

Cafes monte bianco essay sample

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Per your request, I developed a profit plan and financial assessment for Cafes Monte Bianco possible strategy change to private label. I have determined we should look at maintaining our strategy of selling premium brand and private label coffee. Profit Plan

Sales

I forecasted sales for 2001 compared to 2000 would decrease by 3, 312, 408, 000 liras due to the reduced sales price of private label coffee.

Operating Expenses

Our operating expenses will be lowered significantly by going strictly to private label. We will be able to eliminate marketing costs, as well as, reduce selling costs, research and development costs, and administrative costs by 12, 440, 161, 000 liras. Additionally, fixed costs will be lowered due to our increased capacity from 3, 500, 000 to 6, 000, 000. Profits

Even with the increased capacity and decreased spending in SG&A, we will not be able to make as much in Net Profit as we were in 2000. We will have an estimated 333, 828, 000 liras shortfall.

Liquidity

If we switch to a complete private label strategy, I am concerned about the liquidity of Cafes Monte Bianco and our ability to keep the necessary inventory and raw materials on hand to meet demand. When making the statement of cash flows, I made the assumption we had no finished good or raw material inventory and that we were paying all of our bills on time, given the lack of information. While our net cash flow seems ok, I don't believe most of my assumptions are correct.

Cafes Monte Bianco

Estimated Statement of Cash Flows

For the Year Ended Dec. 31, 2001

Cash Flows from Operating Activities

Operating Income (EBIT)

12, 440, 161

Depreciation Expense

2, 593, 700

Increase in A/R

(10, 273, 133)

Decrease in A/P

(487, 331)

Decrease in Finished Goods

1, 148, 400

Decrease in Inventory (Raw Material)

2, 907, 963

Net Cash Flow from Operating Activities

8, 329, 760

Cash Flows from Financing Activities

Net Cash Flows from Financing Activities

-

Cash Flows from Investing Activities

Net Cash Flows from Investing Activities

-

Net Cash Flows

8, 329, 760

Accounts Receivable and Operating Cash

I have concerns regarding the private brands retailers' 90-day payment policy. When we first switch over to private label, once any left over A/R is paid in full from the premium label, we will not have any cash and will have to rely on credit. The months of March and April will be particularly tough. We will also have a low cash reserve at the end of the year, due to the slow summer sales. Our poor liquidity may be exacerbated if even one of the private retailers makes a late payment. *Cash Out is calculated using monthly operating expenses minus depreciation for each unit produced.

Inventory

Another issue that may affect our success in the private label is whether or not we can maintain a constant level of inventory. The inability to maintain a constant level may cause us to lose business in the private label, due to private label retailers' demand for stability. Any disruption in our supply chain could affect our profits for years to come. With a low to negative net

cash flow in some months and a maxed out credit line of 25 billion liras, this is a real concern. Return on Equity

With the new potential strategy, our Return on Equity decreases as well as our profitability ratio, asset turnover ratio and financial leverage ratio. In making the calculations, I assumed the expansion was already on the books as an asset, as well as, the debt taken out for the expansion since nothing was mentioned regarding how the expansion was paid for or what the current long-term debt was for. An increase in the asset turnover ratio was expected due to the increase in capacity and the ability to hold coffee in inventory for private label. While the financial leverage ratio did go down, I believe that is in a large part of not knowing what A/P will be at the end of the year. Looking at the ROE, it appears last year's strategy would be more attractive to investors than the new proposed strategy.

Profitability Ratio

Asset Turnover Ratio

Financial Leverage Ratio

Conclusion

In conclusion, I would recommend Cafes Mount Bianco continue with their current strategy of mixing premium and private label coffee. Cafes Mount Bianco could pick up three more private label retailers to make up the shortfall in demand for their premium brand offerings.