

Washburn guitars case evaluation essay sample

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There are a few factors that are likely to affect the demand for the lines of Washburn Guitars. Changing the price of the guitars that are sold would affect the demand for Washburn guitars that are bought by first-time guitar buyers. The demand for Washburn guitars will increase if they lower their prices. First-time guitar buyers want good value for the product that they are buying. Lowering the price would not have a significant effect on sophisticated musician buyers. Endorsements by internationally known musicians who use their guitars will increase demand by increasing customer awareness of their product. First-time guitar buyers will want to buy a Washburn guitar because one of their favorite musicians uses a Washburn guitar. These endorsements will make Washburn guitars a recognized brand name which will affect demand for first-time guitar buyers. Sophisticated musicians will also want to buy a Washburn guitar, if it is endorsed by a well-known musician, because they will think that it is a high quality guitar since it is being endorsed by amazing, popular musicians.

These sophisticated musicians will want to buy signature guitars because of the prestige of the musician's name. Another factor that would affect demand is Washburn guitars receiving great reviews. Customers will read these positive reviews in magazines and on the internet and they will want to go out and get a Washburn guitar for themselves. First-time guitar buyers will read these reviews and decide to get a Washburn guitar because they will trust its high quality. Sophisticated musicians who want a signature model will also go buy a Washburn guitar if they hear about how great the quality is. They will buy a Washburn guitar if they hear about how great the design of the guitar is and how amazing the sound quality is. Another

important factor for first-time guitar buyers, is getting a reasonable resale value for the guitar, if they decide to quit playing guitars. Washburn Guitars are very successful today with over \$40 million in annual revenues. This is a result from their aggressive marketing that has affected the demand for their products.

The break-even point for Washburn guitars if the retail price of a new guitar is \$349 is 1, 288 units. The fixed costs are \$14, 000 for rent and taxes, \$4, 000 for depreciation of equipment, and \$20, 000 for management and quality control program for a total of \$38, 000 fixed costs. The unit variable cost is \$25 a unit for direct materials and \$120 a unit for direct labor for a total of \$145 unit variable cost. The net price is 50% of retail so it is \$174. 5 a unit. $\$174.5 - \$145 = \$29.5$. $\$38,000 / \$29.5 = 1,288.135$ so the break-even point is rounded to 1, 288 units. The profit if Washburn achieves a sales target of 2, 000 units at the sales price of \$349 will be \$59, 000. Total Revenue is $\$174.5 \text{ a unit} \times 2,000 = \$349,000$. Total Cost is $\$145 \text{ unit variable cost} \times 2,000 = \$290,000$. So, the profit for 2, 000 units is \$59, 000.

The merger with Parker Guitar will reduce its rent and taxes expense by 40 percent, and the new employees will reduce the hours of work needed for each unit by 15 percent. The new rent and taxes fixed cost is \$8, 400 for a new total fixed costs of \$32, 400. The new total unit variable cost is \$127. $\$174.5 - \$127 = \$47.5$. $\$32,400 / \$47.5 = 682.105$. The new break-even point for guitars priced at \$349 will be rounded to 682 units. The new profit if Washburn sells 2, 000 units will be \$95, 000. Total Revenue is $\$174.5 \text{ a unit}$

$\times 2,000 = \$349,000$. Total Cost is $\$127$ unit variable cost $\times 2,000 = \$254,000$. So, the new profit is $\$95,000$.