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Prof. Comings

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Group Project Part 2

**Memo**

**To:** Main Investor

**From:** Management

Greetings,

This memo outlines the production rates and associated labor costs per unit for our candle holder production from November 2023 to December 2024. The details provided will assist in budget planning and operational adjustments if needed.

**Sales Budget and Collections Schedule**

Our Sales Budget is fairly straightforward. We collected our budgeted unit sales, multiplied it by the sales price per unit to arrive at the total sales for each month. Once we established our monthly sales revenue, we apportioned how much of each month’s revenue would be collected throughout the year. For example, the November sales will not be collected in full during the month of November. However, the November sales will be collected throughout the months of November, December, and January. The Schedule of Cash Collections is shown below our Sales Budget, with total sales for 2024 equalling $10,102,175, and collections for the year totalling $6,790,281. With the foreseeable production constraints anticipated throughout the 4th quarter, we anticipate that the collections would decrease proportionally with sales.

**Direct Materials Budget and Cash Disbursement Schedule**

Our required production per month is pulled directly from our Sales Budget. Each monthly total is multiplied by the quantity of “Kits” needed to produce each unit, providing the units of raw materials needed to meet production. To this total, we added the desired units remaining in raw materials inventory. We subtracted the units of beginning inventory, giving us the total units of raw materials to be purchased for the month. This was then multiplied by the unit product cost of $9.25 to give the total raw materials to be purchased. Following our Direct Material Budget, we have compiled a Schedule of Expected Cash Disbursements for Direct Material Purchases. Because each month’s direct materials cost is paid for over the course of two months, the Total Cost of Raw Materials to be Purchased is divided by 2 (or multiplied by 50%) to give the total disbursements for each month. The prior month AP and current month AP are added together to provide the Total Cash Disbursements for each month. Our total cash disbursements for the 2024 calendar year is equal to $281,875. It is worth noting that we likely will not see a large impact on manufacturing overhead for the first month of 4th quarter constraints, as we maintain a significant ending raw materials inventory equivalent to 25% of the following months anticipated production needs.

**Direct Labor Budget**

From November 2023 to December 2024, our projected manufacturing schedule for producing candle holders requires a total of 33,825 direct labor hours. The total labor cost associated with this production is $676,500, at a rate of $20 per hour. We calculated that we can produce 8 complete candle holders per hour, allowing us to produce a total of 281,000 units for the 2024 calendar year.

**Manufacturing Overhead Budget**

The Manufacturing Overhead Budget essentially compiles the budgeted direct labor hours, variable overhead, and fixed overhead. Once these are all added together, we subtract depreciation expenses, resulting in the total cash disbursements for manufacturing overhead. For the 2024 calendar year, we plan to expend a total of $67,757. With the anticipated 4th quarter production constraints, we expect the variable overhead to decrease along with production, which may cause us to increase our predetermined overhead rate.

**Selling and Administrative Expense Budget**

While the fixed selling and administrative expenses are relatively straightforward and easy to understand, our variable expenses are entirely based on the unit sales completed per month. Taking the budgeted unit sales and multiplying it by the variable expense per unit (including commission) and administration expense of $0.05 per case. The fixed selling and administrative expenses of $18,067 per month are then added to the variable selling and administrative expense to arrive at the total budgeted selling and administrative expense. Finally, in order to determine the cash disbursements for selling and administrative items, the total budget selling and administrative expense is adjusted by subtracting noncash selling and administrative (depreciation) expenses. Our total selling and administrative expenses total $216,804 for the year, and we plan on disbursing all funds during the calendar year.

**Cash Budget**

Generally, the major source of receipts is from sales. To find the total cash disbursement, we take the beginning cash balance and sum it up with the customer receipt. The cash disbursement is used to cover expenses such as the bought materials, labor work, rent expenses, utilities, insurance, manufacturing overhead, and selling administrative expenses. With all these expenses, we have stumbled upon cash deficiency during the budgeting period. The company shouldn’t have to borrow any money to maintain the minimum reserve of $50,000. All monthly revenues for 2024 are sufficient.

**Sales Forecast**

As we approach the latter part of 2024, our production is expected to face significant challenges due to anticipated supply chain disruptions and ongoing labor unrest. These issues are projected to peak from October to December 2024, potentially impacting up to 50% of our production capabilities during these months. This memo outlines the potential implications on our budgeted sales forecasts and proposes strategic responses to mitigate these impacts.

**Impact on Production and Sales Forecasts**Given the projected disruptions, our production output for October, November, and December 2024 is expected to decrease substantially. Specifically, production volumes could be halved to 7,500 units in October, 60,000 units in November, and 3,500 units in December. Correspondingly, sales are anticipated to drop to 269,625 in October, 2,157,000 in November, and 125,825 in December. This significant reduction in production and sales volume directly threatens our ability to meet our pre-established financial targets.

**Labor Considerations**In response to the temporary nature of these disruptions, it is advised against implementing workforce reductions or wage cuts. Such measures could further exacerbate labor tensions and negatively affect morale, potentially leading to higher turnover rates. Maintaining a stable and motivated workforce is crucial, especially to ramp up operations quickly once normalcy resumes.

**Strategic Recommendations**Given the persistence of demand, albeit at reduced production levels, one viable strategy is to adjust our pricing model to better align with the available supply. An increase in the unit sales price is proposed as follows for the affected months:

* Increase the sales price to $49.95 across all impacted products.

This price adjustment is intended to help offset the decrease in volume and manage the supply-demand imbalance more effectively. However, it is important to note that increasing the price may lead to a corresponding decrease in consumer demand.

**Potential Risks and Mitigation**

1. Customer Pushback: Increased prices might lead to customer dissatisfaction and a potential loss of market share. Mitigation involves clear communication about the reasons for price hikes, emphasizing the external factors affecting production.
2. Demand Elasticity: There is a risk that demand could drop more significantly than anticipated in response to higher prices. To address this, close monitoring of sales data and customer feedback will be essential to make real-time adjustments.
3. Reputational Impact: Prolonged periods of product shortages and price increases could harm our brand reputation. Proactive customer engagement and transparency about our challenges and responses are critical.
4. Supply Chain Alternatives: Exploring alternative suppliers or temporary solutions to mitigate supply chain disruptions should be considered to enhance production resilience.

**Conclusion**The upcoming months will undoubtedly be challenging due to the dual pressures of supply chain disruptions and labor unrest. By adopting a flexible pricing strategy and maintaining our commitment to workforce stability, we can navigate through these disruptions while minimizing financial impacts. Ongoing evaluation and adaptable strategies will be key to our success during this period.

**Action Items**

* Implement the recommended price adjustments by September 2024.
* Establish a task force to monitor supply chain and labor developments.
* Enhance customer communication plans to address potential concerns regarding price changes and supply issues.