



MGMT 8500: F21 -CAPSTONE - V1

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Contents

Overview:	2
Grading:.....	2
Related textbook content:	2
Group contract:.....	2
Group conflicts or teamwork issues:	2
Peer review form:	2
Due date:.....	2
CASE	3
Background:	3
About business partners	3
Reshaping business strategy	4
Initial meeting with Conestoga Consulting:	5
Project work for Conestoga Consulting:	5
Issue #1: New facility for WMM.....	5
Issue #2: Benchmarking studies of a similar company	5
Issue #3: Product costing and estimation of manufacturing volume to meet financial goals	5
Issue #4: Multi channel marketing of packaged food items	5
Required:.....	5
Deliverables:	6
Appendix One (Construct or lease).....	7
Appendix Two (Benchmarking studies)	8
Appendix Three (Cost-Volume-Profit Analysis)	10
Appendix Four (Multi channel marketing).....	11
Delivery:	12
Marking Key and Rubric:	12

Overview:

The capstone case is testing your understanding of the entire course material in a scenario which resembles a real-life organization.

You are provided with a case, where business owners are trying to decide on a new strategic direction. They have engaged your group as Consultants (Conestoga Consultants). They have provided you with their vision and your group in turn has developed scenarios relating to implementation of these scenarios.

You will notice that there are four scenarios and in each of them the methodology and objective are provided. You have to analyze these scenarios and discuss their outcomes with the business owners. The outcomes will be delivered in form of a report in MS Word format and supporting calculations in an Excel Workbook.

Grading:

This is a group assignment, worth 20% of your final grade

Related textbook content:

The content you are being assessed on, covers the entire course from Weeks 1 – 6 and 9-14.

Group contract:

Prior to the start of group work, you will complete the group contract and upload to the Assignment folder. One contract is to be submitted per group.

Group conflicts or teamwork issues:

If any such issues arise, please inform your Professor as early as possible. Your Professor will meet with the team and arrive at a resolution

Peer review form:

One form per student has to be uploaded to the assignment folder along with your final submission.

Due date:

Your Professor will inform you of the due date. This will be due in Week 15.

CASE

It was a regular working day in April'21, when four business partners gathered together for strategy session for their organization: Wraps, Meals and More (WMM).

Background:

WMM operated a chain of Quick Service Restaurants (QSR) in business localities in the GTA, Mississauga, Brampton, Oakville, Kitchener, Waterloo, and Cambridge. Their first outlet opened in 2007 in Vaughn and then continued to expand to other areas.

WMM outlets offered food and beverages for takeout and delivery only. There was no dine in option available. The rapid expansion of food delivery service provided a strong headwind for WMM. Since their outlets did not require a prominent location, the leasing costs were minimized.

The above factors contributed to the success and growth of WMM till Covid struck in early 2020. Most the revenue generated by WMM was from lunch items, afternoon snacks and early evening dinners consumed by clients working in their offices. With 90% of client working from home, the demand for such services almost disappeared overnight.

WMM had to downsize its operations, close outlets, and lay off nearly 60% of its workforce.

Positive news began to appear in April'21 with the arrival of vaccines in Canada. Both the Federal and Provincial governments expressed confidence of vaccinating a majority of the population by Fall'21 and allow restaurant businesses to function normally by November 21.

About business partners

Maria Jimenez (Maria) is the Senior Vice President- Marketing. She spent over fifteen years with Fortune 500 companies in the Consumer-Packaged Goods sector. She developed multi channel marketing strategies for WMM which led to WMM being positioned as an agile, innovating enterprise.

Julia Smith (Julia) was the Corporate Chef of WMM. She spent nearly twenty years with leading hotel chains in Western Canada before taking on the current role in WMM. She displayed exemplary skills at developing new products which contributed to the profitability of WMM.

Adam Wiseman (Adam) was the Chief Financial Officer of WMM. He too came from a hospitality background, having worked with leading hotel chains in Toronto. His expertise was in Capital Budgeting and product costing, which worked well in conjunction with the culinary skills of Julia when new products were being developed.

Yetunde Jones (Tunde) was the Senior Vice President-Operations. His background was as a General Manager in Fast Food Outlets. With his exemplary people skills and ability to train new hires, WMM was able to hire operations staff with little or no experience and develop them to high performing team members.

Reshaping business strategy

The four business partners set up their meeting with a view to re-orient their business strategy in the context of changes coming to how work would look like when the economy reopened after the pandemic. The goal was to develop a business model which would be relevant with the hybrid work model which was likely to be the norm once post pandemic recovery takes shape.

Maria began the meeting with a discussion what work would look like in the post pandemic era. Clients of WMM were in all age groups ranging from 25 – 48 and were office workers. Due to their workload they preferred to buy food from a Quick Service Restaurant so that they can consume the food as and when their work schedule allowed for. With the hybrid work model, they would be attending office two or three days a week and work from home for the remainder.

The food consumption pattern would shift from consumption only in the office(pre-pandemic), to consumption both at office and home (post-pandemic). The question therefore was: how can WMM adapt to this change in consumer behaviour?

Julia thanked Maria for her insight and began her discussion. She pointed out at this time, there was a very short time lag between food being prepared at WMM and being consumed by the client. The time lag possibly was no more than two hours. As a result, consumers were able to eat freshly prepared food which was packed to retain the attributes of the cooked meal till it reached the consumer.

She expressed opinion that the food production process needed a transformation. In addition to the food being prepared and delivered to the client for consumption, there has to be a secondary process where food would be prepared and packed. The packed food would retain its original attributes for 48 hours. Therefore, a client can order two versions of the same meal. One, which she can consume in the office within the next two hours and second, the packed version, which can be taken home, kept in the refrigerator, and consumed on the following day.

She would come up with a list of menu items which could be cooked and packed. She requested Maria to explore the possibility of building a new brand based on the packed meals.

At this point, Adam took over and pointed out that to implement this strategy, the following steps would be necessary:

- A new facility, where food preparation and food packaging can happen
- Benchmarking studies to analyze performance of similar companies
- Product costing and estimation of manufacturing volume to meet financial goals
- Multi-channel marketing of packed food

Tunde, pointed out that implementing the above, would lead to several operational issues as well. In order to resolve them, it may be necessary to incur additional fixed expenses.

As a next step, they decided to retain the services of Conestoga Consulting (CC), a reputed consulting agency. The scope of work for CC would be to develop financial projections based on the above issues and provide a recommendation as to the best way forward for WMM.

Initial meeting with Conestoga Consulting:

A group of five consultants met with the four business partners to develop a plan of action. It was decided that the consulting group will develop financial projections as requested and provide a report to WMM in two weeks.

Project work for Conestoga Consulting:

Issue #1: New facility for WMM

For acquiring the new facility, the consulting group wanted to evaluate both options of leasing the facility as well as an outright purchase. They gathered data which is presented in Appendix 1.

Issue #2: Benchmarking studies of a similar company

The consulting group decided to conduct a ratio analysis of a comparable company (Waterloo Corporation) and compare with that of the industry. This would allow them to provide feedback to WMM as to operating metrics they should follow in their new venture. Relevant data is presented in Appendix 2.

Issue #3: Product costing and estimation of manufacturing volume to meet financial goals

The consulting group wanted to develop a Contribution Margin Income statement and conduct a Cost-Volume-Profit Analysis so that the estimated manufacturing volume can be projected. If this estimated volume could be sold entirely, then the target profitability can be met. Relevant data is presented in Appendix 3.

Issue #4: Multi channel marketing of packaged food items

The consulting group wanted to develop calculations using the relevant costing model of 'Special Orders'. They felt that, in order to maximize production capacity 'special orders', should be accepted. These orders would represent one-time sales opportunities of the products in a very high volume. Due to the high volume, client would have to be offered a price which is lower than the list price. Relevant data is presented in Appendix 4.

Required:

At the end of the two-week period, the consulting group would be meeting with the business partners. Prepare a report showing all the calculations and your recommendations for all the four issues.

Deliverables:

- 1) Written report with the following content:
 - Appendix1:
 - Explain the calculations
 - Your recommendations
 - Appendix 2:
 - Explain the comparisons of ratios you calculated against industry values
 - Provide recommendations on how to improve three of them
 - Appendix 3:
 - Explain your calculations
 - Provide a recommendation
 - Appendix 4:
 - Explain your calculations
 - Provide a recommendation
 - Formatting specifications:
 - Executive summary (1 page)
 - 1000 words maximum (excluding executive summary)
 - Calibri or Arial font
 - 11 point
 - Line spacing – 2
 - Header and footer
 - Cover page
 - Table of Contents (formatted using MS Word)
- 2) Excel Workbook showing calculations:
 - Blank format is provided
 - Complete one spreadsheet for each scenario

Appendix One (Construct or lease)

Objective: Should WMM lease or construct their own production facility

Option 1: Construct	
Costs to incur:	
Actual expenditure towards buying land, construct building and getting ready for use	\$ 500,000
Taxes, insurance, and repairs (per year)	\$ 20,000
Intended years of use	18
Projected market value in 18 years	\$ 1,000,000
Budgeted maximum expenditure towards buying land, construction of building and getting ready for use.	\$ 500,000
Remainder in four payments of;	\$ 175,000
Option 2: Lease	
Intended years of use	18
First lease payment due now	\$ 100,000
Rest of the lease payments (years 2-17)	\$ 120,000
Operating costs to be paid by WMM	
Property taxes (annual)	\$ 17,000
Insurance (annual)	\$ 18,000
Initial one-time deposit, will be returned in year 18	\$ 8,000
Required rate of return	16%

Methodology:

The consulting team is proposing to perform a NPV analysis and determine the benefit to leasing or construction.

Based on the analysis, they will recommend the preferred option (construction or leasing).

Appendix Two (Benchmarking studies)

Objective: To conduct ratio analysis of a comparable company (Waterloo Corporation) and compare with that of the industry.

Waterloo Corporation Comparative Statements of Financial Position 31-Dec-19			
<u>Assets</u>		<u>2019</u>	<u>2018</u>
Cash	\$	45,000	\$ 25,000
Accounts receivable		60,000	50,000
Merchandise inventory		60,000	70,000
Prepaid Expenses		50,000	30,000
Property, plant, and equipment		<u>270,000</u>	<u>250,000</u>
Total assets	\$	<u>485,000</u>	\$ <u>425,000</u>
<u>Liabilities and shareholders' equity</u>			
Accounts payable	\$	20,000	\$ 30,000
Short-term bank loan payable		65,000	65,000
Bonds payable		120,000	160,000
Common shares		170,000	95,000
Retained earnings		<u>115,000</u>	<u>75,000</u>
Total liabilities and shareholders' equity	\$	<u>490,000</u>	\$ <u>425,000</u>
Waterloo Corporation Income Statement Year Ended December 31, 2019			
Net sales		\$	400,000
Cost of goods sold			<u>230,000</u>
Gross profit			170,000
Expenses			
Operating expenses	\$	40,000	
Amortization expense		22,000	
Interest expense		<u>11,000</u>	
Total expenses			<u>73,000</u>
Profit before income tax			97,000
Income tax expense			<u>27,000</u>
Profit			<u>\$ 70,000</u>
<u>Additional information for 2019:</u>			
1 Cash dividends declared and paid.		\$	30,000
2 Net cash provided by operating activities in 2019		\$	62,000

Methodology:

- Based on the above information the consulting group will conduct ratio analysis for the following ratios:
 - Current ratio
 - Receivable's turnover
 - Times's interest earned
 - Profit margin
 - Days in inventory
 - Return on assets
 - Cash current debt coverage ratio
- As a next step the group will compare the ratios calculated above with industry benchmarks. The benchmarks are indicated within brackets besides each ratio.
 - Current ratio (2 to 1)
 - Receivable's turnover (10 times)
 - Times's interest earned (7 times)
 - Profit margin (15%)
 - Days in inventory (100 days)
 - Return on assets (20%)
 - Cash current debt coverage ratio (1 time)

Appendix Three (Cost-Volume-Profit Analysis)

Objective:

Based on the following Contribution Margin Income Statement the consulting group would like to evaluate if adding sales expenses as a fixed cost would be a beneficial strategy.

Scenario:

Projected Contribution Margin Income Statement

Sales volume of packaged food items(units)	40,000
Revenue	\$ 800,000
Variable expenses	\$ 560,000
Contribution margin	\$ 240,000
Fixed Expenses	\$ 192,000
Net Operating Income	\$ 48,000

Methodology:

The consulting group would assume that all packaged food items sell at the same price per unit. The above model assumes that sales commission is a variable expense and that salespersons are paid for each unit they sell.

In order to incentivize salespersons, the consulting group is proposing that salespersons be hired on salary and not on commission basis. Combine this with additional advertising, the fixed expenses would increase to \$ 300,000. This would also lead to an increase in revenue to the extent of 50% and net operating income by 25%.

The group will calculate the breakeven sales under the above scenario and breakeven sales dollars at that level. They will also advise the business partners **on potential risks** that may arise in this case and recommend if this approach of adding fixed cost related to selling is recommended.

Appendix Four (Multi channel marketing)

Objective: To maximize output from packaging machines, the volume of packaged foods has too high. In order to sell them, all possible channels will be explored. This includes accepting high volume, one-time orders (or 'special orders'). Due to the high volume, the selling price will be lower than that of the regular selling price. The goal is to evaluate at what price can the special orders be accepted.

Scenario:

The consulting group has developed the following cost structure for packaged foods. This is based on a production capacity of 30,000 units. The unit selling price is set at \$50. The fixed manufacturing expense is constant in the range of 25,000 to 50,000 units. The maximum production capacity is 30,000 units

Item	Per Unit	Total
Direct materials	15	450,000
Direct labour	8	240,000
Variable Manufacturing Overhead	3	90,000
Fixed manufacturing overhead	9	270,000
Variable Selling Expense	4	120,000
Fixed Selling Expense	6	180,000

Due to market conditions, WMM can sell 20,000 units through regular channels. They plan to offer a quote to a large manufacturing facility to sell 5,000 units of the packaged food item, at a lower price. This would be a one-time order and can be classified as a special order. Since this would be sold directly to the client, there would be no sales commission and variable selling expense would be reduced by 75%. However, WMM has to buy freezer boxes so that the frozen items can be transported to the manufacturing facility. The freezer boxes would cost \$ 10,000 and would be used solely for this special order. After that they would have no residual value and would be discarded.

Methodology:

The group would calculate the offer price. The offer price will cover all variable expenses and include a 25% markup on variable expenses.

Delivery:

- Upload both the items to the assigned folder in eConestoga.
- One submission per group
- Your Professor will advise you as to the due date of this assignment.

Marking Key and Rubric:

- Included within the Excel workbook.
- Please review all items in the marking key before submission and ensure they are complete.
- All group members will receive the same grade if indicated likewise in the peer review form.