

Financial Management

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Introduction

This report is going to conduct an analysis between 2 years of a company's financial report. The business I have chosen to analysis is Zoom. Zoom is an American multibillion dollar company, founded by Eric Yuan in 2011 (Zoom, 2024).

Zoom is an online communication platform that offers video, audio, phone, and chat services for users to connect with others (Zoom, 2024). Zoom is very popular amongst businesses, boardroom, conferences, meetings, and classrooms/educational institutions as it allows remote collaboration. Zoom saw significant growth during the 2020 pandemic as it allowed people to connect and communicate virtually.

Ratio Analysis

A ratio analysis was conducted; ratios were calculated for the year of 2019 and 2020.

Gross Profit Margin

Gross profit margin is the businesses total profit after deducting the cost it makes to provide services or products. Gross profit margin does not consider fixed costs or overhead costs; it is a percentage of what is left once cost of sales have been paid off. Calculating the gross profit margin can help a business understand their financial position, financial health and identify any areas for cutting costs or improving sales (Bloomenthal, 2024) (BBC, 2024). The calculation for gross profit is: $\text{Gross profit/revenue} \times 100$.

Zooms gross profit margin in 2019 was 81.5%, and in 2020 it was the same. This suggests that the business did not have to increase or decrease any of their running costs in order to make a profit and that their financial health is consistent.

Net Profit Margin

Net profit margin is how much of what the business earns actually turns into profit. It is the profit remaining after all costs have been paid, unlike gross profit margin it considers expenses, cost of goods sold, operating costs, interest, and tax. (Murphy, 2024) (BBC, 2024). The calculation for net profit margin is: $\text{Net profit/revenue} \times 100$.

Zooms net profit margin in 2019 was 1.9 and in 2020 it was 2.0. These are both very low net profit margins. In 2020 overhead costs were very high resulting in zoom net profit margin being so low, as well as this, their revenue and overhead costs nearly doubled.

(HSBC, 2024) (Maverick, 2021)

Return On Capital Employed (ROCE)

ROCE is how well a business is making profit from its capital and how efficiently a company is using its capital employed to generate profit. The calculation for ROCE is: $\text{Net profit before interest and tax} / \text{capital employed} \times 100$.

Zooms ROCE in 2019 was 47% and in 2020 it was 3.2%. This decrease suggests that Zoom was not using their capital efficiently to generate profits. 3.2% could mean that Zoom had a lot of cash on hand or inventory that was not being utilised (Hayes, 2024) (Institute, 2022).

Working Capital

Working capital is the difference between a business's current assets and liabilities and is used to assess a business's liquidity and ability to fund day to day operations. It can help identify a business's short-term financial health and opportunities (SAP, 2024) (Maverick, 2022). The calculation for working capital is: $\text{current assets} - \text{current liabilities}$.

Zoom's working capital in 2019 was £58,661 and in 2020 it was £281,538. Zoom's 2020 working capital increased from 2019 which could suggest that the business has too much inventory and is not investing excess cash.

Net Working Capital Ratio

Net working capital ratio measures a business's liquidity. It displays how able a company is to meeting its financial obligations and how they can use funds to reinvest. The calculation for net working capital ratio is: $\text{current assets} - \text{current liabilities} / \text{total assets}$. (Indeed, n.d.).

For both 2019 and 2020, Zoom's net working capital ratio was 0.2. This is very low suggesting the business has liquidity issues and may struggle to cover and meet short-term assets and liabilities.

Current Ratio

Current ratio shows a business's ability to pay short-term/current assets and liabilities, or obligations due within a year. The calculation for current ratio is: $\text{current assets} / \text{current liabilities}$.

Zoom's current ratio in 2019 was 1.8 and in 2020 it was 3.3. Zoom's 2019 current ratio suggests that the company had enough assets to cover its short-term debts, 1.8 is a strong current ratio. However, Zoom's 2020 current ratio of 3.3 is relatively high meaning that the business may not be using its current assets efficiently. This problem was also seen when calculating Zoom's ROCE.

(Sarda, 2024) (Fernando, 2024)

Zoom's Sustainability Focus

Zoom have multiple sustainability aims and focuses. Their services itself are sustainable as they provide a platform for people to collaborate and connect online, which limits consumers emissions and carbon footprint, as well as building communities and connections.

Zoom have an aim to reach 100% renewable electricity operations by 2030. One of the ways they are reaching this goal is by reducing their waste by material reusing, as well as developing a sustainable procurement strategy that identifies where their largest emission impact lies and then working with suppliers to develop a plan for emission reduction.

Zooms are also working with a sustainable consultancy; Environmental Resources Management (ERM), to identify what and how they can be doing better as a business, sustainability wise.

For new office spaces, Zoom are ensuring that they are LEED certified. LEED will evaluate the environmental performance of Zooms building and provide them with framework, construction and operating sustainable buildings (Casey, 2024).

Zoom holds a Global Day of Care within their company that allows employees to volunteer in communities in over 80 cities, to promote their positive social impact. This year employees volunteered in communities including:

- Plastic Whale, Amsterdam
- Food and Friends, Washington
- Project Open Hand, San Francisco
- RE: CODED
- Surfrider, Sydney

(Zoom, 2023)

As well as this event, Zoom donates products and funding to a range of nonprofit charities, such as climate, mental health, and health equity charities. They have also joined Pledge 1%, which is a movement where businesses pledge to give a mixture of time, product, equity, or profit back (Pledge 1%, 2025).

(Zoom, 2024) (Zoom, 2023)

Financial Recommendations for Zoom

There are a few financial improvements that Zoom could apply in order to excel and make use of all of their resources. Looking at Zoom's working capital ratio, current ratio, and ROCE they should sell excess or unnecessary inventory to improve their financial health. Improving these numbers will increase the company's value and profit, which can build investors' confidence in the business and generate more capital (Hayes, 2024).

Another recommendation, looking at the companies working capital, would be to take advantage of low-cost debt opportunities available to them instead of wasting excess assets.

When looking at Zoom's gross profit margin it was identified that the figures for 2019 and 2020 were the same. With this, the business should continue to keep their prices as low as possible to make a strong profit and keep their financial health consistent. Keeping low prices will also help them stand out from competitors and become more attractive to consumers, especially during the current economic.

Sustainable Recommendations for Zoom

Zoom's 2024 impact report showed that the business emissions increased during the year of 2024. Zoom should work with sustainable consultants and make a personalised plan to lower emissions for 2025. Identifying an action plan for this issue will also make it easier for the business to reach their 100% renewable energy 2030 goal.

Another sustainability recommendation would be to invest in equipment and technology for offices, data centres and operation areas that is energy efficient. Zoom should also make sure that they are keeping up to date with software and hardware to increase their energy efficiency.

Zoom sell various appliances, phones, and headsets alongside their services (Zoom, 2023). A recommendation for these products would be to use sustainable packaging, such as recycled or biodegradable packaging, as well as adding clear recycling labels, offsetting transportation emissions and sourcing renewable materials.

A 2021 Purdue University, Yale University, and researchers for Massachusetts Institute of Technology in Science News conducted a report that suggested that turning cameras off on videoconferencing can reduce carbon footprint by up to 96%. Zoom could use evidence from this study to encourage users to turn cameras off when they are not necessary or required (Morris, 2023) (Purdue University, 2021).

Conclusion

After carrying out a ratio analysis, research and using evidence to compare how Zoom performed across 2019-2020, it is clear that they are a strong and well performing business with high levels of revenue and financial security. Analysing Zooms annual

reports, balance sheets and income statements there was evidently a difference between both years recordings, the business performed better in the year 2020, this would have been due to the global pandemic creating the demand for virtual online connection as consumers had restrictions on who they could meet face to face, as well as businesses having in person operational and communication restrictions. This demand would have meant there were high levels of competition, which looking at finding, Zoom adapted to in order to become a market leader in 2020 (Paddle, n.d.).

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