

# Bridgeton case

Business



Bridgeton Case Bridgeton Industries is faced with a difficult decision.

Manifolds have been their most profitable product but based off of their recently developed classifications for products it has fallen to the lowest class.

The lowest class is then designated to be outsourced. There are many implications for the decision to stop making manifolds. If they eliminate them they are losing almost half of their sales totals

This would then in turn drastically reduce the factory profit from \$63, 501 to negative profit. Outsourcing the manifolds would just create a similar problem for the remaining products that the manifolds experienced. Since mufflers and oil pans were discontinued the direct labor on manifolds took up a much greater percentage. Therefore since overhead is based off direct labor, more overhead was allocated to manifolds.

If the manifolds were eliminated the labor would be more directed to fuel tanks and doors.

Then more overhead will be allocated to those products and essentially they will be soon deemed unprofitable and pushed down to class III. The problem with using a single overhead pool is that we aren't able to see what overhead costs are directly related to each product. The second problem is that overhead is based off of direct labor. The more labor costs the products have the more overhead that is being allocated to them.

The profits from manifolds for 1990 are: Sales Revenue Direct Material Direct Labor Overhead Gross Profit \$93, 120 \$35, 725 \$6, 540 \$36, 820 \$14, 820

This gross profit is a significant decrease from the previous year. Although sales for manifolds have increased from 1989 to 1990 so have many other things. Direct materials have increased because stainless steel has a high cost. Direct labor has increased because they were using people that were in the retaining job pool formed by the union to time the lines so they could observe operations and create "uptime reports. This increase in labor wasn't necessarily specific to manifolds but since ACF uses one overhead pool the costs were still allocated to manifolds.

It is of my opinion that the ACF should not discontinue manifolds. If the projections are correct the demand for stainless steel manifolds would increase dramatically and it would just be foolish for them to eliminate a product that could very well become extremely profitable for them in the near future.

Not only are accounting for almost half the sales profits right now but they are what seems to me the one product with the most potential for growth. If I were a manager at ACF I would try to work out a better system to allocate overhead and work harder to specifically allocate overhead to the product they are affecting. Once this happens there will most likely be a significant difference in the gross profits they find for each product. By ebeth88