Shelby shelving case study examples

Business, Company

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Statement of the problem

Shelby shelving is a small company that manufactures shelves for grocery stores. The company has two models of shelves that it manufactures: model S and model LX. The process of manufacturing involves stamping, forming, and assembly. Each of these processes has a cost in form of labor hours and material costs. For example model S requires 0. 25 hrs on the forming machine and the stamping machines operates for only 800 hrs a month. The production of model PX has a monthly capacity of 1400 units and model S has a monthly capacity of 400 units of model. The industry has a lot of competition and so Shelby's has a small market share and so the price of the shelves cannot be raised higher than the current ones of $1800 and $2100. So the main problem the company experience is its profitability if it is to survive in the market.

The production of model S is costly due to large overheads costs and the selling price is $1800 whereas the cost is higher $1839. This means that the company is incurring a loss from selling 400 units each month and decreasing the production puts it even at a higher loss. The company needs a solution to this profitability problem it is currently experiencing.

Executive summary

The company should work to increase the number of materials prepared during the stamping process therefore reducing the stamping process overhead. The forming and assembly process can compensate this reduction by increasing the machine costs and so the number of unit's produced for model S increased overall. This increase in number of units produced of model S mean that the unit selling price will be higher than the cost of production which is adjusted by increasing the machine hrs in the stamping process. This increase means that the overall profitability will increase since the company can produce the model S Shelves at a cost that is lower than the selling price for each unit produced. The number of machine hrs for model LX should in turn be reduced significantly in proportion to the ratio of the hours increased for model S.

Analysis

This problem is to be addressed by addressing the excess overhead costs incurred during the production process. This will be done using the activity based costing principles to find a way which activities are to be reduced to reduce the costs they add to production. An analysis reveals the current overhead costs and therefore determines whether reducing the units of production is much favorable to the reducing of overhead costs for models S.

Model S uses a lot of overhead costs compared to the units produced and compared to model LX. This means that there is a chance of increasing the amount of time in the stamping process to produce more materials that are prepared for the forming process and therefore produce more units at the

same rate of overhead costs incurred. This increase will mean that the number of units produced increase and therefore the unit cost reduces to a figure below the unit selling price.