

Solution of case ysl marketing research

[Business](#), [Marketing](#)



YSL Marketing Research is a small firm that conducts focus group meetings and mail opinion surveys. The YSL's partner Connie Bachmann has been asked to conduct a survey for Surenex that has the potential to be a valued long-run client. And the firm willing to pay YSL's normally billing rates.

The full cost of the Surenex engagement including indirect costs and direct costs. Direct costs consist of travel costs and costs of conducting surveys. In this case, direct cost means the direct charge is about \$3, 000. The professional compensation charges include partner \$4, 800 and professional staff \$4, 000. Each engagement receives an allocation of overhead based on professional compensation charges. The data of estimated total professional compensation and overhead respectively are \$1, 600, 000 and \$496, 000. According to $OAR = \frac{\text{total estimated OH cost}}{\text{total estimated professional compensation charges}}$.

Overhead calculation

- Estimated overhead \$496, 000
- Estimated professional compensation \$1, 600, 000
- Overhead rate 0. 31
- Job cost summary of Surenex engagement \$ \$
- Direct charges 3, 000
- Professional compensation charges
- Partner salary(40 hours×\$120) 4, 800
- Staff salary(100 hours×\$40) 4, 000 8, 800
- Overhead(0. 31×\$8, 800) 2, 728
- Full cost 14, 528

Based on the above calculation OAR is about 0.31. The full cost includes professional charges, direct charges, and overhead costs. The expected full cost of the Surenex engagement is about \$14,528 (\$3,000+\$8,800+\$2,728).

Every research company wants to conduct research at higher prices than the cost of research. The company profit equals the sales revenue minus the costs. YSL marketing research is a small firm that bidding on a job and is considering various costs. The question requires to calculate the lowest prices that Connie can bill on this engagement without hurting company profit means that what is the lowest charge of YSL.

From question (a) the full cost of \$14,528 is not the lowest amount that Connie pays and also is not the variable cost of the job. There are three types of costs. The mixed cost is a cost that carries both the elements of the fixed and variable costs such as utilities. Fixed costs usually include rent and lease payments. Variable costs change in relation to a company's activities.

YSL marketing research is a service company, not a manufacturing company. From the case, it is not clearly told which costs are fixed and which costs are variable. So we assume the variable costs are employees' salaries, direct charges, and administrative expenses. According to $\text{Sales} - \text{VC} - \text{FC} = \text{Profit}$ and calculate the company profit.

Based on this fact, we must consider the opportunity cost. Opportunity cost means that in order to get some things to have to give up the greatest value of some other things. When YSL faces Surenex engagement and other jobs,

then YSL makes the decision to undertake one job among these, the highest value of the abandoned option is the opportunity cost of this decision.

In this case, on most jobs, YSL's fee is 1.5 times professional compensation. In addition, the company is reimbursed for all out-of-pocket costs (\$3,000). If the company undertakes the Surenex job, it will miss out on billing \$13,200 ($1.5 \times \$8,800$) for some other job and will have to turn down another potential client.

If YSL rejects Surenex it can charge 1.5 times professional compensation plus out-of-pocket costs of other jobs. In order to avoid hurting profit, the company must cover out of pocket costs (\$3,000). Thus, the lowest amount that Connie can bill is \$16,200 ($\$13,200 + \$3,000$). The lowest amount that Connie can bill calculation

- Direct charge 3,000
- Partner salary 4,800
- Staff salary 4,000
- 1.5 times professional compensation 8,800
- ($1.5 \times 8,800$) 13,200
- Total 16,200

This question requires us to find out some aspects that we did not consider in the previous analysis. Senex is a new high-tech company that may end up being a large hot company with premium billing opportunities in three to five years. To build a cooperation relationship with Surenex is good for YSL's long-term development, but also the company needs to take certain risks.

From the case, we know on most jobs, the normal rate is 1.5 times YSL's fee. But Connie wants to quote a low fee since Surenex has cash-flow problems. In other words, the company may give a discount for example 1.4 times the fee or a lower charge for Surenex. There are two aspects to analysis.

In the short-term, YSL may lose profit to undertake this engagement and give up bid 1.5 times compensation on other jobs. And YSL needs to reject other potential clients that may reduce the goodwill of the company. YSL is in high demand; it may miss some good opportunities.

But YSL may be better off in the long-run, even it setting a relatively low price on the current job. If this engagement success, YSL can get a long-term and fixed income from establishing a cooperation relationship with Surenex. According to the forecast, Surenex may become a big hot company, there are many advantages to the development of YSL, such as improve company visibility. Therefore, even a price that does not cover salaries and direct charges could be warranted if the prospect for future profit, from working for Surenex, is very high.

With a low price to receive the task also has a certain risk such as contract problems. Research agencies often take into consideration a customer's financial capacity when they are establishing a price. In the future, when Surenex becomes a large hot company but YSL not allowed to increase the price because they already sign the contract the price is fixed. At that time some problems will arise and indeed break the contract.

On the other hand, YSL undertakes this engagement at a low price may have an effect on service quality. In order to ensure the benefit of the company and base on the established price, the company may reduce expense or costs necessary. So the service quality of the company may decrease to a certain extent.