Midwest office products persuasive essay

Business

Questions for Midwest Office Products 1. Based on the interviews and data in the case, estimate:

- a. The cost of processing cartons through the facility 80000 total cartons
- Warehouse expenses = $2000000
- Warehouse personnel expenses = $2570000-$250000 (truck driver expenses) = $2320000
- Total warehouse processing expenses:$2000000 + $2320000 = $4, 320, 000 $4320000/80000= $54/carton

b. The cost of entering electronic and manual customer orders

- Manual: . 15 hours setup time, . 075 hours to enter each line
- Electronic: . 1 hours to verify information on the electronic order 16 order entry operators 840000 in total compensation
- Each order entry operator worked 1750 hours per year but only 1500 hours per year of productivity 840000/16 = $52500 avg salary per operator $52500/1500hrs = $35 per hour
- Electronic orders: . 1hrs *$35/hr = $3. 5/electronic order
- Manual Orders: . 15*$35 +. 075*$35*number of lines= cost per order Input cost=. 15*35 = 5. 25
- Cost per line = . 075*35 = 2. 63

c. The cost of shipping cartons on commercial carriers 75000 cartons shipped $450000 spent on freight $450000/75000 cartons = $6 per carton

d. The cost per hour for desktop deliveries vg delivery time= 3 hours 5000 cartons shipped 2000 deliveries 2. 5 cartons each delivery $250000 total compensation per year $200000 for delivery truck expenses

- Each driver worked 1500 hours per year $166. 67/hr
- Driver compensation: $250000/2000 = $125 per delivery
- Truck expenses: $200000/2000 = $100 per delivery
- Total cost for desktop deliveries: $225/3 hrs = $75/hr 2.

Using this cost driver information, calculate the cost and profitability of the five orders in Exhibit

2. Compare these costs and profitability to those calculated by Midwest's existing costing system?

Exhibit 2

Five Orders					
Order	1	2	3	4	5
Price	$ 610	$ 634	$ 6, 100	$ 6, 340	$ 6, 100
Acquisition cost	500	500	5000	5000	5000
No. cartons in	1	1	10	10	10

order					
No. cartons shipped	1	0	10	0	10
Desktop delivery time	-	4	-	4	-
Manual order	no	yes	no	yes	yes
No. line items in order	1	1	10	10	10
Electronic order	yes	no	yes	no	no
Payment period (months)	1	4	1	4	4
Warehousing costs	54	54	540	540	540

Shipping costs	6	0	60	0	60
Desktop Delivery cost		300		300	
Manual Order cost		7. 875		31. 5	31. 5
Electronic order cost	3. 5		3. 5		
Payment period cost	$ 6. 10	$ 25. 36	$ 61. 00	$ 253. 60	$ 244. 00
Total Costs	569. 6	887. 235	5664. 5	6125. 1	5875. 5
Profits	$ 40	$ (253)	$ 436	$ 215	$ 225
Current system profits	$ 110	$ 134	$ 1, 100	$ 1, 340	$ 1, 100

3. Explain the difference in profitability of the five orders calculated by the ABC system and the company's existing cost system. In the company's

existing system, they markup the acquisition costs by a certain percentage to determine the price that they charge their customers. Using this method, all of the sales appear profitable because only the acquisition cost is directly considered in determining their pricing.

However, several other activities drive higher costs for the company and a standard percentage markup does not always capture that cost. In some instances, they could even losemoneyby making the sale. By using the ABC system, the company can have a more realistic view on how much each order costs them by considering the activities which go into the process (the number of cartons, shipping costs, delivery costs, and order processing costs) and charge for these services accordingly.

4. Based on your analysis above, what actions should John Malone take to improve Midwest’s profitability? John should switch to an ABC system as it provides the proper visibility and clarity into the company’s costs.

They can then markup the products based on the total costs instead of applying a standard percentage, which does not properly assess the actual cost to the company, to the acquisition cost. This ability to price based on their actual costs would eliminate some potentially unprofitable transactions (like the desktop delivery where the items price did not cover the costs) .