# Operation decision

Business

Question 1: Overview of the Business The company deals with repackaging of groundnuts as a value addition activity to raise the final product's price, value, and competitiveness.

As a small-scale outfit, it operates on the value addition faucet of the economy. The company buys nuts from local farmers in the surrounding area. It then embarks on value addition through repackaging the nuts in different by-products and increasing their shelf life. The process has a primary sole objective: increasing the price of groundnuts available for sale as a finished product. The process involves production of other nut by-products like peanut butter.

Repackaging and increasing shelf value of nuts has an effect on the prices nuts to be sold. This also allows exportation of nuts to other states and countries, where competition may be stiff. The company intends to produce 6000 units of repackaged two-kilogram nuts each month. It employs 100 people; most of them working in the repackaging plant. Question 2: Environmental Assessment The company relies on availability of groundnuts supplied by farmers for its continued operations. The crop is a seasonal product; therefore, the company has to outsource its supply during low seasons to meet the demand by customers.

In order to assess the environmental factors that contribute to the survival of the company, there is need to review suppliers and unfinished product sources, and their effect in the overall performance of the company in terms of the production cost. The second environmental assessment involves determining an economically feasible number of employees needed in the company. The cost of hiring labor remains quite high, and this has amplified the overall production cost of the company. Increased cost incurred by the company in terms of production requires an assessment of the number of employees to be retained. Reducing the number of permanent employees implies a cutback on the costs that the company incurs at the production stage.

The company needs to develop a policy where it hires temporary employees when the demand and availability of the nuts increases. This will shield the company from unnecessary cost in form of wages paid out (Waters, 2006). High number of employees indicates the accessibility of labor in the state. High cost of hiring workers also points to the quality of the work that they embark on. Otherwise, no business would be willing to pay a high amount for low quality service. In terms of availability of labor force, he company is well catered for, but the problem comes in through the cost of labor.

The area has a high cost of labor, and this hinders the setting up of labor-intensive ventures. Most companies resort to setting up of capital-intensive companies to circumvent the high cost of production occasioned by the high cost of labor. Demand for products that the company produces also determines the need to remain in operations. It needs to expand the market for its products to ensure that it breaks even, remains profitable, and sustains growth. At the moment, the company supplies local stores with its products.

This market has continued to sustain the operations of the company. Increasing the production capacity requires a clear research on the market demand for the company’s products to enable it produce a capacity that meets the demand. Legal aspects also determine the operations of the company because state and federal laws and regulations are stipulated and must be observed by all industry players. Labor laws indicate the minimum wage that the company has to pay its employees. The amount paid in terms of wages determines the overall cost of production incurred by the company. The labor laws also determine the minimum number of employees a company can employ in order to qualify for benefits and other incentives from government tax incentives.

This affects the performance of the company as it forces it to employ more employees than it needs at current level of operations (Jones, 2004). Question 3: Company Performance Expenses Per Day; Labor, 100* $ 70 = $ 7, 000 Variable Cost = $ 2, 000Total Costs par Month = 30 * (7, 000+ 2, 000) = $ 270, 000 Revenue = 6, 000 * 32 = $ 192, 000 Loss = $ (270, 000-192, 000) = $ (78, 000) Losses calculated in this process are exclusive of fixed costs meaning that the loss of the company at hand is way above $ 78, 000. Including fixed cost in the calculation immensely increases the loss incurred by the company. In the long term, losses incurred by the company are expected to rise significantly if it decides to keep up with the current labor force and the level of output. This requires the company to increase its production capacity to be at par with the size of workforce it employs (Mahadevan, 2010).

By calculating the number of units produced by a single worker in a month, one will get the figure below: 100 workers produce 6, 000 units. This means that 1 worker produces 6, 000/ 100= 60 units in 20 days. The total pay for 1 worker for 20 days equals to 70* 20 = $ 1, 400. Revenue contribution made by the same worker in a month equals to 60 * 32= $ 1920, inclusive of such expenses as variable costs of $ 2000. Such figures indicate that the company will continue to incur losses in both the short term and long term unless the management takes drastic measures to reduce the cost of production.

Managers should embark on unique strategies in order to minimize costs if the survival of the company is a priority. Its strategic management executives need to develop an expansion plan that emphasizes the need to increase the production capacity while reducing the labor force. Such a combination will translate to increasing sales at the same time reducing production cost (Waters, 2006). The labor cost caters for over 60% of the total cost of production. This ratio is used by entities to evaluate the performance for each and every year withstanding. Net margin is calculated using the formula provided below: Net Margin = Net Income / Sales= 78, 000/ 192, 000 = 0.

406: 1 Analysis of this ratio indicates a declining trend in income when compared to sales. The analysis further indicates high sales revenue, but at lower prices. An immediate action for the company is to undertake a review of its pricing model. Question 4 The company will continue being in operation unless it faces a higher cost of production and a decrease in supply of groundnuts required to create value added products. When faced with such a scenario, the management needs to look at ways of minimizing the production cost by cutting down the unnecessary costs.

This allows it to save and invest in technology that can minimize the overhead costs (Mahadevan, 2010). The management can also develop a plan that advocates for a backward diversification by the company. Through diversification, the company is able to control supplies for its production because it will now involve itself in farming and production of groundnuts. Backward diversification ensures stability in terms of production because it will be able to meet its demand for groundnuts. This also helps in developing the confidence level among the consumers in terms of the availability of finished product (Jones, 2004).