

# Financial Management Case Studies

## FINANCIAL MANAGEMENT (MBA104)

### CASE STUDY # 5

Assume today is June 1, 2019. Rosemarie Dela Cruz is 30 years old and has a Bachelor of Science degree in computer science. She is currently employed as a Tier 2 field service representative for a telephony corporation located in Seattle, Washington, and earns \$38,000 a year that she anticipates will grow at 3% per year.

Rosemarie hopes to retire at age 65 and has just begun to think about the future. Rosemarie has \$75,000 that she recently inherited from her aunt. She invested this money in 10-year Treasury Bonds. She is considering whether she should further her education and would use her inheritance to pay for it.

She has investigated a couple of options and is asking for your help as a financial planning intern to determine the financial consequences associated with each option. Rosemarie has already been accepted to both of these programs, and could start either one soon.

One alternative that Rosemarie is considering is attaining a certification in network design. This certification would automatically promote her to a Tier 3 field service representative in her company. The base salary for a Tier 3 representative is \$10,000 more than what she currently earns and she anticipates that this salary differential will grow at a rate of 3% a year as long as she keeps working. The certification program requires the completion of 20 Web-based courses and a score of 80% or better on an exam at the end of the course work. She has learned that the average amount of time necessary to finish the program is one year. The total cost of the program is \$5000, due when she enrolls in the program. Because she will do all the work for the certification on her own time, Rosemarie does not expect to lose any income during the certification.

Another option is going back to school for an MBA degree. With an MBA degree, Rosemarie expects to be promoted to a managerial position in her current firm. The managerial position pays \$20,000 a year more than her current position. She expects that this salary differential will also grow at a rate of 3% per year for as long as she keeps working. The evening program, which will take three years to complete, costs \$25,000 per year, due at the beginning of each of her three years in school. Because she will attend classes in the evening, Rosemarie doesn't expect to lose any income while she is earning her MBA if she chooses to undertake the MBA.

1. Determine the interest rate she is currently earning on her inheritance by going to Yahoo! Finance (<https://finance.yahoo.com>) and clicking on the 10-year bond link in the market summary. Then go to "Historical Prices" and enter the appropriate date, June 1, 2019, to obtain the closing yield or interest rate that she is earning. Use this interest rate as the discount rate for the remainder of this problem.
2. Create a timeline in Excel for her current situation, as well as the certification program and MBA degree options, using the following assumptions:
  - Salaries for the year are paid only once, at the end of the year.
  - The salary increase becomes effective immediately upon graduating from the MBA program or being certified. That is, because the increases become effective immediately

Financial management case studies are essential tools in understanding the complexities and applications of financial principles in real-world scenarios. These case studies provide valuable insights into how businesses manage their finances, make investment decisions, and navigate financial challenges. By examining various organizations and their financial strategies, we can glean lessons that are applicable across industries and help improve our financial acumen.

## Understanding Financial Management

Financial management involves the strategic planning, organizing, directing, and controlling of financial activities such as procurement and utilization of funds. It also encompasses the management of financial risks and the planning of financial resources to achieve organizational goals.

# Key Objectives of Financial Management

- Maximizing Profit: One of the primary goals is to increase the profitability of the organization.
- Ensuring Liquidity: It is essential to maintain adequate cash flow to meet the short-term obligations of the business.
- Investment Decisions: Financial management involves making informed decisions about where to invest funds for the best returns.
- Minimizing Costs: Efficient management helps in reducing unnecessary expenses, thereby increasing overall profitability.

## Importance of Case Studies in Financial Management

Case studies serve as practical examples that illustrate the application of financial theories and principles. They allow students and professionals to analyze real-life situations, making the learning process more engaging and applicable.

## Benefits of Using Case Studies

1. Practical Application: They demonstrate how theoretical concepts are applied in reality.
2. Critical Thinking: Analyzing case studies promotes analytical and critical thinking skills.
3. Diverse Perspectives: Different companies have different financial management styles, providing a broad view of strategies and outcomes.
4. Real-World Challenges: Case studies often present real challenges that companies face, fostering problem-solving skills.

## Notable Financial Management Case Studies

Here, we explore a few notable case studies that highlight various aspects of financial management.

### 1. Apple Inc.: Strategic Financial Management

Apple Inc. is known not just for its innovative products but also for its exceptional financial management practices. The company has effectively managed its cash reserves, which have often exceeded \$200 billion.

Key Strategies:

- Cash Reserves Management: Apple has strategically built its cash reserves, allowing it to invest in research and development, acquisitions, and share buybacks.
- Debt Financing: Surprisingly, Apple has utilized debt financing to leverage its low-interest rates to fund buybacks and dividends, despite having substantial cash reserves.
- Risk Management: Apple employs a robust risk management strategy to navigate currency

fluctuations and market volatility.

Lessons Learned:

- Companies can strategically manage cash reserves to balance growth and shareholder value.
- Leveraging debt can be advantageous even for cash-rich companies.

## **2. Ford Motor Company: Financial Turnaround**

During the 2008 financial crisis, Ford Motor Company faced significant challenges, necessitating a drastic financial turnaround. Unlike its competitors, Ford did not accept government bailouts, choosing instead to restructure its finances.

Key Strategies:

- Asset Management: Ford sold non-core assets and focused on its most profitable divisions.
- Cost Reduction: The company implemented aggressive cost-cutting measures, including layoffs and plant closures.
- Product Focus: Ford refocused on developing fuel-efficient vehicles that aligned with market demand, investing in new technology.

Lessons Learned:

- Effective asset management is critical during financial downturns.
- Aligning product development with market trends can lead to recovery and growth.

## **3. Starbucks: Expanding through Financial Innovation**

Starbucks has successfully grown its brand globally, with financial management playing a critical role in its expansion strategy. The company has employed innovative financial strategies to fund its growth while maintaining brand integrity.

Key Strategies:

- Customer Loyalty Programs: Starbucks has leveraged its loyalty program to drive sales and enhance customer engagement, providing valuable data for financial analysis.
- Global Expansion: The company has strategically opened stores in high-potential markets, utilizing a mix of company-owned and licensed stores to manage risks.
- Sustainability Investments: Starbucks has invested in sustainable sourcing and practices, which has attracted a loyal customer base and improved its brand image.

Lessons Learned:

- Innovative financial strategies can facilitate sustainable growth and brand loyalty.
- Data-driven decision-making enhances financial management effectiveness.

# Challenges in Financial Management

While case studies highlight successful practices, they also reveal common challenges organizations face in financial management.

## Common Financial Management Challenges

- Cash Flow Management: Many businesses struggle to maintain healthy cash flow, which can impact operations and growth.
- Cost Control: Controlling costs while maintaining quality and customer satisfaction is a delicate balance.
- Investment Decisions: Identifying the right investment opportunities amidst market volatility can be daunting.
- Risk Assessment: An inadequate assessment of financial risks can lead to significant losses.

## Using Case Studies for Learning and Improvement

Financial management case studies are not only educational tools but can also serve as a foundation for developing strategies that improve financial health and performance.

## Implementing Lessons from Case Studies

1. Conduct Thorough Analysis: Examine case studies in-depth to understand the financial decisions made and their outcomes.
2. Adapt Strategies: Adapt successful strategies to fit your organization's unique context and market conditions.
3. Encourage Team Discussions: Use case studies as a basis for team discussions to foster a collaborative approach to financial challenges.
4. Monitor Progress: Implement strategies derived from case studies and monitor their effectiveness regularly.

## Conclusion

In conclusion, financial management case studies are invaluable resources for both aspiring financial professionals and seasoned executives. They offer practical insights into effective financial strategies, risk management, and decision-making processes. By studying these real-world scenarios, individuals and organizations can improve their financial management practices, ultimately leading to enhanced profitability and sustainability in an ever-changing business environment. Through careful analysis and adaptation of proven strategies, businesses can navigate financial challenges and seize opportunities for growth.

# Frequently Asked Questions

## **What are some key components of financial management case studies?**

Key components include financial analysis, budgeting, forecasting, cash flow management, investment decisions, and risk assessment.

## **How can financial management case studies help in decision-making?**

They provide real-world examples and insights that help organizations understand the implications of financial decisions, allowing for more informed strategic planning.

## **What is the value of using historical data in financial management case studies?**

Historical data allows organizations to analyze past performance, identify trends, and make predictions about future financial scenarios, enhancing forecasting accuracy.

## **What methodologies are commonly used in financial management case studies?**

Common methodologies include qualitative analysis, quantitative analysis, comparative analysis, and scenario planning.

## **How do financial management case studies address risk management?**

They typically explore risk identification, assessment, and mitigation strategies, highlighting how effective financial management can minimize financial risks.

## **What role does technology play in modern financial management case studies?**

Technology facilitates data collection, analysis, and visualization, making it easier to conduct in-depth financial assessments and improve decision-making processes.

## **Can financial management case studies be applied to non-profit organizations?**

Yes, they can be adapted to analyze financial sustainability, funding sources, budgeting, and resource allocation specific to non-profit organizations.

## **What are some challenges faced in developing financial**

## management case studies?

Challenges include data availability, varying financial reporting standards, the complexity of financial instruments, and the need for context-specific analysis.

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