Case study critical essay

1. The factors affecting the demand for the lines of Washburn guitars are: a. Bought by a first time guitar buyer : i. Price – price is the major factor for the first time guitar buyers. Increase in the price can lower the demand while the decrease in the price can increase the demand. ii. Good value – good quality for the price is also a major consideration for the buying the guitar. Good workmanship will play a significant role in the buyer's purchase decision. iii. Brand name– A recognized brand name is important. iv.

Resale value – If the buyer wants to resale the guitar for some reason, it should have a good resale value. b. Bought by sophisticated musician: i. Prestige of the musician associated with the guitar is an important consideration. ii. Workmanship, design, physical appearance, sound quality are the factors affecting the demand. iii. Price is not that important. 2 a. The example of shifting the demand curve to the right to get a higher price for a guitar line occurs with the signature guitars.

It establishes an inelastic, price insensitive demand for the product. Demand is generated through internationally known musicians, who lend their names to lines of Washburn guitars. b. Setting the guitar price at $349 for the new lines of company's guitar is an example of moving along a demand curve. With the purchase of Parker guitar Washburn believes to reduce the production cost and eventually bring more buyers for the new line of guitars. 3. a. P= 349/2 = $174. 5/unit (Abel estimates half of the final retail price will be the price Washburn nets) Fixed cost = $14, 000 + $4000 + $20, 000 = $38, 000

Variable Cost = $25/unit + 15hours/unitX$8/hour = $145 BEP = FC / P-UVC $38, 000/$174. 5 – $145 = 1288 guitars b. P= 389/2 = $194. 5/unit Fixed cost = $38, 000 Variable cost = $145 BEP = $38, 000/$194. 5 – $145 = 768 guitars c. P = $309/2 = $154. 5 Fixed cost = $38, 000 Variable cost = $145 BEP = $38000/$154. 5 – $145 = 4000 guitars d. Total quantity sold = 2000 Price per guitar = $174. 5/unit Total revenue = 2000x$174. 5 = $349, 000 Variable cost = 2000×145 = 290, 000 FC = $38, 000 Total cost = 290, 000+38000 = 328, 000

Profit = $349, 000-$328, 000=$21, 000 4. a. Fixed Cost = Rent and taxes reduce by 40% = $8, 400 Depreciation of equipment = $4000 Management and quality control = $20, 000 Total Fixed cost = $32, 400 Variable cost = Direct materials = $25/unit Direct labor=$102 (15% lower) Total VC = $127 Break Even Point = $32, 400/$174. 5-$127 = 682 guitars b. Profit = Total quantity sold = 2000 Price per guitar = $174. 5/unit Total revenue = 2000x$174. 5 = $349, 000 Variable cost = 2000×127 = 254, 000 FC = $32, 400

Total cost = 254, 000+32, 400 = 286, 400 Profit = $349, 000-$286, 400=$62, 600 5. a. Fixed and variable costs that might be lowered by moving the production to Asia are; i. Direct labor ii. Direct material iii. Rent and taxes iv. Management and quality control program v. Possibly depreciation of equipment b. Additional costs expected to incur i. Export and import taxes ii political uncertainties that can lead to policy change and might affect Washburn's productivity and profit. iii. Additional cost of communication between managements across the ocean.