

Kitchen help case analysis

[Business](#), [Management](#)



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Introduction

Counterdrop Appliances division is formed six month earlier by Central foods after acquiring a successful company named Kitchen Help's; in the kitchen appliances range, it had established a good market in this category. Kitchen Help had good quality but financial constraints in order to expand whereas Food Corporation wanted to diversify. After acquisition the company poured in a lot of resources in Kitchen Help including the plant facilities and the employees.

As a result the sales of the company grew to a large extent initially. After that there was a sudden fall in the revenue and profits. This lead to the replacement of General Manager (John Pero to Georgia Dixon). She has decided to tackle this issue by the reduction in overhead expenses by 20% in order to revive future profits. To attain this she has delegated this responsibility to Controller Larry Williams. Larry William has studied the financial implications and the people in the organisation and come to a decision of reduction in the 20% departmental payrolls.

Problem Definition

The Kitchen Help is undergoing a severe decline in profits and revenue. Human resources have been recruited (Good numbers) by the earlier General manager Pero to solve this. Although the company has taken action that these resources do not hinder the progress, it has nearly constant sales revenue and same sales level it maintained for past three years. There is no growth in the revenue. There is a problem of decline in profits in the most promising product lines of the Kitchen Help. The Coffee maker which gave a 30% of total revenue and 35% profits has a decline in demand due to competitor's better product.

Their price is less than \$35 and it makes a coffee of same taste. Also there is steep decline in the demand of the microwave product range which used to give a profit of 18%. With decline in the Profits and the sales volume remaining the same the resources like recruited Human resource and the expanded plant capacity has not paid off its returns. The sales manager also finds it complicated to coordinate with the national, local and wholesale aspects of the sales force. There is a need for coordination among the managers of various units so that there does not remain a gap in resource requirement and its consumption.

Analysis

Company poured in huge resources in the beginning of Kitchen help. It purchased land and expanded plant facilities in order to meet the sales volume requirement. The number of employees in the division rose from 100 to 500. But the revenue volume remained the same and the profit level did not rise. On the contrary the company pays the sales force a 66% payroll of

the Budget which is considerably high. ' John pero freely added to their staff to meet delude in the orders of sale. This all is fine when there is a good volume and profits are being incurred. - This implies that there is currently no further need to recruit more people in sales force. Mort Burns, sales manager feels that sales force has a little impact on more independent appliance and hardware store owners who account for 15% of final demand. These are the entities not making profit. 20% of allocated budget to marketing is \$1656000 whereas the number of employees is only 18. Investment in Prime time Advertisements and national campaigns has resulted in the huge budgeting. Payroll as percentage of budget is 10% which is \$165600. There can be a 20% reduction in payrolls.

Senior Staff where replaced by the new staff at Kitchen help, this has led to increase in sales volume temporarily but could not sustain the market condition and keep up the quality expectation. Introduction in the coffee maker section an innovative product was a competition to Kitchen Help's existing product. It could make 10 cups coffee without change in taste. This was lacked by Product development team of Kitchen Help; who were working on it. 30% of division's revenue and 35 % profit alone depended on this product earlier. The company should prioritise improvisation in this section.

Williams's analysis on financial trends says that discounts to large retailers rose from the year of acquisition. There is scope of making a 3% profit from the discounts given to retailers. Moreover the marketing and sales team has to make extra efforts to realise the revenue from the retail chains. Overhead expenses on sales force in this channel can be reduced which will facilitate reduction in marketing costs and increased administration overhead as well.

Recommendation: ? Bob Ericson' s team should come up with an improvised design to earliest which they were planning for the past 6 months.

The Product and production team should decide and come up with a product better than competitors quality or ? ? should manufacture the same with a much better reduced price and design; i. e. less than \$35. The company should concentrate on its wholesale and the national chains which are better sources of profit rather than the independent appliances and the hardware store owners. The cost to company should be cut down on non profit making entities and sales channel like independent products and hardware stores. The Overhead Cut off on these heads would result in profit and concentration on profit making channels.