

Fineprint company case

Business



Case Overview FinePrint Company (FPC) owner and manager John Johnson is weighing a proposal from a local Virginia businessman by the name of Ernest Bradley and his small business “ SmallPrint Shop” (SPS).

FPC employs one sales representative and one printing-press operator, but it also relies on temporary labor to help with the fluctuations in volume. At current it is running at full capacity: 150, 000 brochures a month. SPS is known for its basic printing services; however it is capable of more elaborate work.

Recently it lost its largest client and is now sitting with idle capacity on its specialty press, which it bought mainly to serve their orders. It is hoping to do some elaborate work cheap for “ FinePrint Company.

” Because SPS would like to simply keep the press running, Bradley proposed a deal with FPC to print a maximum of 30, 000 brochures at \$8 per 100 brochures. John Johnson felt that SmallPrint was a good company that did dependable quality work. The proposal sounded like a good deal to him but he was unsure of the price comparisons.

Issues The Fineprint Company faced two major internal issues. First is the fact that it is operating its production facility at near capacity. This leaves little room for new jobs and threatens to increase the fixed cost associated with the capacity.

Second, FPC is relying heavily on temporary labor to meet volume changes in production. With the use of temporary workers comes the burden of fluctuating labor costs through wage changes and constant training. FPC also has external issues of SmallPrint affecting it in a positive way.

When SPS lost its largest customer, it opened up opportunity for FinePrint to use its idle capacity. SPS's limited exposure as an elaborate printing house and its willingness to work for cheap allows FPC the upper hand in negotiations on price of possible venture.

Relationship Between Issues FPC's consistent operation at near capacity increases its need to use temporary labor. SmallPrint lost of a major customer and its lack of reputation as an elaborate print house caused it to have idle capacity.

That idle capacity increased its need to make a discounted outsource deal with FinePrint. Relationships to Aim of the Company FinePrint Company's use of temporary labor and consistent operation near capacity along with SmallPrint Shop's idle capacity and willingness to deal cheap, has FPC considering an outsourcing deal with SPS to help free up production capacity and reduce need for temporary labor. Resulting in a possible reduction of manufacturing cost for FinePrint and ultimately a higher profit.

Problem Statement

While operating at near capacity and relying on temporary labor to meet the changing demand, FinePrint must pay close attention to cost and capability to expand. A proposal from a SmallPrint gives an opportunity to lower production costs and free up capacity for new orders, through outsourcing. Owner, John Johnson must review the offer carefully to decide if he will save or spend more outsourcing his current work to his rival, Ernest Bradley. Objectives John Johnson objective is to find a way to maintain or lower cost associated with production and free up manufacturing capacity.

In conjunction with this he would like to maintain or increase his profits.

He does this by considering the changes in cost of outsourcing 30, 000 units of current production. Alternatives We found that Fineprint had four alternatives when deciding on this offer. Johnsons' first option is to keep the situation as is. He would decline SmallPrint Shop's offer to outsource 30, 000 brochures per month for \$8/100 brochures. Second, is to accept the deal offered by Ernest Bradley and lose \$600 per month.

Doing so to help out during troubled times. Third, Johnson can negotiate the price to be \$6/100 brochures rather than \$8/100 brochures in an effort to help out but still break-even. Lastly, they can buy out SmallPrint and use its capacity and workforce to cut cost on labor and open up to new jobs. Action Plan Since FinePrint Company is looking to keep its manufacturing costs low, it is in their best interest to decline the offer and adhere to their current production of 150, 000 units 100% in-house.

We made our decision based on the relevant cost involved, which includes direct material, direct labor and manufacturing overhead.

We ignored the fixed costs, totaled at \$12, 000 a month, because they will not reduce with a partial outsource order. Currently, FPC's total variable cost are \$10, 500 for 150, 000 units, \$7 per 100 brochures and only \$6 being relevant cost. The \$1 difference is attributed to variable sales cost, which FPC would incur because they would still need to sell 150, 000 units. If it accepts the offer, FPC would be producing only 120, 000 units for only \$8, 700 in variable costs.

Although outsourcing results in savings of \$1800, it is outweighed by the additional purchasing costs of \$2400 for the 30, 000 units at \$8 per 100 brochures from Bradley.

Choosing to accept the offer would result in a reduction to current profits by \$600. The total costs of maintaining the current production level is \$600 cheaper than outsourcing 20% of production volume. It costs FPC \$22, 500 to produce 150, 000 units and \$23, 100 to produce 120, 000 units while outsourcing 30, 000 units. There is no reason to spend more purchasing product than it will cost to produce it in-house.

Therefore, FPC should stick to full production of its orders.

Potential Problems Johnson refusing to help them completely could result in broken relationship between Johnson and Bradley. In the future, it is possible that Johnson can end up in a similar situation as Bradley and the industry could remember him as the one who had denied help. FinePrint also has to deal with the fact it is still operating at near capacity. If it has customers come in with an order that exceeds capacity they may end up spending more or losing business.