

Euroland foods essay

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



Euroland foods is a stable name in the market, it has grown well in the market over the years, but now it is planning to allocate the budget for the newly planned activities which are costing it more than 300 Million Euros but the company has to invest only 120 Million Euros. Various people from the upper management have come up with their suggestions for investment, few of them are very good and are acceptable in just a blink of the eye but many of them require greater search and evaluation for their validity. It is suggestible to first evaluate the alternatives and then rank them so that best of the activities could take place within the allocated budget.

Strengths & Weaknesses: In replacement and expansion of the truck fleet, the company can increase the number of goods hauled on the truck and this could reduce the transportation costs in the long run, further it could possibly have a greater market coverage but it is very costly to go for this option as Klink is not doing any experiment and going directly for 100 new trucks. The Internal Rate of Return 7. percent is comparatively low to the minimum set for the company which is 8 percent. For an investment of 30 million and a projected gain of 11.

6 million in the next seven years is rather low as compared to what other projects can bring. The acquisition of new plant is although a good option but yet it is not very useful option as the investment in the entire plant can be risky and can put a lot of burden on the entire company's budget, it is suggested that the company should buy a warehouse to support the growing needs of the customers for ice cream and yogurt. Another problem would be related to the labor hiring which would result in more costs. The Internal

Rate of Return of 11.3 percent is higher than the minimum value they have to meet.

Payback for the whole plant itself would take over 10 years, even though it will be yielding 35.6 million after tax cash flow. The expansion of the plant is a good idea as the market needs are completely growing and cannot be supported by any other plant, the plant capacity would increase by 20% but the drawback is that it is supporting those products that are not having the highest share i.e. mineral water and fruit juices. The Internal Rate of Return would be 11.2 percent, which could result to an additional production of 2.25 million per year. Morin has come up with a good suggestion as the processing of dried fruit and its launch would enhance the company's portfolio and also it would be a brand extension, it has got a fair possibility of growth as Europe is a cold region, the IRR is also expected to be higher than the required but then again it is requiring company to spend much more than it should spend.

Also it can take the company out of budget as the company's current concern should be about the stability of its current activities. With a working capital of 4.5 million and equipment costs of 22.5 million, it yields an Internal Rate of Return of 13.

4, which is relatively higher than the 12 percent that is required IRR for new product projects. Leyden has come up with the idea of plant automation and conveyer system, this could reduce the need of the labor and the threats of lawsuit due to any injury that may take place because of the old plant. The company cannot only reduce the labor requirements but also may increase

the market penetration as the units would be produced more efficiently now. The drawback is again related to the high costs and further the company may disappoint the labor which could be unethical and can bring agitation in labor against the company. The Internal Rate of Return for an investment of 21 million is only about 8.

7 percent, slightly higher than the minimum, but comparatively lower than those of other project proposals. The effluent water treatment at four of the plants is again good action since it is categorizing the Euroland foods as environmental friendly. This would add itself as strength to the company as now company would be working ethically in many ways.

The drawback is related to the issue of investing in a non-functioning area, which would not bring any profits. This would cost 6 million, which would be a non-earning expenditure, but would save them a lot, after four years, when the projected price would be raised to 15 million. Ponti has although suggested to expand the market to southwards and eastwards, but it is dependent on many conditions such as if proposal of earlier plant extension would not accepted then it is possible for the company to incur greater costs for reaching those newly recognized areas, further it is not suggested to go for them because the company has already got itself in other hassles and it should look at those points which could further strengthen its position in the current positions. Morin has come under the pressure of competitors and is thinking about the company's well being, but yet there lies the problem with such a heavy investment, the company should always test market the product. Although it would be the product development to some good extent

but at the same time it can cause the company to lose big money in something which it is not sure about. Southward expansion poses a 21.

4 percent Internal Rate of Return, and Eastward expansion of 18.8 IRR. Both of them requires a 30 million working capital, where the southward expansion expects a 56. million after tax cash flow payback while the eastward of about 48.8 million. Fabienne Morin's idea was about the possible synthesis of artificial sweeteners to have significant cost savings, with the growing demand for low-calorie food products. With this idea, an estimated 20.

5 percent Internal Rate of Return was projected. This is with a 27 million cost to commercialize the yogurt line of artificial sweeteners. The up-side of this project is that they will be able to keep up with competition from other producers, when they release the same product type. The down-side is that they are venturing in a different track, thus there is uncertainty on how the project will eventually turn out.

Klink has come up with a suggestion of networking, these days the markets are based on programs such as SAP which can control every activity of the company, if the efficiency would be there then the company may take more initiatives as it would think ahead. The weakness is again related to the increased responsibility which can cause disturbance and further it can result in unemployment as many of the activities would be performed with the help of networking. This project promises a 16. percent of Internal Rate of Return.

The expenditure would be a 22.5 million venture, which would only last for three years. Humbolt has given a solution which suits his nature and he has again provided the company with something that could increase the liability of the company and further create more complexed problems for it.

However, it seems to be very lucrative but it is all about the management capability of the company which is not appropriate in relation to such extension. This is a very expensive project proposal, which would spend 60 million for buying a liquor company along with its renovation, but as Humbolt sees it, has a 27.

percent Internal Rate of Return. Ranking the Proposals: According to my analysis, proposal 3 (plant extension) should be ranked first as it has a fair possibility of increasing the market share for those products that are stable from a period and are not growing (mineral water, fruit juices). Proposal 4 (snack foods) should be ranked second as it has got a fair possibility of market acceptance due to weather condition in Europe. Proposal 5 (Plan automation) should be ranked third as it can reduce the number of employees and other threats and can bring more profits in. Proposal 10 (Networking) should be ranked fourth as it can increase efficiency and so can reduce the number of positions in the company. Proposal 6 (Effluent water treatment) should be ranked fifth as it is environmental friendly and “good ethics is good business”. Proposal 1 (Truck fleet) should be ranked sixth as it is requiring a direct investment for 100 trucks where as the company should look for such changes in a slow manner.

Proposal 9 (Sweetened yogurt) should be ranked seventh as it is very risky as it would take a lot of research and can distract the firm from its other stability objectives. Proposal 2 (new plant) should be ranked eighth as it would associate exceeding costs with it such as new labor, transportation and many other costs. Proposal 7 & 8 (market extension southward and eastward) should be ranked ninth and tenth as it is again distracting the company from its current objectives and its too risky as the entering market characteristics are opposite and against the company's favor.

Proposal 11 (Schnapps) should be ranked eleventh as it is completing out of the scope of the company's feasibility. Effluent Water Treatment: Since the effluent water is just something the company is willing to acquire as a mean to have good public relations and to be able to contribute to the environment. It is just something which cannot bring company the profits, it would cost 6 million Euros if the facility equipment would be purchased now but later on it can be costly and government at times does affect the company's investing powers. So it is better to buy this equipment before the government makes it a mandatory for the company to buy it. Conclusion: The ranking shown above is itself suggesting what should be done.

According to the analysis, proposal 1, 3, 4, 5, & 6 should be given utmost importance as it is feasible for the company to get them done within the allocated budget, so Mr. Verdin should give them more importance and recommend them to the board. They can also make the current position of the company stable and perhaps make it more efficient. Other projects have

their own importance but they are not triggering the initial need of the company which is stability.

The mentioned proposals would make the base of the company's structure sounder and so it can look forward for other proposals in the future time period with more ease.