

Precision worldwide, inc havard case study

[Science](#), [Chemistry](#)



SUBJECT: Precision Worldwide, Inc. **RECOMMENDATION:** My recommendation for Precision Worldwide, Inc. (PWI) is to immediately stop the production of steel rings. PWI then needs to sell the remaining steel rings to at least recoup some of their initial investment. In the meantime they should start producing, selling, and distributing plastic rings to their entire market of customers while attracting new customers who may prefer this new option. **CONCLUSION:** By changing their production offering to the plastic rings, PWI will create more profit which in turn will keep them ahead of competitors in the industry.

The remaining 15, 100 steel rings will have to be calculated as a sunk cost. With this new product offering, PWI will be able to acquire new clientele across the globe and still be able to maintain the loyalty of their existing patrons. **RESULTS:** When PWI sells 100 plastic rings, they are expected to make \$838.25 more in profit than the sale of 100 steel rings. It costs \$1107.90 to produce one hundred steel rings. When that is compared to creating a hundred plastic rings, which only costs \$279.65, it becomes more evident why PWI should switch their product line.

Plastic rings are also more durable than their steel counterparts and ultimately a better product overall. **APPENDIX:** The choice that Precision Worldwide, Inc. must make can essentially “make or break” them. Hans Thorborg, the General Manager, faces a predicament with how to deal with their existing and the in process inventory. He also has to come to a decision regarding the materials that have been obtained for inventory but PWI did not have the chance to actually process them before the change was made.

Before Thorborg can make a decision, there are three main factors that need to be taken into consideration: the opportunity costs, the product substitution, and sunken costs. I would recommend that Precision Worldwide, Inc. immediately start producing the plastic rings that were created by Bodo Eisenbach and halt the production of the steel rings. The sale and distribution of the plastic rings should begin immediately after to all of their branches so that way PWI can start earning profits as quickly as possible.

PWI currently has a specialized inventory because the steel rings that they produced were made from a unique type of steel. There would be sunk costs that would ultimately come from the failure of PWI to sell back the specialized steel because of the same features that make the steel unique would in the end be the reason that they are difficult to resell. There is over \$390,000 in estimated costs of the specialized unprocessed steel and the already completed rings, as well as steel rings that were a work in process.

By immediately stopping production of the steel rings PWI will lose quite a bit of money, but in the long run they will be able to bring in a larger profit and more clientele with the production of the plastic rings. To minimize the amount of that Precision Worldwide, Inc. stands to lose (close to \$400,000); they can raise its opportunity cost by bringing to an end the work in process of the specialized steel rings. During the production phase of the new plastic rings, PWI can try to sell all of the remaining steel rings that they have in stock.

By doing so, they will be able to decrease the amount of money that they stand to lose when switching product lines. The new profit margin is \$828.

25 per hundred rings (Cost of the steel rings \$1, 107. 90 minus cost of the plastic rings \$279. 65). PWI has the potential to earn \$1070. 35 per one hundred plastic rings because they are going to be sold at the same price as the steel rings \$1350. By completing a product substitution, PWI will help reduce the debt and hopefully increase the amount of sales by generating new customers and maintaining the trust and loyalty of their current clientele.

Due to the profit margin being over \$1000/100 rings sold, PWI will be able to completely wipe out their debt in a matter of a few months. Although there will be competitors selling other plastic rings, they will be few and far between. PWI will be one of the first companies to sell it therefore obtaining more of the market share and becoming a leader in this field. The fact that PWI is worldwide will prove to be an advantage in generating new clientele in new areas by being the first to have the merchandise in their regions.

By creating new clientele, PWI will produce larger profits and hopefully due to the quality of their product offerings, trust and loyalty in the new clientele. Company shareholders will also have more trust in PWI for making a wise decision and eventually increasing the value of their shares. Fortunately for PWI that the profit margin is high enough to offset the quantities of plastic rings that are sold. Since they are stronger and more durable than the steel rings, less plastic rings will be purchased. One of the reasons that Precision Worldwide, Inc. needs to take the risk in producing the plastic rings is because they can afford to halt production of the steel rings. After taking into consideration their opportunity costs it would be the wisest decision for GM

Thorborg to proceed with the production of plastic rings and immediately halt the production of the steel ones. PWI not only stands to bring in larger profits in the long term, they will also open the eyes of consumers who will soon become their clientele due to a better product offering APPENDIX:

Fixed Overhead:	Item Plastic Rings	Steel Rings	Material	\$17.65	\$321.90				
	Direct labor	\$65.50	\$196.50	Direct o/h	\$52.40	\$157.20	Total	\$135.55	\$675.60
	Item Plastic Rings	Steel Rings	Profit Made (per 100 sold)	\$1,070.35	\$232.10				
	Life of Ring	8 Months	2 Months	Steel profit x4 (plastic lifep)	\$928.40				
	Profit Difference	\$141.95	(\$141.95)	Total Revenue:	Item Plastic Rings:	Steel Rings:			
	Profit per 100	\$1,350.00	\$1,350.00	Cost per 100	\$279.65	\$1,107.90			
	Total	\$1070.35	\$232.10						