

Lawrence Sports Simulation

Team A

FIN/571

Introduction

Lawrence Sports manufactures and distributes equipment and protective gear. Team A has identified three working capital policies for Lawrence Sports Company, an evaluation of the risks associated with each, contingencies for the recommendations, performance measures used to evaluate the recommendations and a plan of implementation for the recommendation. The result will help promote ongoing financial success for Lawrence Sports.

Alternative One

Alternative one uses negotiation skills to create a positive bottom line for Lawrence Sports and its business partners by spreading out payments. Customer Mayo is experiencing “internal issues” causing a delay in payments. Because of Mayo’s financial value to the organization Lawrence Sports can provide an additional week for payment, knowing they will extend the same to them when similar difficulties occur. Lawrence Sports can stretch payments to their distributor for the short-term by three weeks to compensate for the Mayo’s delay in payment. The organization’s distributor will see Lawrence Sports’ stretch payment over three weeks for better cash flow management, an acceptable business practice in the short-term only as done in the long-term will cut off negotiations completely and Lawrence Sports will be finding a new distributor. By negotiating with the final vendor, Murray, a deal can be brokered for payment of 15% on purchase, 40% within the next week, and the remaining 45% in the week following.

Alternative Two

Lawrence Sports’ second alternative would be to consider the potential in incorporating the elevation of prices. Choosing this alternative would help to eliminate some of the associated costs with their line of credit. In addition, Lawrence Sports could implement short-term debt

financing. If implemented successfully, debt would be paid back in less than a year. Operating activities are supported by this alternative. An edge is given to Lawrence Sports to maintain their inventory supply and to generate revenue to pay their own debts on time. Choosing this alternative would help Lawrence Sports to cover daily operational costs and activities.

Alternative Three

Lawrence Sports' third alternative, which in addition could serve as the primary recommendation, would be for Lawrence Sports to seek additional economical options from their suppliers. Credit options should outline flexible payments over a specified period, once they receive the items. Additionally, Lawrence Sports should research the market and seek to attract new buyers. Acceptance and refusal of business contracts to balance repayments and positive credit is certainly a possible alternative for Lawrence Sports.

Recommendation and Evaluation of Risks

Any business needs a positive working relationship with a bank so that capital can be supplied whenever needed. Lawrence Sports has financial difficulty, mainly within their stability of cash flow. The company is not maintaining the cash flow the company requires because of late payments from its clients. It is difficult for a company to operate based upon the activities of another. Recommendations to prevent Lawrence Sports from failing include maintaining a positive cash flow and building its clientele base.

Lawrence Sports has a positive business relationship with the bank. When funds diminish, the bank replenishes the money up to \$1.2 million. The interest rate on \$1.2 million is at 16%. To balance out the high interest rate Lawrence Sports need to increase their clientele. When one company is behind in payment, other customers must balance the deficit.