

Luxor cosmetics essay sample

[Business](#), [Branding](#)



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Executive Summary

An effective business strategy and budgeting is very essential in a manufacturing industry. A company without a proper business strategy and master budgeting plan would usually faces tremendous challenges and losses during its business operations. The importance of company's business strategies and budgeting plans, as well as the challenges and losses in the absence of these items has clearly presented in this case study. ("Wiley," 2013) Luxor Cosmetics is a cosmetic company which manufactures variety of lipstick, nail polish, and cosmetic cream for women. The company was founded by Mr. Phil Luxton in 90's. And five years after its establishment, due to lack of capital for investment the 40% of company's stakes was publicly traded to generate more capital for the company. The firm did very well for the first half of the decade; the firm was constantly maintaining margins of 100% over its variable manufacturing cost. The firm was doing so well that it never saw a need for a sophisticated accounting system. However, when its profits started to fall, it couldn't compare its operations with the rest of the industry.

Even worse, it had never hired a professional marketing staff, so it couldn't even analyze what was going wrong with its sales. But, its competitors were still enjoying sales growth, while the Luxor Cosmetic is suffering. After worse thing start happening, the company chairman, Mr. Luxton finally realized that the company need somebody who can resolved these problems. But, it was so critical for the new guy, who was hired as CFO to resolve the problems. (Hopkins, 2009) From all the scenarios presented in the case

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study, it's appears very clear that the Luxor Cosmetics is in a difficult situation in which changes need to be made. There are various items that need immediate attention, and several things that the company need to change. In broad, the company needs to focus very deeply in its business strategies and its master budgeting plans. Case Analysis of Luxor Cosmetic

A business strategy and a master budgeting plan, which includes both operating and financial budgets, should never be neglected in any business industries. An organization's strategic plans and budgets are interrelated. Preparing budgets compel reviews of an organization's strategy and its strategic plans and facilitate implementations of the strategic plans.

Feedbacks from budgets often result in improvements of an organization's strategy and its strategic plans. (Blocher, Stout, Juras, 2013) Further, an organization's budget is a quantitative plan that identifies the resources required and commitments to fulfill its goal for the budget period. Budgeting allows management to plan ahead, communicate the plan and goals for the budget period to all divisions and employees, and motivate employees.

A budget also serves as a blueprint for operations, a guideline for controlling operations, and a basis for performance evaluation. (Blocher, Stout, Juras, 2013) On the other hand, strategy helps a firm to be more focused in its operations and to take advantage of its strengths and opportunities. A firm carries out its strategy through long-range plans and master budgets.

Strategy provides a framework within which the organization develops its long-range plan. An annual master budget is an extension of the organization's long-range plan to fulfill organization goals and objectives. A

successful budget is accepted and supported by the key management, becomes a personalized budget for the people responsible for implementing it, and is perceived by all personnel as a tool to help them to do a better job, not as a pressure device.

A successful budget is also a motivating device and must be technically accurate. (Blocher, Stout, Juras, 2013) Luxor Cosmetics seriously lacks its business strategies. From the case it's appears very clear that the company had very poor budgeting plans, as well as business strategies, especially regarding its production, marketing, and research and development. For instance, from schedule A: inventory movement expressed in WSP in exhibit 1, shows that Luxor's inventory increases every year, except its inventory on creams. (Hopkins, 2009)

The detail full version of this table is presented in appendix 1 in page number 8 (Hopkins, 2009). The company's creams inventory remains constant because it does not follow a trend in innovation and changes so often as the other products. The surplus in inventory is a big disadvantage since; last year's products may not be in style this year in addition to the cost of storage. For all these reasons their cash flow is less in comparison with previous years causing that Luxor Cosmetics keeps increasing their bank loans, creating more debt, making it harder to pay out as 2011. In this particular situation the company could have either decrease its budgeted sales (productions) or increase its actual sales by improving more effective marketing strategy and research and development of its products in the markets. This way their inventory would decrease and their cash flow would

increase. (Hopkins, 2009) Further, through effective marketing strategy Luxor Cosmetics could also improve its shrinking market. For instance, improving their marketing strategies; by being more aggressive in their cream's campaign, targeting the different potential customers (including women from 20 years old) and not limiting to the older ones only, they could have expanded its market share and be more profitable. Other important changes or strategies that should be considered by Luxor Cosmetics is to try to get rid of the old merchandise by creating an online discount web page, in which last year's products can be sold at a lower price, targeting different costumers with different needs and incomes. This will not just help the company in increasing its cash flow but would also help to decrease the overstocked inventories. There is also great need of increase in Luxor's sales volume for its future existence. For instance, the loan figures of the company in the past four years from 2007 to 2010 shows that it is constant for the last two years.

In the projected financial statements and the cash flow for 2011, it is estimated that the company would be able to repay the bank loan to the tune of \$10 million. The rate of interest on loan is 7%. This means that there will be savings of \$0. 7 million which is exactly the same amount of the net loss for the year 2011. But the profitability is not only dependent on interest cost reduction. The company is experiencing a trend of reducing sales and this might not be sufficient enough to decrease the future probable losses in the year 2012, unless there is increase in sales volume. (Hopkins, 2009)

Some of the minor but most essential factors which Luxor needs to consider in its organization are (Hopkins, 2009): Technical and efficient staff should be

hired so as to help the organization achieve its right objectives like market researchers, product developers, financial and accounting experts.

Framework of planning and budgeting should be in place.

Every department's involvement must be compulsory.

There should be training of the existing staff to cope with the changes in the organization. The senior management should meet too often and should discuss all the major issues concerning the company. Conclusion:

A master budget is a comprehensive operation plan of a business unit for a future period, which is for one year or less in most instances. It is a formal, comprehensive process which covers every detail of sales, operations, and finance, thereby providing management with performance guidelines. The strategic plan of a firm underlies each of the firm's master budgets. Through master budgeting, management determines the most profitable use of limited resources (" Enotes," 2013). On the other hand, a firm's strategic plan describes how the firm matches its strengths and weaknesses with the opportunities and threats in the marketplace in order to accomplish its long-term goals. Generally, it provides guidelines to the firms for their short-term and long-term operations (Blocher, Stout, Juras, 2013).

Therefore, for the smooth running of a business and for the long lasting company's profitability, every company must put enormous amount of time and effort in developing and improving its business strategies and master budgeting plans (" Wiley," 2013). It is even more essential for the manufacturing business like Luxor Cosmetics. Other important factors which every company must monitor in order to maintain successful business

operation is hiring its employees. The company must pay full attentions in selecting and hiring its employees, especially in sophisticated positions such as sales managers, marketing analysis, CFO, head controllers and production managers, who can have a significant impact in a business operation. Wrong people (inexperience employees) in a wrong position can have a huge negative impact in a business, which contributes in the destruction of a company as a whole (Yager, 2011). Thus, an effective business strategy and budgeting plan alone is not enough for the success of a business, a group of experienced and talented employees in various positions are very important to implement and up to date those strategies and budgeting plans in an organizations. And it is even more essential in a manufacturing industry like Luxor Cosmetic.