

Birch paper company essay sample

[Business](#), [Marketing](#)



Birch Paper is a classic case that provides an excellent opportunity to present, analyze, and evaluate transfer pricing issues. In only two pages, the case presents a common business situation involving the relationship between three divisions and suggests several typical transfer pricing solutions: (1) at variable cost; (2) at full cost; (3) at full cost plus profit; (4) at market price; and (5) at a negotiated price. This setting facilitates the discussion of the advantages and disadvantages of each of these solutions as well as topics of coordination among divisions and decision-making policies. It's also an opportunity to consider whether variable costs or full costs are more appropriate for decision-making.

Group homework assignment

1) Fill in the missing prices and costs on the “ Diagram of the alternatives” and “ Costs of the alternatives” which are attached.

On the “ Diagram of the alternatives”, fill in the amounts indicated in the nine dotted ovals. Some amounts may be easy to find in the case, some will need to be computed from case information, and some you will not be able to ascertain from case data; for the latter, write “ don't know”.

On the “ Costs of the alternatives”, complete the table using the amounts you entered in the “ Diagram of the alternatives” and compute the net costs to Birch.

2) On your completed “ Diagram of the alternatives”, indicate which bid Mr. Kenton (Northern Division) will accept by circling it and labeling it accordingly.

3) On your completed “ Costs of the alternatives”, indicate which alternative is in the best interest of Birch Paper as a whole by circling it and labeling it accordingly.

Requirements

The completed “ Diagram of the alternatives” and “ Costs of the alternatives” with your answers to questions 2) and 3) clearly indicated on them are due at the start of class. Amounts and answers can be handwritten. Bring one copy of the assignment to hand in for your group and one copy to use during class. Include your section (AE1), group number, and all group member names on the copy you hand in. Each member of your group will receive the same number of points out of the total 15 possible.

Additional questions

When your group meets to complete this assignment, also spend some time discussing answers to the following questions. We will talk about these issues as part of an in-class activity, and success in that activity will require a thorough knowledge of the case. **DO NOT, however, HAND IN ANSWERS TO THESE QUESTIONS.**

1) In what kind of competitive environment is Northern operating?

2) In what kind of competitive environment is Thompson operating? Why might Mr. Brunner (Thompson) be insisting on a full cost transfer price? Why might he want to reject the \$430 bid? What is the Thompson Division’s cost of not lowering their bid to match the West Paper bid (compute this amount)?

3) In what kind of competitive environment is Southern operating? Is the Southern Division's price to Thompson justified?

4) Is the bid that is in the best interest of Birch the likely outcome? If not, should the Commercial VP intervene? What are the arguments for and against doing so?