

Honest Weight Food Co-op, Inc.
Proposed Plan of Financial Analysis
and Forecasting of Future Performance

Prepared by:
Rick Proctor
Assistant Professor of Finance
Siena College

The main purpose of this analysis is to help the Co-op plan to manage its growth, and specifically to aid in planning for the expansion of the Co-op.

Part 1 – Analyzing the Co-op’s Performance

The first step will be to conduct an analysis of the Co-op’s past and current financial and operational status. Before we plan for the future, we want to know the specific strengths and/or weaknesses of the Co-op’s current operations. I will use ratio analysis to look at specific areas of performance. I will look at how efficiently the Co-op is using its assets, such as inventory, and physical assets, in the operations of the business. I will also look at how profitable the Co-op is. While the Co-op does not strive to maximize profits, the profits will provide a primary source of money to pay for the proposed expansion. I will examine the Co-op’s use of debt, in part to determine the ability of the Co-op to comfortably raise additional funds for expansion. I will look at the trends in performance over the past several years, and I will also compare the Co-op’s performance to other Co-ops. This analysis should help us to identify strengths of the Co-op, as well to identify any areas for improvement. In addition, the output of this analysis will also include a spreadsheet template that will facilitate conducting this analysis in the future

Work required to complete Part 1

The first step will be to convert the Co-op’s raw financial statements into a more condensed form that will provide the necessary information needed to conduct the analysis while eliminating unneeded details. Duke will be able to provide excellent guidance in this area. Once the income statements and balance sheets are in the proper format, the ratio analysis can be conducted. This involves preparing a spreadsheet that will calculate the ratios covering the various areas of performance (asset efficiency, profitability, debt utilization, etc.) This spreadsheet can also be used in future years to help conduct this same analysis. Then the actual analysis utilizing the ratios will be conducted. Positive and negative trends will be identified, and the Co-op’s performance will be compared to that of other Co-ops, to further identify strengths and weaknesses. Then a report summarizing the results of the analysis will be prepared.

Part 2 – Planning for the Future

This part will involve several related steps, including conducting a SWOT analysis and preparing forecasts of the income statements and balance sheets. This part will explicitly incorporate the planned expansion, and its impact on the Co-op.

First, Duke and I will conduct a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis. (And the input of anyone else who would like to contribute will be encouraged.) This analysis will help us to identify key items and issues that need to be incorporated into the forecasts.

Next, I will prepare a five-year forecast of the Co-op's performance. This will include forecasted income statements and balance sheets for the next five years, to illustrate the Co-op's projected financial performance and position. I will also conduct the same type of financial/operational analysis on the forecasts as I did in Part 1 – we want to determine if the forecasted performance is acceptable, and if not, what changes will need to be made. These forecasts will explicitly incorporate the proposed expansion- the impact on sales, net income, investment in physical and other assets, etc. And several different potential expansion options can be considered. These forecasts will also help to indicate how much outside funds will be needed to finance the expansion, and how comfortably the Co-op will be able to service any debt incurred to finance the expansion. We can also conduct sensitivity analysis ("what if" analysis) on the forecasts, to determine the impact of different sales growth rates, for example.

Work required to complete Part 2

Before beginning the preparation of the forecasts, I will review the Co-op's past performance to help in determining how to forecast the future accounts. I will utilize the results of both the financial analysis completed in Part 1 and the SWOT analysis to aid in forecasting future results. Next I will build the forecast spreadsheet. It will be designed to facilitate "what if" analysis, and will also serve as a template for preparing forecasts in future years. It will also be designed to facilitate the analysis of the forecasted results, both for this project, and for future years. It will incorporate the proposed expansion plans. I will conduct a financial analysis of the forecasted results, to help determine if the projected performance is acceptable. These forecasts could also be utilized when submitting loan requests to the bank as part of the expansion process. I will also prepare a report summarizing the forecasted performance, and identifying items of particular interest.

Compensation

My consulting rate for this project will be \$50/hour. I've based this on the fact that colleagues have told me that they charge \$75-125 for similar consulting work. I'm willing to charge a lower rate because this project will provide another, non-monetary benefit to me. I will develop a case study utilizing the results of the analysis that I will submit to academic journals for publication. Co-ops receive very little, if any, attention

in business courses, and I think that the great success of your Co-op would make an interesting and informative case study for students.

I cannot accurately predict how long this project will take. As a rough guess, I estimate that the first part will take between 20-30 hours, and the second part will take about the same length of time. If it turns out that this project will take longer than this, I will complete it without billing any additional hours. Developing a case study is one of the important benefits to me, and I will make sure that the project is completed so that I can develop a fully completed case study. In addition, I can meet with the Co-op staff and/or board members to provide updates and to receive input for the planning process, as necessary.

If you have any further questions, I would be glad to try and answer them. I can be reached at proctor@siena.edu, or at 782-6500. Thanks for your consideration of this proposal, and I'm looking forward to working on this very important project.

Sincerely,
Rick Proctor