

# Parker earth moving company

Business



EXECUTIVE SUMMARY The needs i. e. the needs of PEMC identified through the data provided in the scenario can be summarized as: Acute shortage of production capabilities i. e. the internal production setup can only produce one third of the actual required goods.

The above point indicates that extra measures like hiring extra staff to increase production within the company or make deals with subcontractors.

Keeping the cost balance with production so as to minimize the cost to lowest possible value without creating a shortage for sales.

Inadequate storage space, experienced and skilled workforce.

Formulate measures to avoid any such mishaps in the future.

PEMC is heading into a position where it can face either of these two situations and none of them are beneficial.

First situation is that the company goes ahead and not be bothered about short fall which will cause decline in sales by many folds and the company will lose precious customers and at the same time make losses in terms of sales.

The second situation is that the company utilizes the option of fulfilling the corrected sales forecast and chooses between combinations of adding a new line of workers who'll work all three shifts or choose subcontractor A or subcontractor B. All combinations available can produce the required 30000 units of equipment.

The main factor to be observed in the second situation is that keeping cost of equipment production as low as possible so that the incurring loss is minimum.

The cost of productions are listed below

IN HOUSE

<https://assignbuster.com/parker-earth-moving-company/>

CONTRACTOR A

CONTRACTOR B

Total

Per Unit

Per Unit

Per Unit

Manufacturing Costs

\$ 48. 00

\$ 82. 00

\$ 88. 00

Distribution and Storage

22. 00

22. 00

22. 00

Sales and Administrative

38. 00

38. 00

38. 00

Other Costs

5. 00

5. 00

5. 00

Cost per Unit

\$ 113. 00

147. 00

153. 00

Req Price per unit

129.95

129.95

129.95

Profit/Loss

13%

(12.5%)

(16%)

So in any case the company will incur greater loss if any of the subcontractors is employed with the increase of workforce and an added shift for the task of furnishing the entire shortfall. The combination of the existing production line that the company has with subcontractors A and B will be a better choice with suitable lead times and will incur lower amount of loss. Hence it's a better combination.

FOR ANY FURTHER QUERRIES CONTACT ME on FB since certain inefficiencies are being observed at ACADEMIA , USERNAME: Omair Nasir