

A Shortfall at Ajax Inc.

Topic: Sources of Financing

Characters: Joe Brown, financial planner

If it weren't for its inability to obtain enough of Part P6729, a critical component in its newest and fastest selling product, Ajax Inc. would have been well on its way to financial success. But the delayed delivery of that part significantly increased the new firm's work in process. That, in turn, increased the demand for working capital as the firm stockpiled unfinished product in anticipation of delivery of Part P6729. In addition to its cash reserves of \$616,000, Ajax needs \$300,000 for the next few months to finance its temporary increase in working capital.

Joe Brown, a financial planner at Ajax, has been asked to suggest how to temporarily obtain the additional funds. In order to look as good as it can to the financial community, Ajax wants to make its financial statement be as attractive as possible. For this reason, Ajax would prefer to avoid borrowing from its banks or other financial institutions, or collateralizing any of its assets.

Joe is considering slowing the payment of Ajax's accounts payable. While the firm takes full advantage of its trade credit, it does carefully observe its trade credit terms. Joe maintains that by quietly delaying the payment of its bills by four additional days on the average, Ajax can obtain the use of an additional \$300,000. He feels the firm will be able to do this for at least a couple of months before suppliers begin to complain. By then, the firm will no longer need the additional funds.

Joe discussed his proposal with some of his colleagues. Some wondered if the firm's suppliers would go along with the plan. Others doubted extending payment by only four days would raise that much money. But Edward Smith, a colleague whose opinions Joe respects, questions whether the firm should even be considering the proposal. He was not concerned about whether the plan is practical, feasible, or do-able. Rather, he felt it was not the ethical thing for the firm to do.

These discussions have left Joe wondering what he should recommend.

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