

TerraCycle Inc.

Role: Betsy Cotton, CFO of TerraCycle

**Decision:**

Primary

- Whether or not to launch 2 new products : African Violet and Orchid

Secondary

- Develop a promotional plan for TerraCycle products
- Assess the need for financing ( type, availability, amount )

**Goals and Objectives:**

- Reach economies of scale
- Aiding the environment
  - o Ultimate eco-capitalist corporation
- Managing cash flow for future sustainability
- Effective promotions
- Improve profitability

**Corporate Capabilities:**

Pros

- Bottle brigade ; low cost and noble way to obtain bottles
- Distributing through Home Depot and Wal-Mart
  - o Successful sales channel and proven product
- Positive press coverage
  - o Lots of free publicity and awards

Cons

- Owner has not completed his education ; little experience
- Limited supply of bottles through schools
- Limited resources and access to financing
- Limited product lines
  - o Reliance on one product
- Production process is long (33 days)

Summary and Implications:

- Is TerraCycle ready for growth?
  - They are losing money, they need to do something to change things, won't be able to sustain themselves much longer if they are losing money.
- 

**Industry Analysis:**

- Trend towards eco-friendly
- Large, densely competitive
- TerraCycle is small and in a growth phase relative to the big companies (Scotts & Spectrum)
  - o Can release new products and grow w/o being detected by bigger ones

**Competition:**

Scott's

## Pros

- Miracle Gro is #1 product in the industry
- Brand loyalty
- Scotts is a large, multinational company

## Cons

- Miracle Gro is all-natural or environmentally friendly

Spectrum

## Pros

- Variety of product lines
- Garden safe line is very similar to TerraCycle's products
- Large, Size multiple industries

## Cons

- Most product lines are not environmentally friendly
- Garden Sage line is not well known
- Manufactures batteries

D-I-Y

## Pro

- Easy to do
- Composters share an interest in helping the environment

## Con

- Process takes a long time
- Compost soil does not require fertilisers

Implications

- Loyalty may prevent consumers from trying new products
- Tough to compete with established companies
- Effective promotions will help raise awareness of enviro-friendly /eco-capitalists
  - o Could give 1<sup>st</sup> move advantage
  - o Need to be aware of new products and competitors reactions to TerraCycle's entry into the market

**Consumer Analysis:**

- Retailers are the consumers □ Home Depot and Wal-Mart
- They have all the negotiation power
- Want products in demand
- Profit □ drive prices down
- Large orders

Implications

- TerraCycle may need to introduce new product lines
- need to meet their demands in order to sustain the distribution channel
- potential to explore other retailers whose vision aligns with ours
  - o currently heavy reliance on those 2 retailers
- Strain on capacity

**SCF Analysis:**

1. NCF from Operations
  - NCF from ops is a large negative amount

- o This is a major concern as day to day business activities are not generating cash for the business
- Mainly caused by negative net income
  - o Not sustainable; critical to generate profit soon to survive
- 2. Major Sources and Uses
  - Sources
    - o Series B P/S
    - o A/P
  - Uses:
    - o Net Income
    - o Inventory
    - o A/R
- 3. Matching
  - Poor Matching
    - o Long-term financing (stock) being used to fund unprofitable operations
    - o Giving ownership in company to sustain short-term uses of cash
      - How long can this continue
  - NOTE: asset purchases are relatively low given growth stage of company ( capacity?)

### Ratio Analysis:

- Losing money before we even get to fixed costs
- Paying themselves more than they generate
- Sales have gone up 400%
  - o COGS going down, Revenue going up
- Look at debt-stock, debt-equity, interest coverage
  - o Because may need financing
- Look at asset ratio
  - o Because we are growing
- Look at growth ratios
  - o In growth phase, necessary for projections
- Hard to compare with Spectrum and Scott's
  - o They are much larger
  - o Different goals
- Not making money off assets
- Highly liquid; better off than rest of industry
- Inventory ratios, unrealistic
- Issue with inventory back log
  - o But it won't go bad
- A/R and A/P are issues
- Difficult to get loans because we can't pay interest
- Growth ratios = sign of hope
- Current ratio and acid test are better than the industry, but TerraCycle seems to be keeping an unusually large amount of cash on hand – could it be better used?
- Working capital is high and trends are alarming – how can these be improved?
- Debt to equity ratio suggests the business is heavily financed by equity – how might this effect your financing decision?
- Interest Coverage: how many times can this company pay their interest expense ?

- o They can't pay their interest expense
  - o When you think of obtaining debt financing ; the bank probably won't give it to us
  - Asset Turnover:
    - o Net sales/Total Fixed Assets
    - o This ratio is telling us how many dollars in sales are being generated in one dollar in assets
    - o Here we get about \$4 but the industry gets \$10
    - o Room on assets to sell more
  - Return on Equity
    - o Investors aren't seeing any return
  - Growth is strong
  - Overall ratios are poor but it is good to see strong growth numbers. Also notable that sales growth outpaces growth of COGS and operating XPS
- 

### Qualitative Analysis

#### Pros

- Additional production gets us closer to economies of scale
- Expanding product lines makes us more able to compete
- No large costs to produce these products
- Similar to production of current products
- R&D has already been incurred (Sunk Cost)

#### Cons

- Little funding available for promotions
  - Large rang in sales estimates creates uncertainty
  - Places us in direct competition with Spectrum
  - Could cannibalize current product sales
- 

### Differential Analysis:

#### Accounts Receivable Investment

Age of A/R= 70.9 days (2004 level)

$$\begin{aligned} \text{A/R investment} &= \text{Diff Sales}/360 * \text{Age of A/R} \\ &= (85,200/360) * 70.9 \\ &= 16,780 \end{aligned}$$

#### Inventory Investment

Age of Inventory = 85 Days

$$\begin{aligned} \text{Inventory Investment} &= (\text{Diff COGS}/360) * \text{age of inventory} \\ &= [(77,555 - 5000)/360]*85 \text{ days} \\ &= 17,131 \end{aligned}$$

#### Accounts Payable Investment

Age of A/P = 64 days

$$\begin{aligned} \text{A/P Investment} &= (\text{Diff COGS}/360) * \text{age of A/P} \\ &= (77,555 - 5000) * 64 \text{ days}/360 \\ &= (12,899) \end{aligned}$$

**Accounts Receivable Investment**

Age of A/R = 70.9 days (2004 level)  
 A/R investment =  $\text{Diff Sales}/360 * \text{Age of A/R}$   
 $= 312400 * 70.9/360$   
 $= 61525$

**Inventory Investment**

Age of Inventory = 85 Days  
 Inventory Investment =  $(\text{Diff COGS}/360) * \text{age of inventory}$   
 $= [(286035 - 20000)/360] * 85 \text{ days}$   
 $= 62814$

**Accounts Payable Investment**

Age of A/P = 64 days  
 A/P Investment =  $(\text{Diff COGS}/360) * \text{age of A/P}$   
 $= 286035 - 20000/360 * 64 \text{ days}$   
 $= 47295$

Analysis:

- Positive financial results
- Should improve as efficiencies occur
- Meets goal of creating positive cash flow
- Payback a bit long given investment is in working capital

**Decision:**

New Product Decision:

*I recommend that TerraCyle launch the 2 new product formulae.*

*This decision is in line with our business size-up as it allows TerraCyle to expand its product line. The quantitative analysis shows this option has positive financial results. Most importantly, additional production of new products will help TerraCyle reach economies of scale which the company is in need of.*

Financing Decision - Debt vs. Equity

Debt

- Negative interest coverage which means it's unlikely the bank will give us financial aid
- Highly equity financed
- Debt would not force us to give up ownership
- Interest payments are tax deductible

Equity

- Decreasing proportionate ownership
- Lack of dividends may make it hard to find investors
- Could gain insights and expand network
- Could it impact the eco-capitalist idea?

Decision:

- Gross margins are negative
  - o Selling products for less than they cost us
- It's going to be difficult to obtain debt because our financials are terrible
- Therefore we are going with Equity financing

---

## Promotional Plan

### Push vs. Pull Strategy:

#### Push

- Target retailers
- Focuses on direct consumer
- Retailers concerned with their margins
- Could be lower cost for promotions

#### Pull

- Target the end user
- Lack negotiation power with retailers
- Can appeal masses based on this enviro-friendly idea
- Attempt to increase demand

Here were going to go with a push strategy

### Message For Promotions:

- Dedication to the environment
  - o Can help improve retailers image
- Develop relationship with buyers
- Focus on awards and recognition
  - o Previous success with Home Depot and Wal-Mart

### Creative Promotional Alternatives:

- Workshop or in-store seminars
- Force publicity/viral marketing (i.e. on youtube)
  - o Expanding bottle brigade
- Better credit terms
  - o Be careful with Wal-Mart they will take advantage of you
- Corporate Marketing
- Discounts □ bulk
- In store displays and packaging
  - o if TerraCycle can product their packaging or make it viewed to those pyramid displays in Wal-Mart it may help

### Projected Statement Analysis

#### Income Statement

- Gross Profit is positive □ increasing production and reaching economies of scale
  - o First time in this companies history they've had a gross profit
  - o They have turned a corner
  - o At least now they are selling products more than what it costs them to produce it

- o Projecting a higher net loss than last year
- o Economies of scales should help reduce expenses in future