

# Minnetonka corp essay sample

[Business](#), [Company](#)



This essay will answer four questions set regarding the introduction of a new cross-country ski line by the Minnetonka Corp.

Should the Minnetonka Corporation make or buy the bindings? Show calculations to support your answer.

If Minnetonka were to manufacture the bindings themselves, the total cost would be \$80 per pair of skis and bindings. If it accepts a purchase proposal from a sub-contractor, direct labor and variable overhead costs (\$50) would be reduced by 10% (\$5) and direct material costs (\$30) would be reduced by 20%, (\$6). Reductions therefore would equal 11\$, but the purchase price of the bindings would be \$10. 50 per pair. So therefore the cost of skis and bindings would be \$79. 50.

So Minnetonka should purchase the bindings rather than manufacture them – if a batch of 10, 000 pairs is manufactured, this is a reduction of \$5, 000.

What would be the maximum price acceptable to the Minnetonka Corporation be for the bindings? Support your answer with an appropriate explanation.

I believe that \$10. 90 would be the absolute highest price that Minnetonka could consider purchasing the bindings for. Any price higher than that would result in the reduction being too close to the cost of manufacture price to be of any consequence, or purchasing could in fact to work out to be more expensive than manufacturing them would be.

Instead of sales of 10, 000 pairs of skis, revised estimates show sales volume at 12, 500 pair. At this new volume, additional equipment, at an annual

rental of \$10, 000 must be acquired to manufacture the bindings. This incremental cost would be the only additional fixed cost required even if sales increased to 30, 000 pair. (This 30, 000 level is the goal for the third year of production.) Under these circumstances, should the Minnetonka Corporation make or buy the bindings? Show calculations to support your answer.

The Cost-Volume Profit relationship is as follows: As volume increases costs increase: more volume means more materials, more labor, and more expenses. It can also mean more working capital, more resources to be managed, and more profits to be shared. If the business has some costs that stay fixed even as the volume of production goes up, then the average cost per unit will decrease as volume increases. (Williamson, 2001) Cost volume profits help businesses manage key criteria. (O20 Lap, 2005)

In Minnetonka's case, let's analyze the two options in manufacturing the skies. Divide 12, 500 (amount to be manufactured) by \$10, 000 (additional cost), and you get 0. 80c. So the new cost per unit will be \$80. 80. Similarly if you divide 30, 000 by 10, 000, the manufacturing cost is \$83. 00.

For the purchasing option, the following would be true: Direct labor and variable overhead costs would become \$56. 25 and direct material costs would become \$30. 00, a total cost per pair of skis and bindings of \$86. 25.

In this instance, it's therefore more cost effective to manufacture the goods. Cost effectiveness is defined as the ability of a system to provide maximum performance at a minimum cost. (Ecoselect, 2005)

What qualitative factors (i. e. issues with vendors, customers, or within the product itself) should the Minnetonka Corporation consider in determining whether they should make or buy the bindings?

All of the above issues will have to be taken into account. Minnetonka has a standard which it has to uphold and it will have to make sure anybody associated with it upholds the same values and can produce a product of the same quality associated with the Minnetonka name.

#### Works Cited

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<http://www.duncanwil.co.uk/cvpintro.html>

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