far much lower. Overall, Starbucks has performed way better in comparison to Costa Coffee just on the basis of the financial ratios calculated.

**Q3**

Financial decisions are intricately linked with the overall working of the company. These are even more important when businesses such as Starbucks have to expand their business activities in order to operate or enter into any new markets. Furthermore, these financial decisions are based on the decisions that are made by the management, operation and the marketing of the company (Bonnet, et al, 2016). These three departments of a corporation need to be in cohesion and have to make such decisions that will not wholly affect the financial framework and the decisions related to the financial side of the company. During entering into new markets, keeping a control on the financial decisions is very important.

The management needs to make sure that they appropriately use resources and make decisions that could help in decreasing financial expenses. This is important due to the fact within times of business expansions there are already numerous expenses that occur during this time. If the management does not take well thought out decisions that have a lasting beneficial effect on the financial health of the company, there is a high chance that the company might incur such heavy losses that they cannot come back from. This is why the role of management decisions in relation to the financial decisions is very vital.

Lastly, marketing and operational decisions also have an important role to play in the financial decisions that are related to entering into new markets. Marketing refers to the activities that are used and done by the company in order to promote the worth of company by increasing buying and selling of any service or product. Marketing is the product of both the options of growth and the affordable realms of the brand or company. Marketing is dependent on both operation decisions and financial decisions. However, operation decisions refer to the more inter-business decisions rather than external decisions. In the context of marketing, operation decisions are just meant to address the policies and relate them to target. However, financial decisions are located somewhere between marketing and operational decisions. It is so, because financial decisions cannot be made without analyzing the options to spend on and these options are to be introduced by the operations departments.

References

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