

Soap companies do battle assignment



**ASSIGN
BUSTER**

Assignment No. Rocky Mountain Mutual: Promoting Fun or Fitness? A report submitted to Faculty Member In partial fulfillment of the requirements of the course Written Analysis and Communication-I On MM/DD/YY By Participant Rocky Mountain Mutual Utah, USA MM/DD/YY To Zachary Evans, Vice President of Operations From Joseph Mirola, Claims Manager Subject: Report on the future of the Fitness Center at Utah headquarters complex. I am submitting herewith the report on the future of the Fitness Center at Utah headquarters complex.

The options of eliminating or retaining the Fitness Centre have been analysed after taking into consideration various factors. While doing so, economic considerations have been prioritized above all others. I sincerely hope that the analysis satisfies your concerns. I shall be glad to provide any further clarifications that you seek. Regards, Joseph Mirola Claims Manager

EXECUTIVE SUMMARY The Fitness Center (FC) in Utah headquarters complex was started in order to provide health benefits to Rocky Mountain Mutual's (RMM) employees.

RMM spent close to \$1,000,000 to build it, while the maintenance cost per year is \$100,000. RMM now has the option of either eliminating or retaining FC. Each option has been evaluated in terms of the economic gain to RMM, benefit to employees, effect on softer factors and competitive advantage in recruitment. On basis of this evaluation, it is recommended that RMM must retain the FC and a Wellness Program must be formally instituted in the whole organisation in order to maximize economic and employee benefit.

Word Count: 108 TABLE OF CONTENTS SR. NO. CONTENT PAGE NO. 1.

SITUATION ANALYSIS 1 2. PROBLEM STATEMENT 2 3. CRITERIA FOR EVALUATION 2 4. OPTIONS..... 2 5. EVALUATION OF OPTIONS... 2 6. RECOMMENDATION..... 5 7. ACTION PLAN..... 5 8. EXHIBITS6

.....6 SITUATION ANALYSIS

The three year old Fitness Center (FC) in Rocky Mountain Mutual’s (RMM’s) Utah headquarters complex provides the company’s employees the convenience of having exercise facilities near office. Owing to the remote suburban location of the complex, RMM has even considered using FC as a recruiting device for attracting young employees. The FC offers an indoor walking/running track, a swimming pool, and an exercise room with free weights and exercise machines. Cost incurred by the company: Building the FC has costed RMM close to \$1, 000, 000.

Additionally, the cost of maintaining the facility (including staff salaries, maintenance of machines and other expenses) is \$100, 000 per year.

Observed Usage pattern: Out of 250 employees, 35% (87 people) are users while 65% are non-users. Out of the 87 people who are users, 25 people use the facility more than twice a week, while 62 people use it once or twice a week. (See Exhibit 1) In the context of usage of this facility, it is worthwhile to note that, in the Claims Department, since the “ Wellness Program” was instituted (i. e. n the last 8 months); most of the departmental employees

have been using the FC at least twice a week. During this period, the Claim department's productivity has risen by 18% and absenteeism has decreased by 5%, compared to the previous 8 months. Recently, a cost cutting and revenue improvement initiative has been taken up and therefore a review of the economic justification for retaining the Fitness Centre is being carried out. Problem Statement A decision regarding whether the Fitness Centre must be eliminated or retained, needs to be made after considering the overall interests of Rocky Mountain Mutual (RMM).

Criteria for Evaluation

1. Economic Gain to RMM: This is the primary criterion as the current decision is to be made as a part of a cost cutting and revenue improvement initiative.
2. Benefit to Employees: This consideration is crucial in assessing the extent of fulfilment of the objective of the FC.
3. Effect on softer factors (Employee morale and Company image)
4. Competitive advantage in recruitment

OPTIONS Following are the alternatives to be considered:

1. Eliminate the FC
2. Retain the FC and institute an organization wide Wellness Program

Evaluation of OPTIONS

1. Eliminate the FC
 - a. Economic Gain to RMM:
 - i. Saving the cost of Maintenance: Amounts to saving \$100, 000 per year, currently being spent towards maintaining the facility.
 - ii. Saving the cost of new land required for future expansion: After eliminating the FC, RMM can use the space occupied by the center for expansion. This will result in a saving equivalent to the cost of new land which would otherwise have had to be bought for expansion. But, since RMM headquarters re located in a remote suburban area, cost of land nearby is not very high. Therefore, this may not be a substantial saving.
 - iii. Loss of current value of FC resources:

Business property is considered to have a life 39 years (See Using Depreciation Tables, 2005). Therefore, the current value (after depreciation) of the property can be estimated to be \$923, 100. (See Exhibit 2) In case of closure, the sunk costs will include the costs relating to the following (See Exhibit 3) 1. Running tracks and swimming pool (sunk completely), 2.

Fitness Centre equipment (Since resale value of fitness equipment is not really significant (See O'Neill, The Home Gym Frontier, 2005)) 3. The interior decoration carried out initially (Since the current design is unsuitable for use as office space) Hence, most part of the current value of the FC will be a sunk cost to RMM. Due to the large sunk costs associated with the FC and comparatively smaller value of savings, there will be no economic gain to RMM. In fact, recovering the sunk cost itself might take many years. b.

Benefit to Employees: No benefit to the employees. . Effect on softer factors: The morale of 35% of the employees who are currently using the facilities will suffer as a result of the closing down of the facility. Lower morale can adversely affect employee productivity (See Gilley, 2001). Also, the company's image – of being considered as a concerned employer – might be negatively affected. d. Competitive advantage in recruitment: Currently, there is no evidence to suggest that closing the FC would affect recruitment in any way. 2. Retain the FC and institute a organization wide Wellness Program e. Economic Gain to RMM: v. Cost of Maintenance (recurring costs): \$100, 000 per year is required to maintain the facility. v. Cost of future expansion: RMM will have to incur the expenses of purchasing the land and building for expansion of its facilities. vi. Increase in productivity: As witnessed in the Claims Department, a rise in productivity (about 18%) and

decrease in absenteeism (about 5%) can be expected throughout the organization. vii. Saving from decrease in medical costs: Currently the saving on medical costs for employees using the FC is around \$22, 400 (See Exhibit 4).

The savings on medical costs is expected to increase with increase in number of FC users and frequency of use (See Exhibit 5). While the cost of maintenance is effectively reduced due to the savings in medical costs some cost (Maximum: \$77, 600) may still have to be borne. However, this option is free from the financial burden of recovering sunk costs. f. Benefit to Employees: The employees are benefited due to the convenience of having exercise facilities near office, and also by improving their own fitness. g.

Effect on softer factors: We can expect an increase in the employee morale leading to higher productivity (See Gilley, 2001). Also, the company will be perceived as a “concerned employer”. h. Competitive advantage in recruitment: The FC can be projected as a distinguishing feature of RMM as an employer. Recommendation RMM should choose the second option since it offers comparatively lower costs, better employee benefits, positive influence on softer factors and a possibility of providing a competitive advantage in recruitment. Action Plan 1.

The Wellness Program can be made effective by: a. Communicating to employees the tangible benefits of exercising regularly. b. Convincing managers to follow a regular exercise schedule and setting an example for their team members. c. Forming support groups to improve regularity in the exercise routine. d. Rescheduling the FC timings, to reduce the rush during

peak time. 2. Leveraging this initiative for building the company image

Word Count EXHIBITS EXHIBIT 1: Percentage wise break-up of employees by

frequency of usage of the Fitness Center BASE: Total No. of employees: 250

EXHIBIT 2: Calculation of Current Value of the Fitness Center recourses in

case it has to be closed down. Particulars| Amount| Comment| Initial Cost of

FC| \$1, 000, 000| | Less: Accumulated Depreciation| (\$76, 900)| Using

straight line method, Accumulated Depreciation for three years = (Initial cost

/ No. of years of useful life of the property)* 3 = \$1, 000, 000/39 * 3 = \$76,

923 (Approximated to \$76, 900)| Depreciated Value| \$923, 100| i. e. Initial

Cost - Accumulated Depreciation| EXHIBIT 3: Method of calculation of various

sunk costs

Sunk Costs| Method of Calculation| Sunk cost of construction of Swimming

Pool and Running tracks**| Sunk cost = Cost of construction** - Accumulated

depreciation*| Sunk Cost of Gym equipment| Sunk cost = Initial Cost of

Equipment - Accumulated Depreciation* - Resale value* | Sunk cost of

Fitness Center’s interior design**| Sunk Cost = Cost of interior design** -

Accumulated depreciation*| **Very large *Not very significant EXHIBIT 4:

Calculation of savings of medical costs due to use of FC Type of User/ Non-

User| No. of Employees| Max. medical cost per employee (\$)| Actual per person

cost of the category (\$)| Saving per Employee(Max. cost - Actual cost) (\$)|

Total Savings (Saving per Employee * No. of Employees)(\$)| Non-User| 163|

500| 500| 0| 0| User - once or twice a week| 62| 500| 300| 200| 12, 400| User

- three or more times a week| 25| 500| 100| 400| 10, 000| Total Saving| 22,

400| EXHIBIT 5: Average Medical Costs incurred vs. Frequency of usage of

Fitness Center REFERENCES [1] Using Depreciation Tables, Tax Tips and

Resources. Retrieved July 23, 2005 from www.turbotax.com/articles/UsingDepreciationTables.html [2] O’Neill, Sensei Ken, The Home

Gym Frontier, Dolfzine Online Fitness, Retrieved July 23, 2005 from

<http://www.dolfzine.com/page689.htm> [3] Gilley, Bruce (2001), People and

Profit, Best Employers in Asia: Share-Price Performance, Sept 2001 Issue.

Retrieved July 23, 2005 from <http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN001748.pdf>

————— [1]. “ Company” refers to “ RMM”. [2].

Effective cost = Maintenance cost – Medical costs savings = \$100, 000 –

\$22, 400 = \$77, 600