MGMT 8500: S23 -CAPSTONE - V20

JULY 10, 2023

CONESTOGA COLLEGE, SCHOOL OF BUSINESS
Kitchener, ON

Contents

Overview:

The capstone case tests your understanding of the entire course material in a scenario which resembles a real-life organization.

You are provided with a case, where business owners are trying to decide on a new strategic direction. They have engaged your group as Consultants (Conestoga Consultants). They have provided you with their vision and your group in turn has developed scenarios relating to implementation of these scenarios.

You will notice that there are four scenarios and in each of them the methodology and objective are provided. You have to analyze these scenarios and discuss their outcomes with the business owners. The outcomes will be delivered in form of a report in MS Word format and supporting calculations in an Excel Workbook.

Grading:

This is a group assignment, worth 20% of your final grade

Related textbook content:

The content you are being assessed on, covers the entire course from Weeks 1 – 6 and 9 – 14.

Group contract:

Prior to the start of group work, you will complete the group contract and upload to the Assignment folder. One contract is to be submitted per group.

Group conflicts or teamwork issues:

If any such issues arise, please inform your Professor as early as possible. Your Professor will meet with the team and arrive at a resolution

Peer review form:

One form per student has to be uploaded to the assignment folder along with your final submission.

Due date:

Your Professor will inform you of the due date. This will be due in Week 15.

CASE

It was a regular working day in April 2021, when four business partners gathered together for strategy session for their organization: Food for Thought (FFT).

Background:

FFT operated a chain of Quick Service Restaurants (QSR) in business localities in the GTA, Mississauga, Brampton, Oakville, Kitchener, Waterloo, and Cambridge. Their first outlet opened in 2007 in Vaughn and then continued to expand to other areas.

FFT outlets offered food and beverages for takeout and delivery only. There was no dine in option available. The rapid expansion of food delivery service provided a strong headwind for FFT. Since their outlets did not require a prominent location, the leasing costs were minimized.

The above factors contributed to the success and growth of FFT until Covid struck in early 2020. Most the revenue generated by FFT was from lunch items, afternoon snacks and early evening dinners consumed by clients working in their offices. With 90% of client working from home, the demand for such services almost disappeared overnight.

FFT had to downsize its operations, close outlets, and lay off nearly 60% of its workforce.

Positive news began to appear in April 2021 with the arrival of vaccines in Canada. Both the Federal and Provincial governments expressed confidence of vaccinating a majority of the population by Fall 2021 and allow restaurant businesses to function normally by November 2021.

About business partners

Sonia Jimenez (Sonia) is the Senior Vice President- Marketing. She spent over fifteen years with Fortune 500 companies in the Consumer-Packaged Goods sector. She developed multi channel marketing strategies for FFT which led to FFT being positioned as an agile, innovating enterprise.

Erin Smith (Erin) was the Corporate Chef of FFT. She spent nearly twenty years with leading hotel chains in Western Canada before taking on the current role in FFT. She displayed exemplary skills at developing new products which contributed to the profitability of FFT.

Noah Wiseman (Noah) was the Chief Financial Officer of FFT. He too came from a hospitality background, having worked with leading hotel chains in Toronto. His expertise was in Capital Budgeting and product costing, which worked well in conjunction with the culinary skills of Erin when new products were being developed.

Babatunde Jones (Tunde) was the Senior Vice President-Operations. His background was as a General Manager in Fast Food Outlets. With his exemplary people skills and ability to train new hires, FFT was able to hire operations staff with little or no experience and develop them to high performing team members.

Reshaping business strategy

The four business partners set up their meeting with a view to re-orient their business strategy in the context of changes coming to how work would look like when the economy reopened after the pandemic. The goal was to develop a business model which would be relevant with the hybrid work model which was likely to be the norm once post pandemic recovery takes shape.

Sonia began the meeting with a discussion of what work would look like in the post-pandemic era. A typical client of FFT was between 25 – 48 years of age and worked in an office setting. Due to their client's workload and schedule, they preferred to buy food from a Quick Service Restaurant so that they could consume the food as and when their work schedule allowed for. With the hybrid work model, they would be attending office two or three days a week and work from home for the remainder.

The food consumption pattern would shift from consumption only in the office (pre-pandemic), to consumption both at office and home (post-pandemic). The question therefore was: how can FFT adapt to this change in consumer behaviour?

Erin thanked Sonia for her insight and began her discussion. She pointed out at this time, there was a very short time lag between food being prepared at FFT and being consumed by the client. The time lag possibly was no more than two hours. As a result, consumers were able to eat freshly prepared food which was packed to retain the attributes of the cooked meal till it reached the consumer.

She expressed opinion that the food production process needed a transformation. In addition to the food being prepared and delivered to the client for consumption, there would have to be a secondary process where food would be prepared and packed. The packed food would retain its original attributes for 48 hours. Therefore, a client could order two versions of the same meal – the first, which could be consumed in the office within the next two hours and the second, the packed version, which can be taken home, kept in the refrigerator, and consumed on the following day.

Erin would come up with a list of menu items which could be cooked and packed. She requested Sonia to explore the possibility of building a new brand based on the packed meals.

At this point, Noah took over and pointed out that to implement this strategy, the following steps would be necessary:

- A new facility, where food preparation and food packaging would take place
- Benchmarking studies to analyze performance of similar companies
- Product costing and estimation of manufacturing volume to meet financial goals
- Multi-channel marketing of packed food

Tunde, pointed out that implementing the above, would lead to several operational issues as well. In order to resolve these issues, it may be necessary to incur additional fixed expenses.

As a next step, they decided to retain the services of Conestoga Consulting (CC), a reputable consulting agency. The scope of work for CC would be to develop financial projections based on the above issues and provide a recommendation as to the best way forward for FFT.

Initial meeting with Conestoga Consulting:

A group of five consultants met with the four business partners to develop a plan of action. It was decided that the consulting group will develop financial projections as requested and provide a report to FFT in two weeks.

Project work for Conestoga Consulting:

Issue #1: New facility for FFT

For acquiring the new facility, the consulting group wanted to evaluate both options of leasing the facility as well as an outright purchase. They gathered data which is presented in Appendix 1.

Issue #2: Benchmarking studies of similar companies

The consulting group decided to conduct a ratio analysis of two companies and compare trends across major ratios. This would allow them to provide feedback to FFT as to operating metrics they should follow in their new venture. Relevant data is presented in Appendix 2.

Issue #3: Product costing and estimation of manufacturing volume to meet financial goals

The consulting group wanted to develop a Contribution Margin Income statement and conduct a Cost-Volume-Profit Analysis so that the estimated manufacturing volume can be projected. If this estimated volume could be sold entirely, then the target profitability can be met. Relevant data is presented in Appendix 3.

Issue #4: Multi channel marketing of packaged food items

The consulting group wanted to develop calculations using the relevant costing model of 'Special Orders'. They felt that, in order to maximize production capacity 'special orders', should be accepted. These orders would represent one-time sales opportunities of the products in a very high volume. Due to the high volume, client would have to be offered a price which is lower than the list price. Relevant data is presented in Appendix 4.

Required:

At the end of the two-week period, the consulting group would be meeting with the business partners. Prepare a report showing all the calculations and your recommendations for all the four issues.

Deliverables:

1) Written report with the following content:
    - Appendix1: Leasing
        - Explain the calculations
        - Your recommendations
    - Appendix 2: Benchmarking
        - Explain the comparisons of ratios you calculated against industry values
        - Provide recommendations on how to improve three of them
    - Appendix 3: CVP
        - Explain your calculations
        - Provide a recommendation
    - Appendix 4: MCM
        - Explain your calculations
        - Provide a recommendation
    - Formatting specifications:
        - Executive summary (1 page)
        - 1000 words maximum (excluding executive summary)
        - Calibri or Arial font
        - 11 point
        - Line spacing – 2
        - Header and footer
        - Cover page
        - Table of Contents (formatted using MS Word)

2) Excel Workbook showing calculations:
    - Blank format is provided
    - Complete one Excel tab for each scenario

Appendix One (Construct or lease)

Objective: Should FFT lease or construct their own production facility

Option 1: Construct	
Costs to incur:	
Buying land, construct building and getting ready for use (FFT has these funds available in their bank account today so no mortgage is needed)	$ 1,200,000
Taxes, insurance, and repairs (per year)	$110,000
Intended years of use	15
Projected market value in 15 years	$ 1,250,000
Option 2: Lease	
Intended years of use	15
Deposit required today (this deposit will be returned to FFT when the lease contract is complete is 15 years)	$ 100,000
Annual lease payment	$ 160,000
Property taxes (annual) to be paid by FFT	$ 15,000
Insurance (annual) to be paid by FFT	$ 15,000
Required rate of return	**10%**

Methodology:

The consulting team is proposing to perform a NPV analysis and determine the benefit to leasing or construction.

Based on the analysis, they will recommend the preferred option (construction or leasing).

Appendix Two (Benchmarking studies)

Objective: To conduct ratio analysis of a comparable company (Waterloo Corporation) and compare with that of the industry.

FFT Corporation
Comparative Statements of Financial Position
31-Dec-20

Assets		**2020**		**2019**
Cash	$	50,000	$	25,000
Accounts receivable		65,000		50,000
Merchandise inventory		60,000		70,000
Prepaid Expenses		55,000		30,000
Property, plant, and equipment		300,000		250,000
Total assets	$	530,000	$	425,000
Liabilities and shareholders' equity				
Accounts payable	$	25,000	$	30,000
Short-term bank loan payable		50,000		65,000
Bonds payable		150,000		160,000
Common shares		150,000		95,000
Retained earnings		125,000		75,000
Total liabilities and shareholders' equity	$	500,000	$	425,000

FFT Corporation
Income Statement
Year Ended December 31, 2020

Net sales			$	350,000
Cost of goods sold				210,000
Gross profit				140,000
Expenses				
Operating expenses	$	40,000		
Amortization expense		22,000		
Interest expense		15,000		
Total expenses				77,000
Profit before income tax				63,000
Income tax expense				20,000
Profit			$	43,000
Additional information for 2020:				
1 Cash dividends declared and paid.			$	28,000
2 Net cash provided by operating activities in 2020			$	82,000

Methodology:

- Based on the above information the consulting group will conduct ratio analysis for the specific ratios listed in the template.

- As a next step the group will compare the ratios calculated above with industry benchmarks. The benchmarks are indicated within brackets besides each ratio.
    - Current ratio (3 to 1)
    - Quick ratio (2 to 1)
    - Inventory turnover (3 times)
    - Receivables turnover (8 times)
    - Times interest earned (8 times)
    - Deb to equity ratio (3 to 1)
    - Profit margin (14%)
    - Gross profit margin (38%)
    - Days in inventory (110 days)
    - Days in receivables (58 days)
    - Return on assets (12%)
    - Return on equity (14%)
    - Cash current debt coverage ratio (1 time)

Appendix Three (Cost-Volume-Profit Analysis)

Objective:

Based on the following Contribution Margin Income Statement the consulting group would like to evaluate if adding sales expenses as a fixed cost would be a beneficial strategy.

Scenario:

Projected Contribution Margin Income Statement

Sales volume of packaged food items(units)	50,000
Revenue	$ 900,000
Variable expenses	$ 600,000
Contribution margin	$ 300,000
Fixed Expenses	$ 250,000
Net Operating Income	$ 50,000

Methodology:

The consulting group would assume that all packaged food items sell at the same price per unit. The above model assumes that sales commission is a variable expense and that salespersons are paid for each unit they sell.

In order to incentivize salespersons, the consulting group is proposing that salespersons be hired on salary and not on commission basis. Combine this with additional advertising, the fixed expenses would increase to $ 300,000. This would also lead to an increase in revenue to the extent of 40% and net operating income by 25%. Variable expenses would not increase at the same rate as revenue.

The group will calculate the breakeven sales units and breakeven sales dollars under both the current scenario and under the proposed scenario. The group will also complete the CM format income statement for the proposed scenario, as well as calculate the new CM ratio for the proposed scenario and the percentage increase in sales needed to break-even (percentage increase in break-even from the current scenario to the proposed scenario). They will also advise the business partners **on potential risks** that may arise in this case and recommend if this approach of adding fixed cost related to selling is recommended.

Appendix Four (Multi channel marketing)

Objective: To maximize output from packaging machines, the sales volume of packaged foods needs to increase. In order to increase sales, all possible channels will be explored. This includes accepting high volume, one-time orders (or "special orders"), where the selling price will be lower than that of the regular selling price. The goal is to evaluate at what price can the special orders be accepted.

Scenario:

The consulting group has developed the following cost structure for packaged foods. This is based on a production capacity of 30,000 units. The unit selling price is set at $50. The fixed manufacturing expense is constant in the range of 25,000 to 50,000 units. The maximum production capacity is 30,000 units.

Item	Per Unit	Total
Direct materials	9	270,000
Direct labour	6	180,000
Variable Manufacturing Overhead	4	120,000
Fixed manufacturing overhead	9	270,000
Variable Selling Expense	15	450,000
Fixed Selling Expense	2	60,000

Due to market conditions, FFT can sell 20,000 units through regular channels. They plan to offer a quote to a large manufacturing facility to sell 5,000 units of the packaged food item, at a lower price. This would be a one-time order and can be classified as a special order. Since this would be sold directly to the client, there would be no sales commission, so variable selling expense would be reduced by 80%. However, FFT has to buy freezer boxes so that the frozen items can be transported to the manufacturing facility. The freezer boxes would cost $ 25,000 and would be used solely for this special order. After that they would have no residual value and would be discarded.

Methodology:
The group would calculate the offer price. The offer price will cover all variable expenses and include a 15% markup on variable expenses.

Delivery:

- Upload both the written report and the Excel workbook to the assigned folder in eConestoga.
- One submission per group
- Your Professor will advise you as to the due date of this assignment.

Marking Key and Rubric:

- Included within the Excel workbook.
- Please review all items in the marking key before submission and ensure they are complete.
- All group members will receive the same grade if indicated likewise in the peer review form.