

# [Statement of the problem case study example](https://assignbuster.com/statement-of-the-problem-case-study-example/)

[Business](https://assignbuster.com/essay-subjects/business/), [Company](https://assignbuster.com/essay-subjects/business/company/)

The business organization under analysis in this case is Mueller-Lemhmkuhl that is involved in production and sale of apparel fasteners and it is located in Germany, Europe. The company has operations on the international front though it is faced with multiple challenges that inhibit is profitability and market dominance. The cost accounting model used has flaws and impinges on pricing of fasteners leading to reduced earnings due to intense competition from rivals. The President of the company, Dr. Richard Welkers attested that HI, a Japanese firm poses a great challenge to Mueller- Lemhmkuhl due to their price wars, as they price their products at a cost of 20% lower than Mueller-Lemhmkuhl. Selling of products in diverse markets is also a dilemma to the firm due to the need for preparation of guides to the products sold, even the smallest, has to be sold with marketing materials, product descriptions and labels. This makes the overhead and production costs to rise and makes it hard to set prices and increase the organization’s profits

## Executive Summary: Cogent Solution to the Problem

Attaining a competitive edge in the market, reducing costs of production through accounting for them efficiently and maximizing profits are the concerns for the company under analysis. This has an insinuation that issues relating to cost determination, marketing, research and development and effective management have to be instituted in order to ensure that the organization maximizes its profits. These stratagems will ensure that the organization competes effectively with the other participants in the market.
Mueller-Lemhmkuhl ought to adopt a strategy that involves competing on a non-price approach so as to maintain customer relationships and increase profit margins. Marketing and sales promotion has to be done so as to cover wider market region. Transaction costing model should be used to incorporate all components of material, overhead, labor and marketing expenses. This will aid in setting prices and planning so as to attain higher profits.

## Analysis and Examples from Excel Spreadsheet to Support the Executive Summary

A recent merger between Mueller-Lemhmkuhl and Atlas reduced Mueller-Lemhmkuhl’s opportunities for regional expansion of its market and therefore this reduces its competitiveness. Competing with the Japanese firm on price basis is difficult as customers may be lost to HI Japanese Company (that prices its products at 20% lower) and result in losses to Mueller-Lemhmkuhl. This means that loss of the market due to the merger with Atlas, stiff competition from HI, and general planning and management of the organization are the problems that need to be addressed by this business organization. The production phases have to be instituted with suitable costing models that entail all the processes involved in material handling, stamping and assembly and finishing the manufacturing process. These affirmations are based on the fact that if the production costs of the commodities are reduced, more income will be earned by the firm and make it expand its operations.

Based on the analysis presented in this context, the progress in production and sale of fasteners by Mueller-Lemhmkuhl shows that it turned out to be the leading apparel supplier in the European market after forming an alliance with Atlas Company and thus gaining competitive edge over the Japanese firm. This competition is indicated to be aligned on production costs, with Mueller-Lemhmkuhl having an advantage in being located nearer closer to a bigger market segment (Rich, Jones, Mowen & Hansen, 2011). However, it is affirmed that their production costs (wage and overhead) are higher than those of the HI (Japanese firm). This means that marketing strategies ought to be implemented so as to attain a competitive advantage in sales and wider market coverage. The revenue for Mueller-Lemhmkuhl as at 1986 was estimated to be $103 million, insinuating that it was making substantial profits despite the rivalry from the Japanese firm.
The executive team of the organization adopted diversification of its products so as to increase the firm’s revenue through selling different but related apparel fasteners. This diversification ought to be well managed through use of marketing, research and development as well as refurbishing the cost accounting method. This will ensure that all transactions or activities entailed in the manufacture of the products are considered in the computation of costs. This has an insinuation that investing in advertising, sales promotion and other product marketing strategies was pivotal in reaching many customers, not only in Europe but also around the globe. Continual evaluation of the operations and profitability of the firm has to be done so that suitable competitive strategies can be used to increase the organization’s returns. The firm has to strive to reduce the production costs and use competitive strategies other than price wars so as to attain competitive edge in the market and out do the Japanese firm.

The manufacturing process at Mueller-Lemhmkuhl is well coordinated through application of both manual and automatic machines so as to increase the production capacity and maximize sales. The automated machines used in the production of fasteners are viewed to be effective and efficient as they produce many products simultaneously within a short period of time. They are also imperative in the whole manufacturing process as they help in reducing overhead costs such as the manual labor costs in operating the manual machines (Rich, Jones, Mowen & Hansen, 2011). This has an implication that costs used in operating manual machines could be diverted to marketing or be retained as profits and enable the organization to make profits. In this context, it is portrayed that planning and appropriate cost analysis ought to be implemented so as to use only lucrative operational mechanisms. These costs are indicated in the figure below;

Conducting an analysis of the market and consumption patterns of the consumers of the commodities is imperative as it enables the management to plan on which marketing or promotional strategies to be used. For instance, Mueller-Lemhmkuhl is said to have sub-divided the consumers into two groups; large companies purchasing large volumes of different commodities and smaller companies purchasing huge quantities of a major component. This segmentation of the consumers based on their volume of fasteners purchased is significant as it will enable the organization to plan suitably and make projections on sales, revenue and promotional/advertisement costs. Customer relationship marketing should be used as it enhances development of brand loyalty, maintenance of long term personal links and an eventual increase of sales and profits in for the company.

Consumers are the backbone for the success of a business’ operations and prosperity in sales and profit maximization. This assertion means that ensuring that customer satisfaction is a core objective for the organization will be vital in production, promotion and marketing of products. These affirmations indicate that firms ought to establish long standing personal relationships between them and their customers (Rich, Jones, Mowen & Hansen, 2011). This means that the company will not be competing on price wars but through ensuring that the quality of the services and products offered is augmented. It is evident that adoption of these strategies by Mueller-Lemhmkuhl will increase its sales and profit margins substantially. However, the markets’ condition and their viability ought to be assessed prior to introducing products in them so as to mitigate risks associated with losses.
The operations of the organization have to be well coordinated so as to ensure that decisions made on the cost accounting system to be used are well reasoned out. For instance, it is indicated that over the years the firm has developed a policy of selling the manual machines and renting the automatic ones. This was based on the fact that automatic machines did not need service, and could be easily and inexpensively modified to allow them to attach different fasteners. This analysis can be used as a basis upon which operational decisions can be made so as to reduce costs of production and increase the profits. This means that skilled personnel could be used to operate automatic and semiautomatic machines while the manual machines could be operated by manual laborers so as to cut on costs of production and maximize revenue.

Market surveys through research and development are also imperative as they will enable the organization to be acquainted with the needs of the consumers and their market concentration. This means that Mueller-Lemhmkuhl’s management team will understand market trends and produce the fasteners to suit the apparels that consumers need. Estimates of the required costs in fastener production have to be done so as to ensure that the revenue against the budgeted costs result in increased profits to the organization. It is worth noting that these activities ought to be well coordinated and be carried out in a timely manner so as to avoid losses or unfounded decisions making that may make the organization to be overtaken by the Japanese firm. An analysis of expected market size is vital as it will guide in planning and deciding which international market to venture in as indicated below;

Revamping the cost accounting method so as to reduce confusion relating to the previous 70 cost centers has to be done. This will ensure that all cost elements are considered in the calculation of standard costs, enhance proper pricing and decision making on the suitable advertising and product promotion mechanisms to use. It is through the consideration of all the costing elements that accurate standard costs for production of every item; either done using automatic or manual machines, can be established and then a standardized prices set. This means that there is a linkage between production costs and the prices charged regardless of the prices charged by the other competitors. Evaluating this correlation helps the production and cost management controllers to understand and plan appropriately what ought to be done as regards to marketing, pricing and markets segments to target as well as the volume of production demanded by clients.

In the excel spread sheet there are computations of profitability ratios that show that Mueller-Lemhmkuhl is profitable and able to meet its liabilities when they mature. In spite of this, there is enormous rivalry from the HI firm from Japan. The quality of the services and products ought to be improved and customer relationship be sustained so as to facilitate the prosperity of the organization (Schiff, Liao & Chang, 2005). Assessment of the departments involved in the production process ought to be conducted so that costs can be properly ascertained for efficacy in management, operations and profitability of the business. Human resources play a pivotal role organizational success and this means that training employees and hiring qualified personnel in cost management, public relations and marketing would be advisable in long term goal accomplishment for Mueller-Lemhmkuhl.

Projected costs or expenses in the year 1986 for Mueller-Lemhmkuhl were noted to be as indicated in the figure underneath. This means that issues relating to administration, marketing, research and development, shipping and commission to sales agents ought to be included in the costing system so as make feasible decisions so as to promote attainment of competitive edge in the market.

The organization will be in a position to effectively compete with other firms in the market if the highlighted policies are implemented and coupled with proper managerial practices. In this context, competition based on pricing is not effective since Japanese HI company offers 20% lower than the price charged by Mueller-Lemhmkuhl. Marketing strategies ought to be increased, research and development and planning implemented to meet customers’ needs (Weygandt, Kimmel & Kieso, 2009). The final aspect is that customer satisfaction leads to long term consumer relationships and this leads to increased sales and profits of the organization. For instance, the market domination of the Japanese company was minimal in the European in 1986 and most of the different products had less than 10% market dominance as shown in the figure below;

This paper has highlighted various approaches that can be adopted by Mueller-Lemhmkuhl in its operations so as to capture enormous market and augment its sales and return on investment (ROI) or profits.

Lamb, C, Hair, J & McDaniel, C (2011). Essentials of Marketing. Edition7. Cengage Learning Weygandt, J, Kimmel, P & Kieso, D (2009). Managerial Accounting: Tools for Business
Decision Making. Edition5, John Wiley & Sons.

Rich, J, Jones, D, Mowen, M & Hansen, D (2011). Cornerstones of Financial & Managerial
Accounting Cornerstones Series. Edition2, Cengage Learning.

Hooley, G et al (2008). Marketing Strategy and Competitive Positioning. Edition4, Prentice Hall.
Schiff, A, Liao, W & Chang, H (2005). Cost Accounting for Managerial Planning, Decision
Making and Control. Edition5, Cengage Learning.