A NOTE ON EMERGENCY LOANS

Why did we get an emergency loan?

You get an emergency loan when you run out of cash. The simulation gives you every benefit of a doubt, but if you are out of cash at the end of the year, Capstone®'s friendly loan shark, "Big Al," arrives to give you just enough cash to bail you out. In general there are three root causes.

- Inventory that you expected to sell wound up in the warehouse instead. When you signed the check to pay for the inventory, you ran out of cash. About 70% of emergency loans fall into this category.
- You forgot to fund a major plant improvement. About 25% of emergency loans fall here.
- Your profits were so negative you exceeded your cash reserves. About 5% of emergency loans fall here.

To diagnose your emergency loan, examine your Cash Flow statement. It represents the net flow of money into and out of your checking account. A positive number indicates an inflow, a negative number an outflow. For example, find the "Inventory" line. If your inventory position increased compared to last year, you had to pay for the additional inventory, and that resulted in a cash outflow. On the other hand, if you sold your entire old inventory, that represented a cash inflow.

How can we avoid Emergency Loans?

Before saving your final decisions:

- Make sure your forecasts and production schedules are realistic. If your forecasts are over exuberant, and much of the sales do not actually materialize, you might find yourself with a lot of unsold product and zero cash. Check the Forecasting section of the Team Member Guide and pay special attention to the "Worst Case / Best Case" section.
- If your Production Department bought capacity or automation, did they notify the Finance Department? Unfunded plant purchases can lead to emergency loans.

How do we repay an Emergency Loan?

Your Emergency Loan is merged into any other Current Debt obligations due this year (that is, the amount appears in the Due This Year cell in the Finance area's Current Debt section). No special action is required beyond covering the overall Current Debt obligation. You can do this by borrowing a like amount of current debt this year, or by issuing bonds or issuing stock.