

Assignment 8 SCF: Lufthansa case AR 2016 (SCF lecture 2-7, Summer 2016)

From the annual report 2016 of Lufthansa the following data are retrieved from the balance sheet (figure 1) and the income statement (figure 2).

	2016	2015	Average 2016
	millions	millions	millions
Non-current assets	€ 24,504	€ 23,526,00	€ 24,015
Current assets	€ 10,193	€ 8,936	€ 9,565
Total assets	€ 34,697	€ 32,462	€ 33,580
Inventories	€ 816	€ 716	€ 766
Account receivables	€ 4,570	€ 4,389	€ 4,480
Current liabilities	€ 119	€ 12,437	€ 11,723
Account payables	€ 4,689	€ 4,847	€ 4,768
Equity	€ 7,149	€ 5,845	€ 6,497
Total liabilities	€ 27,548	€ 26,617	€ 27,083

Figure 1 Data balance sheet Lufthansa AR 2016

	2016	2015
	millions	millions
COGS	€ 17,109	€ 17,640
Revenues	€ 31,660	€ 32,056
Costs (Incl. COGS)	€ 29,470	€ 30,501
Profit / EBIT	€ 2,190	€ 1,555
Net profit	€ 2,248	€ 2,026
Taxes	€ 445	€ 304
Net profit after taxes	€ 1,803	€ 1,722

Figure 2 Data income statement Lufthansa AR 2016

Questions

1. Calculate for Lufthansa the ROE for 2016, and decompose the ROE according to the DuPont formula into NPM, TAT and EM.
2. Explain the outcome of the calculations from question 1.
3. Calculate for the year 2016 the velocity of circulation for: Inventories, Debtors (AR) and Creditors (AP). What is the exact link between the 3 calculated velocities of circulation and DIO, DSO and DPO? Explain your line of reasoning
4. Calculate the Cash Conversion Cycle in days (year = 365 days) for year 2016, and decompose the CCC into DPO, DIO and DSO.
5. Explain the outcome of the calculations from assignment 4.
6. Besides value creation and risk mitigation, supply chain finance can also be useful to improve liquidity. What is your grounded opinion of Lufthansa's liquidity in 2016? Explain your answer with data from the annual report in this assignment.

Working capital management was a high priority for Lufthansa and so the implementation of a supply chain finance programme was a key part of this initiative. The programme gained the full support of the CFO and the rest of the senior management team.

Lufthansa demonstrated considerable courage by becoming the pioneer customer of CRX Markets, chosen against other, more established vendors. Lufthansa selected CRX Markets as they were able to offer a multi-investor platform with transparency on rates. The SAP add-on simplified implementation.

Lufthansa's criteria in its RFP included:

- strengthening supplier relationships
- reducing working capital related costs
- a diversified investor platform
- transparency and competition on discount rates
- ease of implementation

The programme chosen used a centralised approach to onboarding suppliers in a bid to improve supplier uptake. Procurement led the introduction process with ultimate responsibility resting with the finance team.

The uptake from suppliers was particularly interesting as suppliers with better credit ratings than Lufthansa's were early joiners to the programme. That's because they were able to benefit from competitive discount rates and a reduction in their DSO (days' sales outstanding).

The programme has now been running for a year and of the suppliers on-boarded 85% of the expected cost savings expected have been achieved. The programme has also stemmed improvement programmes in the accounts payable process through the implementation of a digital invoice initiative, which will streamline and speed up the invoicing process.

Source: www.scfbriefing.com (retrieved on: 17 April 2017)

7. CRX Markets is a provider of a Supply Chain Platform. Explain the added value for Lufthansa to use CRX Markets for its services.
8. What is for Lufthansa's supply chain partners added value for this supply chain finance programme of Lufthansa, using CRX Markets services. Explain your line of reasoning.
9. What departments in a company should be involved in a successful implementation of a supply chain finance programme? Explain your line of reasoning.
10. What is meant by a diversified investor's platform? Why is this for Lufthansa important? Explain your answer.