

Abc co. marketing strategy case assignment

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Case 1: BBC Manufacturing Company (Risk Management and Insurance)

Description of Operations BBC Manufacturing Company is a manufacturer of fine furniture designed to resemble the furniture used in various historical periods. The company's furniture is sold by approximately fifty dealers throughout the United States and in several foreign countries. Dealers are carefully selected by BBC to be sure they maintain the high quality image that BBC has established in its 100-year history of making fine furniture.

Most dealers sell only ABC's furniture, but a few also sell noncompetitive lines of similar quality. Dealers who sell only ABC's furniture are franchised to do business under ABC's trade name and would appear to the public to be branch stores rather than independent business. ABC's factory is a three-story building of heavy timber (mill) construction located in a New England town of 2,500 population. The first floor is used for warehousing and office space, and the two upper floors house the production facilities. The building is 75 years old and has been occupied by BBC since its construction.

The local fire department is above average for towns of this size, but its water supply system does not have adequate reserve capacity to maintain pressure for fighting a major fire over a period of several hours. Adjacent to the factory building is a large frame structure used by BBC to store seasoned lumber for its furniture. Lumber is first air dried in the yard adjoining the shed, with the exact drying period depending on the kind of wood involved. The air-dried wood is then kiln dried in ABC's own kiln, after which it is stored in the frame storage building until needed.

Abs's power plant is located in a brick building about 50 feet from the main plant. It furnishes heat and steam for all operations. Water for the steam boilers is drawn from a large river adjacent to the power plant. Electricity is purchased from a public utility. Due to the length of the seasoning period, BBC usually has on the premises a supply of lumber adequate for four months of operations. Much of the lumber is purchased within a 200-mile radius of the factory, but substantial amounts are purchased from more distant sections of the United States or from foreign countries.

For example, mahogany lumber, which is used in almost half of Abs's products, is imported by BBC from Latin America and Africa. Most of the lumber arrives at Abs's yard by railroad and is shipped FOB point of origin. The imported lumber is shipped by water to the nearest port, approximately 100 miles from Abs's factory, and then by train to the factory. Some locally produced lumber is delivered to BBC by truck. Workers in Abs's factory use some small power tools, such as saws, planers, lathes, and similar equipment.

However, the production process is primarily manual. Highly skilled craftsmen build the company's products, using many of the same techniques that were used two centuries ago. Furniture finishing is done by hand, and most of the stains, varnishes and other finishing materials are compounded by Abs's employees according to the company's proprietary formulas. Abs's labor force is very stable because each craftsman undergoes a lengthy apprenticeship in the plant and because BBC pays wages that are relatively high by the standards of the community.

Management considers the high wages to be necessary because of the time and expense required to hire and train a replacement for a craftsman who leaves the firm. Some finished furniture is shipped by railroad, but most of it is shipped by contract carrier trucks. The contract with the trucker does not include any provision relative to liability for damage to goods in transit.

Export shipments are transported by truck to the nearest port and by water to the country of destination. All shipments are made FOB purchaser's warehouse. All sales, including export sales, are made on open account and only to Abs's established dealers.

Export accounts usually are denominated in and payable in the currency of the importer's country. Accounts receivable, on the average, are equal to about one-eighth of annual sales. Accounts receivable records are kept on Abs's imputer in the office section of the first floor of the factory building. The computer is also used for inventory and production control, payroll management, and other accounting functions. The computer equipment is owned by BBC. The office is cut off from the warehouse section of the first floor by a wood partition. The office and computer room are air conditioned, but the remainder of the building is not.

Duplicate computer tapes, updated weekly, are stored in a well-protected vault in another part of the city. A monthly fee is paid for the tape storage. BBC owns several small trucks that are used to move lumber about its own remises and for local pickup and delivery. The trucks are kept in the lumber storage shed when they are not in use. Several lift trucks are used for moving lumber and other heavy items in and around the factory and lumber

storage area. A freight elevator moves materials, finished furniture, lift trucks, and other equipment between floors in the factory.

Automatic grillwork gates have been installed to prevent workers from falling into the elevator shaft. There is no passenger elevator. Workers use either the freight elevator or the open stairwells when moving between floors. Steel fire escapes have been installed on the exterior of the building to facilitate evacuation of the upper floors in case of fire or other catastrophe. The grandson of the company's founder. Mr.. Carpenter is considered wealthy by local standards. However, his fortune consists almost entirely of the stock of BBC Manufacturing Company, and he is dependent on his salary and company dividends for his livelihood.

Nearly all of Abs's operating profit has been paid in dividends in recent years. Consequently, the company has only a modest cushion of liquid assets in excess of its operating needs. Profits have been consistent, but they have been relatively low because of the inefficiency of the present factory facilities. Although the dollar amount of Abs's sales has increased steadily because of price increases, the physical volume of sales has remained almost constant over the past several years. The lack of growth has resulted primarily from two factors.

First, the present plant cannot accommodate greater production because of space limitations, and there is no available land adjacent to the plant to permit expansion. Second, the long training period required for new employees prevents rapid expansion of production. Mr.. Carpenter has considered building a new factory at another location in the same town.

However, such a move is not financially feasible unless the present plant can be sold, and no prospective purchasers have been found. A move to any location outside its present hometown would not be practical because of the company's dependence on its well-trained craftsman.

The sales manager estimates that both the dealer network and sales could be increased by 30% over the next 5 years if production facilities could be provided. The cost to rebuild the present factory building in its present form would be \$2. Million. However, Mr.. Carpenter has indicated that he would not build a new mill- type building to replace the current structure because of the high cost of the thick brick walls and heavy timber interior construction. A new, one-story, noncombustible masonry and steel building of comparable floor area would cost approximately \$2 million to build and would be more efficient for Abs's purpose.

The actual cash value of the present factory building is estimated to be \$1. 5 million, and BBC has insured it for that amount against fire and the extended coverage perils. The lumber storage heed, power plant, table and lumber kiln are also insured for their actual cash values. The following table shows the actual cash value and replacement cost for each of the structures. Table 1: BBC Company Building Values

Building	Actual Cash Value	Replacement Cost
Factory	1,500,000	2,000,000
Lumber shed	230,000	300,000
Power plant	270,000	320,000
Kiln	150,000	200,000

including the coverage for contents of the buildings and for lumber stored in the yard.

There have been no fire or extended coverage losses during the past five years and only minor losses prior to that time. The company's estimated

annual workers' insemination premium is \$165, 000. Loss experience has been fairly consistent from year to year. Based on past experience, with adjustments for inflation and current benefit levels, normal losses of \$104, 000 can be expected. The most frequent claims have been small and have resulted from such minor injuries as splinters in hands, several minor dermatitis cases, and sawdust or metal particles in eyes.

The more serious injuries have included back strains and loss of fingers in power saws and other power tools. BBC now has 15 percent debit under workers' compensation experience rating plan. (That is, they are paying a rate rater than manual rates). Questions 1 . Identify the following loss exposures faced by BBC Manufacturing Company: 1) Direct property loss exposures 2) Indirect property loss exposures 3) Liability exposures 2. Your suggestions in risk management for BBC Company Case 2: Bite-O-Burger Company The Bite-O-Burger Company is a publicly held corporation.

It owns and operates 843 fast-food restaurants located in eleven states in the United States. The restaurants feature a limited menu consisting of hamburgers, French fried potatoes, fried chicken, chili, related food items, and nonalcoholic beverages. The restaurants vary in size, but each is located in a free-standing building and surrounded by customer parking areas. All of the buildings were built to Bite-O-Burger's plans and specifications and share enough architectural characteristics to make them easily recognized as units of the chain. All have forced air heat and are air conditioned.

At current prices, the average replacement cost of the restaurants is estimated at differences in size, the replacement cost, including building and

equipment, ranges from \$175, 000 for the smallest restaurants to \$300, 000 for the largest. The average actual cash value is \$205, 000 for building and equipment combined. The restaurants vary in age from a few days to approximately 20 years. All of them are owned by Bite- O-Burger, but the newer ones are subject to substantial mortgages. The home office of the company is located in leased space in a building in the business district of a Midwestern city.

Bite-O-Burger occupies the upper three floors of the thirty-story building. The company's data processing centre is located on the top floor. All of the computer equipment is leased from the manufacturer. Bite-O-Burger also occupies a leased warehouse near the home office. It is used for storage and distribution of supplies (paper cups, wrapping materials, etc.) and nonperishable food items. Perishable food items are purchased from local suppliers near the restaurants in which they will be used, and they are delivered directly to the restaurants by the suppliers.

There is no refrigeration equipment at the warehouse, but each restaurant has a large, walk-in refrigerator. Items from the company warehouse are distributed to the individual restaurants by a fleet of 30 owned tractor-trailer units. The same units also transport goods from the suppliers to the entrant warehouse when truck-load quantities are purchased. Smaller lots are shipped by common carrier FOB point of shipment. The values of the contents at the warehouse and home office are \$1 5, 750, 000 and \$3, 200, 000, respectively.

Values at both locations are relatively constant throughout the year. Bite-O-Burger advertises extensively in newspapers in the cities in which it has several restaurants. Many of its advertisements feature endorsements of its products by prominent athletes and theatre personalities. Some advertisements feature pictures of local people and their favorable comments on the company's food and service. The company also sponsors softball and bowling teams in some cities as a part of its public relations program.

Bite-O-Burger's profit and loss statement and an abbreviated balance sheet for last year are shown in Tables 2-1 and 2-2. The company's operating results for last year were typical of past years, but sales and assets have been growing at a rate of approximately 20% per year. Bite-O-Burger's fire and extended coverage losses for the five years are shown in Table 2-3. The quotations shown in Table 2-4 have been obtained for fire and extended coverage protection-blanket on buildings and contents on an actual cash value Asia.