

Week9

Business, Marketing



What is the minimum number of passengers Health Cruises must sign up by November 20th to break even? In this case, the unit price is less than the variable costs. This means that if we were to do a breakeven calculation, we would end up with a negative number, which is illogical. Let's have a look at it,

Initial contributions \$ 250000+15000=\$265, 000

Fixed costs:

Advertisement=\$ 65000+\$15000=\$80000

Administrative budget=\$10000

Total fixed costs = 90, 000

Variable costs:

Ship and crew= 220, 000

Food=\$200*240 passengers=\$48000

Total Variable costs=\$268, 000

Unit price=\$1500

Total units= 240

Breakeven point= Fixed costs/ (Unit selling price-Variable costs)

= 90000/ (1500-268, 000)

= 90, 000/-266, 500

=-0. 33

The firm needs to first of all reduce the variable costs and increase the unit price before thinking of increasing the number of passengers.

2. Should Health Cruises go ahead with the cruise since 200 people have signed up by November 14th? Why or why not?

The firm should not go ahead with the cruise because they will lack funds to

sustain the 200 passengers, leave alone getting profits. Their total amount, minus fixed costs, is \$175, 000.

They will need 268, 000 to cater for the variable costs. This is just too much, compared to the money they will get in return.

3. The advertising agency has proposed two alternative campaigns to help fill the boat. One will cost \$6000 and the other would cost \$15, 000. Which would you suggest? [Again, show your BE calculations].

I will suggest the \$15, 000 plan. Although it costs much, its returns will be more than the other. It will help in bringing 40 more people to the cruise, and this will be $40 \times 1500 = 60, 000$

The other plan on the hand will tap 20 more people, and this will bring about $20 \times 1500 = 30, 000$

Looking at the costs, the first one will cost \$15000 and will bring about \$60, 000. The difference is \$45, 000.

The second one will cost \$6000 and will bring about \$30, 000. The difference will be \$24, 000.

4. Should Health Cruises consider cutting its prices for this trip? Why or why not? What other factors could impact the go/no-go decision in addition to the break even?

The Health Cruise should consider its price for the cruise. This is because the cost per unit is less than the total variable costs. Due to the fact that one person cannot pay over \$250, 000, the cruise should consider grouping many customers as one unit. This will help the cost per unit to rise, beating the variable costs. In that case, we will find the breakeven point which will help determine the profits or losses of the cruise.