**SCM and the Income Statement**

After completing this activity you will be able to:

* Describe the financial impacts of investing in an SCM system.

**Step 1: Individually**

*Review the following narrative:*

FitterSnacker has reached the decision point regarding an investment in an SCM system. While they believe there will be lots of benefits, it is now time to start trying to identify the financial impacts of this investment before moving forward with the project.

The SCM system will be expensive. It will be **very expensive** for a small company like FitterSnacker. It will cost a total of $3,000,000! The SCM system will create value for FitterSnacker over an extended period of time so the Accounting department will depreciate this investment over a period of 10 years or $300,000 per year.

Manufacturing is a mess! While the plant managers can put together a decent production plan, executing the production plan has been a nightmare. Last year FitterSnacker adopted a strategy of creating lots of safety stock and storing it in the warehouse. While this ensured that we could always fill orders, since our snack bars have a shelf life of 180 days many of the bars were getting old before they were even shipped to the customer and customers were returning lots of snack bars that were approaching the expiration date shortly after they received them. In addition, some bars were expiring before they even left the warehouse generating some serous losses for us so we killed that strategy quickly! While sales are projected to be up 5% which should increase our purchases and production costs by 5%, since the we are getting the raw materials we need when we need them and we’re virtually eliminating product being returned by our customers for reaching its shelf life, we are projecting that our purchases and production costs will only increase by 2%.

While we typically have all of the required raw materials in the warehouse to execute the production plan, too often we would be missing one or two required raw materials which would force us to shut down the production line driving our costs through the roof. When we finally received the missing raw materials we would frequently need to run the production line 24 hours per day to get caught up so we could fill orders. Our workers on the production line would all be working double shifts and we’d be paying them all overtime driving up our cost of goods sold. Not good! With a projected increase in sales (see below) our labor costs would also increase by 5%. However, since the production line will run MUCH smoother we will virtually eliminate all overtime so this 5% increase in labor costs is reduced to only 2% increase in labor costs with the SCM system.

Finally, our manufacturing issues have been having an impact on sales. When we can’t get our customers what they want, when they want it they start buying products from our competitors. When we can deliver the right product to the right customer at the right time our customers are happy and buy more of our products. By eliminating many of our manufacturing issues, we are estimating that we will actually increase sales by 5%. If we are selling 5% more product, our shipping costs will increase by 5% but that’s just the cost of doing business.

**Step 2: In Small Groups (2-3)**

Discuss the narrative and review the income statement displayed on the screen. Identify the line items that will be impacted by the implementation of the SCM system.

1. Starting with “Income”, what areas of the income statement will be impacted by the SCM. How will the SCM impact sales, cost of goods sold, gross profits and total income?
2. Working you way through “Expenses”, what areas of the income statement will be impacted by the SCM?
3. In terms of “Net Income”, what is the impact of the SCM?

**Step 3: Class Discussion (*unhide columns H-K*)**

**Step 4: Answer these short-answer questions (individually)**

1. A $3,000,000 investment in a computer system is a big investment for a small company like FitterSnacker. With $3,000,000 you could put a lot of new salespeople out in the field, expand manufacturing capacity or develop new products. Is a $3,000,000 a good investment or a bad investment for FitterSnacker? Explain?

**Step 7: Rate this activity (individually)**

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| --- | --- | --- | --- | --- | --- |
| **Ratings** | 1 Completely Disagree | 2 Somewhat Disagree | 3 Neutral | 4 Somewhat Agree | 5 Completely Agree |

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| --- | --- |
| **Statement** | **Rating (1 to 5)** |
| This is an engaging activity. |  |
| I learned a lot completing this activity. |  |
| This activity should be included in future classes. |  |
| Anything else you want the instructor to know? |