Sneaker 2013

Introduction To The Cases

SNEAKER 2013

This short case is useful to continue working with cases on capital budgeting, cash flow calculation and decision metrics.

- We need to determine the cash flows appropriate to consider for a potential project and be able to take decisions based on them.
- We must evaluate the project using payback period, net present value (NPV), and internal rate of return (IRR), as we have done already in The NPL case.
- We will consider different types of risk inherent in capital budgeting and think on how they should be incorporated into the analysis.

PERSISTANCE

- New Balance's second project, the hiking shoe Persistence, is similar in structure and format to Sneaker 2013, although it is designed to be a simpler version.
- Interestingly, with this case, we can practice the issue of how to compare projects with unequal lives. Try to look for ways to compare projects with different lives.
    - *Note: Do not assume a wholesale margin for Persistance as in the case of Sneakers; simply calculate revenues as market size x market share.*

SNEAKER 2013 + PERSISTANCE:

For the capital budgeting exercises, consider the following:

a. Building a factory and purchase/installation of the equipment
b. Research and development costs
c. Cannibalization of other sneaker sales
d. Interest costs
e. Net working capital
f. Taxes
g. Cost of goods sold
h. Advertising and promotion expenses
i. Depreciation charges

You must be specific on the projected cash flows and calculate with them the following:

- Payback
- NPV
- IRR
- Equivalent Annual Annuity