A risks analysis

Business Strategies: A Risks Analysis By Executive Summary Losses in sales and market share, aggravated by problems with the labor force, have called for the need to rethink the business strategy of Suprema Cars. A Management Consultant has provided 7 possible options that can be pursued to increase business profitability. Each scheme is analyzed and rated according to the levels of risk involved. Using these data, a scheme deemed to be most advantageous is recommended.

Introduction

This report will look at:

The multi-perspective analysis of risks and benefits involved in each of the seven business strategy proposed.

Recommendations on what business strategy should be adapted to increase profitability

Findings

Option # 1: Cut the prices of the cars and accept a lower profit margin. Currently, the profit margin is 60%.

may widen market share due to affordability

decrease in sales revenue thereby limiting the ability of the company to meet the demands of the Union

Option #2: Cut production costs by installing automated machinery. Modernize the factory. In recent years, the roof of the factory has started to leak and could become hazardous. Raise the prices by 20%

increase in Production Capacity and Quality Assurance because of wider range of production time

decrease in Occupational health and Safety concerns due to improved working environment.

capital costs is significant due to purchase of machinery and losses in production opportunity time due to installation of the system, training of personnel and repairs in the working environment. In effect, payback period may be unsustainable.

increase in sales price will shrink market share

the competitive edge of the cars being " handmade" can no longer be applied.

legal conflict brought about by the reduction of labor force

Option #3: Increase production substantially to approximately 4, 000 cars a year. Subcontract some of the manufacture of the components to a low cost foreign manufacturer.

sales prices can be lowered due to lower production costs

increase in production entails increase in labor force required. Since the union is clamoring for higher wages, labor costs would be high

transportation costs and custom duties may negate the benefits of low cost manufacturing

low cost manufacturing may entail the use of inferior material and methods thereby compromising the quality of the product

Option #4: Try to get an additional finance from an outside source then have a major launch of the cars in the United States.

new opportunities to widen market, increase in available capital

fluctuations in interest rates of the lending institution can affect business profitability; transportation costs and custom duties may result to higher sales price; competition with local products afforded with tax incentives and " patronize local products" edge can be unsustainable

Option #5: Set up a joint venture with an overseas car manufacturer. An engine manufacturer in an unstable country in Southeast Asia has expressed interest in a joint venture to build all the engines for Suprema Cars. If they do this, Suprema would have to send out a team of engineers to the country to supervise production in the early stages.

Increase in availability of funds; low labor costs from South East Asia can lower production costs

Transportation costs and custom duties may be too high; fluctuations in exchange rates are high in an unstable country; high Occupational Safety concerns for engineers sent to the country for supervision; quality of engines can be compromised

Option #6: Use the Suprema Cars brand name, and design and launch a sporty, environmentally friendly, dual fuel, small car.

new opportunity to widen market share as it appeals to the current fad in car qualities

significant capital investment for research and development; lost production opportunity time due to new system of production and training of personnel; competition with other cars with the same qualities maybe unsustainable

Option # 7 Accept the approach of a major European manufacturer who is interested in providing finance and expertise to boost sales of Suprema Cars in return for a substantial stake in the company.

Increase in availability of funds and management expertise leading to new business opportunities

Conflicts of interest may appear due to difference in nationality; reduction in government provide business incentives

Recommendations

From the details of the benefits and risks of the options, Options #2 presents itself as the most advantageous business strategy. This is because most of the risk can be controlled and remedied. Raising prices can shorten payback period and provide capital for personnel and facility development. Legal disputes with the Union can be avoided by compensation packages for those affected. Other alternatives involves risks that is greatly dependent on external factors (i. e. hard to control and remedied) like fluctuations in exchange rates

Conclusion

From the foregoing discussion, the option of automating, modernizing and raising of prices is the most advantageous business strategy. Not only does it increase production and lower production costs, it also provides the company the necessary cash to serve as capital investment. The risks involved can also be easily controlled making this option the most attractive business strategy