



Image. RDNE Stock in Pexels, 2021.

The Future of FITTA®

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This problem situation was written by Sonal Sahu (sonalsahu@tec.mx), with the purpose of serving as discussion material in the classroom; it does not intend to illustrate good or bad administrative practices. The document was made using primary sources.

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FITTA

In 2023, FITTA® is a textile company with activities that involve the commercialization and production of customized apparel for universities, sports teams, and the public in general. Alfonso Alexander Gonzalez founded FITTA® in 2018. Located in Guadalajara, Jalisco (México), its daily operations involve stamping t-shirts, manufacturing hoodies, and producing leather jackets, better known by their commercial name “*College Bomber Jackets*”.

FITTA® sells four major products: cotton t-shirts, sports t-shirts, *Bomber jackets*, and hoodies. These products are manufactured at different locations of the company as orders are received. This company has experienced a large growth in the last two years. In 2021, FITTA® started offering its products to sports teams and to the public in general. In 2022, they went online and started taking orders by WhatsApp® and Instagram®.

FITTA® has two divisions of clients: “*Big clients*” and “*Small clients*”. The “*Big clients*” are those who place orders of a minimum of \$100,000 MXN¹ and the rest are “*Small Clients*”. In any given year, the company’s total sales are 70% from *Big clients* and 30% from *Small clients*.

Image. Hoodies.



Source. FITTA, 2022.

¹ 1 USD= \$0.0579 MXN (X-rates, july 2023).

Alfonso and His Expectations

Alfonso is the Managing Director of FITTA® and he has the following expectations for the next three years (years 2024 to 2026):

- Sales units will increase by 7% for sports t-shirts and hoodies in general, for *Bomber jackets* sales will increase by 9%, and for cotton t-shirts sales will increase by 6%.
- For all the product lines, the sales price and production cost will increase by 6%.
- The company wants to keep the operating cost at the same level as last year's, but as previously established in the leasing contract, the rent rate of the office will go up 5% every year, and employees' salaries will go up by 10%.
- Advertising expenses will also increase by 12% in 2023, and then they will only increase by 9% in the following years.
- Other office expenses will increase at a rate of 6% every year.
- About working capital policies
 - Accounts Receivable:
 - The *Big clients* of FITTA®, representing an average of 70% of total sales, have agreed to 15-day credit conditions. The other 30%, represented by smaller retailers, have a 6-day credit period. This trend in terms of sales is expected to continue.
 - Accounts Payable:
 - FITTA® has four suppliers for each product line. The credit conditions for each supplier are as follows (A/P Days based on Cost of Goods Sold):
 - *Bomber jackets*: 10 days.
 - Cotton t-shirts: 5 days
 - Sports t-shirts: 8 days
 - Hoodies: 6 days.
- About Inventory
 - FITTA® would like to maintain the inventory for a minimum of 18 days.
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- About Cash Balance
 - FITTA® would like to maintain a target of 10% of sales for its cash balance at the end of each year.

The Projection

Last week, Alfonso hired Claudia who is a financial analyst. Based on the information mentioned above and using the financial data from 2022, [SEE HERE](#). Alfonso wants Claudia to help him prepare the projection for the following three years, using the above scenarios.

In addition, Alfonso wants Claudia to help him prepare and analyze three mutually exclusive scenarios. The results of this analysis will help Alfonso to reach some decisions for the company starting in 2023. These three scenarios are:

Scenario 1:

- The price increases by 18% for all the products.
- Alfonso is predicting that a price increase would affect the reduction in sales differently for each product line, as follows: Reduction in sales for cotton t-shirts would be 1%, sports t-shirts would be 5%, *Bomber jackets* would be 3%, and hoodies 6%.
- Alfonso also wants to reduce the salaries of the Sales and Administrative staff to \$1,000,000 MXN and only increase it by 6.5% in the following years, but to increase sales commissions to 8%.

- Because of the increase in price, Alfonso wants to increase the credit period for *Big clients* to 18 days and to seven days for *Small clients*.
- In 2023: Advertising costs decrease to \$250,000 MXN and then remain the same for the next three years.
- Reduction of the cash balance to 7% and inventory days to 15 days for the end of each year.

Scenario 2:

- Sales in units would increase by 10% for T-shirts and hoodies in general, and for *Bomber jackets* the sales in units would increase by 15%.
- Alfonso considers that an increase in sales could happen if the sales price increased only 5% for all product lines and there was an increase in the advertising cost to \$420,000 MXN.
- Alfonso wants to reduce the fixed cost as follows:
 - Changing the office space: this would reduce the rent to \$30,000 MXN per month and the new contract would only have an increase of 2% in the following years.
 - Fixed salaries of the administrative staff and the sales staff can be reduced to \$972,000 MXN and only be increased by 6% in the following years. Also, increasing sales commissions to 10%.
- Increase in the payment period from the supplier of material for the *Bomber jackets* to 15 days.
- Reduction of the cash balance to 5% for the end of each year.

Scenario 3:

- Increase the credit period for both *Big* and *Small clients*, as follows:
 - For *Big clients*: to 20 days and for *Small clients*: to 10 days.
- Sales units increase by 12% for T-shirts and hoodies in general, and sales of *Bomber jackets* increase by 16%.
- Inventory days remain the same as in 2022.
- Reduction in salaries of the sales and administrative staff to \$1,000,000 MXN, and only increase 6% in the following years. Sales commissions increase by 7%.
- Reduction of cash balance to 7.5% at the end of each year

Alfonso expects Claudia to present the advantages and disadvantages of each scenario and for her to present a projection for the following three years, based on the assumptions presented. This will help Alfonso to make decisions and define strategies for the company.

References

X-rates.com. "Exchange Rate Mexican Peso to Us Dollar". (July, 2023): <https://www.x-rates.com/calculator/?from=MXN&to=USD&amount=1>