Monte bianco essay

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Cafes Monte Bianco was born as a manufacturer and distributor of premium coffee and thanks to this strategy, achieved a competitive advantage throughout Europe. Managers are considering to produce only private brand and leave production of premium coffee. Each of them entails some important aspect linked to the objective of Giacomo Salvetti to expand the capacity of business: produce premium brand was the strength point of company since the beginning ; manufacturing private brand had saved Cafes Monte Bianco when the market of premium brand was very volatile and it can guarantee a stability of sales volume (at least while the contract is operative).

In according to the analysis of profit plan there are some negative aspects using this strategy. The stability of demand allows to company to use full capacity of production: considering a initial stock of 174000 kg, expected sales for 2001 would be of 6, 000, 000 kg for a grade D coffee; at this level of sales correspond a unit cost of 6600 liras and a total fixed costs of 3 319 500 thousands of liras. The figure 1 shows results in according to the strategy of manufacturing only private brand, achieved with a projected balance sheet and income statement of the next year.

Figura 1 As can we see this strategy on one side allows to reduce administrative, R&D and selling costs (in particular marketing costs will be zero), but on the other side there is an increase of COGS about 29%: this involves a reduction in profits of 50, 77%. Another disadvantage of this approach has emerged from the forecast cash flows during 2001 resulting from the different payment terms that characterize the two types of clients: Private brand for 90 days, while the premium brand for 30 days; the shift to

produce only private brand causes negatives cash flows in some months, due to a different intensity of the demand during the year (in particular demand declines much in the summer months) and a high increase of account receivable by 109, 6 % for an amount of 19 641 600 thousand of liras. With a initially cash of 1 121 450 thousand of liras, the projections announce a cash shortfall for most of the year, as shown in Figure 2.

Figura 2 At the end of the year, cash presents a huge deficit, about -4 051 791 thousands of liras. In the analysis has been considered that bank could give to the company the possibility to extend the credit line, which already amount to 25 billion of liras at the end of 2000, at an additional 5 billion liras, at an annual rate of 10%. Thanks this finance funding company could implement the strategy with a positive cash but on the other side, the interests expenses grow about 500 thousands of liras with a consequent decrease of profit. The evaluation of the strategy was completed by analyzing the change in ROE between 2000 and 2001: this would rise from 21, 23% to 9, 46%; using Du Pont method, decomposing the ROE into three variables of Profitability ratio, asset turnover and Financial leverage ratio the variation of the index is more clear.

As we can see, company use debt as the main form of financing, that is much higher than the venture capital; but ROE doesn’t represent an efficient measure because it changes in according to tax debt, so it would require additional financial date to have a complete vision about the real estate of company. These informations give a negative evaluation of the strategy to produce only private label because it involves sacrifices for the company outweigh the benefits.