

Comprehensive business proposal for will bury



**ASSIGN
BUSTER**

This business proposal will identify the current state of Will Bury digital books and recommend a strategy to increase revenue and identify an optimum quantity to produce that will maximize the company's profit.

Recommendations include pricing and non-pricing strategies for projected economic stage, operating decisions, effect of current credit market, and international trading. The proposal will also identify the fixed and variable cost associated with running the business and proposes ways to reduce such costs.

In the end, the proposal will carve out the future state of Will Bury by suggesting few creative opportunities. Current State Will Bury is an innovator. He has developed and patented a digitizing machine that can transform printed words from text to create an audio file with option to read it digitally or listen with a synthetic voice. Will currently works in a company with \$200,000 as salary and supports his family with this and uses his free time to invent the machine; and at this time he is involved in converting the textbooks into audio files. Appropriate industry type for Will Bury is Information and NAICS code for this industry category is 51 (U. S. Census Bureau, 2009). Assumptions For an effective recommendation to Will Bury, following are the assumptions made.

Will Bury has no competition at this time because of a patent on the product. For every \$1 increase for new books up to \$19, the sale raises by 25% and declines by 20% thereafter. For every \$1 decrease for old books, up to \$5, the sale raises by 15% and declines by 10% thereafter. Opportunity cost Will considers quitting his job and focus full-time on his business. If he does, his opportunity cost is \$200,000 and

benefits. ??? An opportunity cost is the value of the next best thing forgone??? (McConnell, Brue, & Flynn, 2009, p. 5). By working full-time, Will adds more cost to the company. At this early stage Will should continue to stay in his current job and add a resource to his effort.

Some of the below sections will support this argument. Current economic stage Economic cycle consists of various stages. A country??™s economy will cycle through peak, recession, trough, expansion, and then to peak stage. Figure-1 depicts the various stages in a business cycle where a country??™s economy cycles through various stages where peak occurs when the GDP is highest, on the contrary trough has the lowest GDP. Figure 1 ??“ Various stages (McConnell, Brue, & Flynn, 2009) From the website of Bureau of economic analysis, as shown in figure-2 below the GDP of last two quarters are in the positive and during first half of 2009, it was in negative. ??? This downturn, which lasts six months or more, is marked by widespread contraction of business activity in the many sectors of the economy??? (McConnell, Brue, & Flynn, 2009, p. 521).

GDP followed by recession is an expansion stage and despite slow growth, current economic stage of the United States is in expansion mode. Figure 2 ??“ GDP figures from Bureau of Economic Analysis Recommendations Using current state scenario, assumptions, and identified economic stage, next few sections will provide recommendations to Will Bury to increase market share, revenue, and sustain growth. Ways to increase revenue Will has invented a device that will reduce the time taken to build audio books with additional features if required. As a sole inventor and a seller, Will bury is enjoying pure monopoly at this time. ??? Pure monopoly exists when a single firm is the

<https://assignbuster.com/comprehensive-business-proposal-for-will-bury/>

sole producer of a product for which there are no close substitutes???

(McConnell, Brue, & Flynn, 2009, p. 202).

A pure monopoly has control over price. Raising the price will not affect the quantity sold and lowering the price can increase quantity sold. This gives Will Bury to be a price maker, up to the value the older technologies charge to a similar service. At this time, products using older technology are sold at \$20 per CD. Given these facts, Will Bury can increase the price of the product up to \$19 to increase revenue.

Will Bury will also produce more quantity using additional resource therefore increasing quantity may yield increased revenue. How to determine the right production increase is discussed in next section. Profit maximizing quantity Using hypothetical data, Table-1 shows the optimum product units where Will Bury can maximize profit by identifying marginal revenue and cost.

?? Marginal revenue is the change in total revenue associated with selling one additional unit whereas; marginal cost is the additional cost of producing the extra unit?? (McConnell, Brue, & Flynn, 2009, p. 165). According to this table, the price Will Bury can achieve profit maximization is at \$16.50.

A new book, if sold at \$16.50 will yield more profit and to achieve this Will Bury should produce five units. In addition to this, Will Bury can increase the price if required at the cost of a small loss. Revenue Data

Quantity of Output	Price (Average Revenue)	Total Revenue	Marginal Revenue	Average Total Cost	Total Cost	Marginal Cost	Profit or Loss
1	19	19	19	18	18	1	1
2	18	36	18	18	36	0	0
3	17	51	17	18	54	-3	-3
4	16	64	16	18	72	-8	-8
5	15	75	15	18	90	-15	-15

<https://assignbuster.com/comprehensive-business-proposal-for-will-bury/>

52183617. 515. 0030146317.

552. 516. 514. 00421210. 54176815. 512.

7551917516. 582. 514. 512. 5062.

511. 5206169613. 513. 508118. 515715.

5108. 512. 515. 00105243. 5Table-1: Will Bury Monopolistic profit maximization calculation
 $\text{Marginal Revenue} = \text{Marginal Cost}$
To achieve and maintain high profits, Will Bury must understand its costs. In addition to operating cost Will Bury should pay a royalty fee of five dollars for every new book converted. At present Will is running the company from his garage so a rent is not included.

However, Will should add the cost of employing additional resource. A monopoly ??? will produce up to the output at which marginal revenue equals marginal cost??? (McConnell, Brue, & Flynn, 2009, p. 182). In Table-1, section highlighted in green background shows the optimum price and quantity where the marginal revenue exceeds the marginal cost that also increases profit. Thus, to maximize profit Will Bury should try to sell five units at the price of \$16. 50. As per fixed and variable costs are concerned, the company is running out of Will??'s garage so expenses such as rent or property tax are not there. Services such as utility consumption may be separated and paid to him.

Employee pay is one variable cost that Will should handle on a monthly basis. It will raise and fall depending upon the demand. Additional fixed costs such as equipment cost may apply as well.

<https://assignbuster.com/comprehensive-business-proposal-for-will-bury/>

Will Bury is selling products through website, which is a fixed cost. No matter products are sold or not, Will must spend to host the website. Suggested strategy for current economic stage During expansion stage ??? the real GDP, income and employment rises??? (McConnell, Brue, & Flynn, 2009, p.

521). This gives the monopolistic companies to be flexible with pricing. Will can handle pricing in two ways. By raising price, Will bury may have reduced sales, but increased profits. By reducing prices Will Bury can sell more quantity in the market. From Table-1, Will Bury identifies the optimum price to sell however; to maximize profit the company can apply other cost cutting measures.

Will Bury can work with copyright owners to reduce the royalty fee per unit based on volume of production. This will reduce its variable cost. Old books sell for less in Will Bury therefore, Will can introduce additional promotions such as buy a new book and receive an old book for 99 cents. This may reduce the revenue of old books in the short run but can improve the quantity sold thereby increase revenue to the company. Will should also work to extend his monopolistic position in the industry by adding innovative products and services into the market. Operating Decisions Operating decisions are short-term decisions that affect day-to-day activities. In large corporations, business relies on analytical tools that help predict future needs using past consumption.

Because Will owns small business, he can refer resources from Bureau of Economic Analysis to plan his production better. Current economic stage is identified as expansion, consumer??™s disposable income will rise, which

leads to more purchases. At the same time, the unemployment rate in the United States is hovering at 9.

2% (Bureau of Labor Statistics, 07/11). This tells that the recovery is slow. Will should use caution and prepare his company to react to changing market needs. Effects of Current Credit Market Consumer credit is a short-term loan an individual or a small business obtain from financial institutions to meet immediate expenses. A small fee is paid as interest when repaid.

Small business depends upon a healthy credit market. In the United States of America, the Federal Reserve System maintains prime interest rate to lend to financial institution and the rates gradually increases as it cascades down to consumer. As of June 2011, prime interest rate is maintained at . 25 basis points (Federal Reserve System, 2011). Lower prime interest rates encourage financial institutions and credit card companies to lend money at reasonable lower rates while retaining profit.

This is exciting time for Will Bury to take advantage of lower interest rates and plan on expansion. At the same time, Will should also maintain optimum liability. Combination of lower interest rate and increasing disposable income can enable Will Bury to implement the proposed recommendations and grow.

Barriers to Entry??? The factors that prohibit firms from entering an industry are called barriers to entry??? (McConnell, Brue, & Flynn, pg. 202, 2009).

Will??™s proprietary technology is patented, and this prevents other competitors from entering until the patent expires.

This one barrier Will Bury should take advantage to establish the position and increase market share. To increase the barrier, Will should continue to

<https://assignbuster.com/comprehensive-business-proposal-for-will-bury/>

be innovative and obtain additional patents in the field. Product Differentiation A product differentiation is maintained by companies in monopolistic competition.

Some of the variables of product differentiation are product attributes, service, location, brand names and packaging, and price control. At this time, Will Bury is enjoying pure monopoly despite serving an industry that has similar products. It will soon become a monopolistic competitive company and Will Bury must recognize and prepare for such situation. Brand recognition is one particular variable Will Bury must focus at this time. When Will Bury earns loyal customers using brand recognition and quality service, it can retain as well as improve its market presence during monopolistic competition. Globalization and its effects Most of the international economy is monitored by several common bodies such as world trade organization and International Monetary Fund. Organization like these help economically backward countries join the developing and to developed nations. They help shape the country's economic policies that promote free trade and exports.

Besides the organizations, friendly nations work together to sign up treaties that eliminate unnecessary barriers and promote free trade. NAFTA is one such organization with U. S., Canada, and Mexico as members.

Treaties like these help promote international trade. Will Bury's business can be classified as e-commerce because he is selling his products via a hosted website. The selling model Will Bury has established allows Will to expand quickly to international market. This is one of the biggest advantages

Will Bury achieves. Internet trading is not regulated at this moment and sales tax is not collected for sales made via Internet. This is another advantage for Will Bury. Recent globalization and expansion in e-commerce trade is adding only benefits to Will Bury's business model.

Ways to minimize costs Will Bury's industry type is information (U. S. Census Bureau, 2009). His products are digital and can be built once and sold many times.

Therefore, there is no warehouse or storage facility costs involved. Training a resource to create audio file is easy so Will Bury can control his labor cost by hiring part-time or college graduates. Despite globalization, to protect Will's patented technology, this proposal will not recommend outsourcing.

Instead, other recommendations provided in next section will help Will expand his business must faster. Innovative recommendations From the Will Bury scenario given by University of Phoenix, the product invented by Will reads text in electronic format and converts into audio.

Based on this there are several recommendations can be given. They are listed in bullet points below, At this moment, Will's product converts textbooks to audio voice. Assuming, the textbook is a paper version of book; Will must research further and improve his product to read digital text files into audio. This will create tremendous opportunity to automate his conversion process. For eg., Instead of using paper version of the book, Will can directly obtain the digital text version and convert. This way, Will can program his device to convert the files with minimum human intervention.

?? His new product will create additional barriers for his competitors to enter.