

Blue ribbon case essay



**ASSIGN
BUSTER**

1. Why does Allen state that the whole tomato production is limited to 800, 000 pounds? (i. e. where does the number 800, 000 come from?)

Allen states that the whole tomato production is limited to 800, 000 pounds because according to exhibit 1, the forecasted demand for whole tomato production is 800, 000 pounds. Thus, the whole tomato production is limited to 800, 000 pounds despite the ample production capacity. To further explore this statement, it must be noted that whole tomato uses only crop scoring 8 and above (Grade A, and the best of Grade B Crop). Therefore, weighted average in whole tomato production from Grade A and Grade B must equal 8. All of Grade A (600, 000 pounds) will be used, and X will be used to represent the amount of Grade B used. $(600,000 \cdot 9 + x \cdot 5) / (600,000 + x) = 8$ $x = 200,000$

In order to achieve the minimum average quality of the whole tomatoes, we need at least 3 pounds A with one pound B. Since we have in total 600, 000 pounds grade A tomatoes, we can match 200, 000 grade B with them. So we get at most 800, 000 pounds whole tomatoes.

2. What is wrong with Haneda's suggestion to use the entire crop for whole tomatoes?

Based on the reading, Haneda's suggestion to use the entire crop for whole tomatoes is wrong because it only accounts for quantity instead of both quantity and quality. Whole tomatoes use both Crop A and Crop B, and he assigns one price for the tomato rather differentiating based on quality. In his analysis, he calculates contribution wrong, and therefore net profit is wrong.

If we allocate some of crop of the production to juice, which requires a minimum average of 6 points, it could be profitable to mix Grade A and B in the process of production.

3. How does Reynoso reach the conclusion that the company should use 2,000,000 pounds of grade “B” tomatoes for paste and the rest of the grade “B” and grade „A” tomatoes to produce juice? What is wrong with Reynoso’s reasoning?

Exhibit 1 shows the demand forecasts for each product category, and the projected demand for Tomato Juice (50,000 cases x 20 pounds per case) is 1 million pounds, and for Tomato Paste, the demand is (80,000 cases x 25 pounds per case) which gives us 2 million pounds. Reynoso is suggesting that we utilize this demand and produce the projected 2 million in Tomato Paste, and then put the rest of the crop into Tomato Juice production. The demand for tomato paste is 2,000,000 pounds of tomatoes, or 80,000 cases.

The rest of his solution comes from fulfilling the demand for juice. According to his marginal profit analysis, tomato paste has the highest marginal profit followed by tomato juice. A problem in Reynoso’s reasoning is that he took the cost for tomato (sunk cost) into account and that affects the optimal allocation of the resources. Because whole tomato is actually more profitable than tomato juice (exhibit B) A problem noticed in Reynoso’s reasoning is that Grade A crop would convert into a sunk cost. Grade A crop is already purchased. If they use crop A for the production of the juice, a product that requires a minimum of 6 points, it increases the cost of the product; thereby,

decreasing the profit of juice. Reynoso is using unnecessary expensive raw materials.