

Case – hilton

Business



Brian Lowe Case: Hilton1. If the company had dropped product 103 as of January 1, 2004, what effect would the action have had on the \$158, 000 for the first six months of 2004? The variable costs associated with product 103 will go away when the product line is eliminated.

However, the fixed costs will remain and be spread over the other two programs. In order for the company to consider eliminating the product, the variable costs removed must be greater than the product sales.

Profit (Loss) from elimination(780) The table above shows that if Hilton were to eliminate product 103, the company's net income would be reduced by \$780, 000. 2. In January 2005, should the company reduce the price of product 101 from \$9. 41 to \$8.

46?

The company should not reduce the price from \$9. 41 to \$8. 46 because they will be less profitable by doing so. The increase in sales is outweighed by the increase in variable costs making profits decline. As shown in the table below, profits would decrease by \$1, 019, 000 if they decided to lower the price.

----- Sales @ \$8. 46 (1000 units)8, 460

----- Sales @ \$9. 41 (750 units)7, 058

----- Additional Sales1, 403

----- Additional Variable Costs (7, 267 X (1000-

750)/750)2, 422 ----- Profit (Loss) from Price

Change(-1, 019) 3. What is Hilton's most profitable product? According to

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data from the beginning of 2004, product 101 is by far the most profitable of the three. The 6.

2% profit margin is about 11%- 13% greater than the other two products that Hilton offers. See the table below for a breakdown of each product's profit, sales and margin. -----

Product	101	103	104	-----	Profit (Loss)	550	(-380)	(-
	414)	-----			Sales	8, 7307,	2805,	617
	-----				Margin	6. 2%	(-5. 2%)	(-7. 4%) 4.

What appears to have caused the return to profitable operations in the 1st 6 months of 2004? It appears that the company actually spent less than anticipated on rent, indirect labor, materials, selling and depreciation. This caused their actual profits to be much higher than was expected.