

Danshui plant case



Main Issue

Apart from reading the Danshui Plant No. 2 case, we can see that there is not enough information to evaluate the performance of the plant for the first three contracts to assemble Apple iPhone 4.

Analysis of the Issue

To get a clear picture a flexible budget was prepared for the month end of August 2010. (Shown in the table below) From the flexible that is prepared, it can be seen the performance of Danshui Plant NO. 2 is not good enough as what it suppose to be. The budget shows that Danshui has unfavorable variance in the assembly of the flash memory part, variable tools and supplies, assembly and packing, shipping, and the last one on the supervision. As for the flash memory, it has been stated that Samsung had raised the price by \$2. 00 which had been covering by Apple as they neutralized the profit which supposedly to give a favorable variance. But for the budget, it can be seen that the flash memory is showing an unfavorable variance. This is due to a lack of skills during the installation of the labor which had lead wastage as they need to replace the damaged flash memory with the new one.

The replacement of the flash memory due wastage had increased the cost that is expected which had lead to unfavorable variance. Variable supplies and tools show an unfavorable variance has it has a connection with the installation of parts in the iPhone 4, especially on the flash memory installation part. . so when the labor did a wastage or reckless job during the installation of flash memory or any parts of the iPhone 4, it will cause the labor to use new tools and supplies. This is the main reason why variables

supplies and tools had an unfavorable variance. The amount of unfavorable variance in the assembly and packing is very significant. This is because installations of the iPhone 4 involve many steps (140) and 325 labors within 5 days. This will have a higher chance of error to occur as the installation parts in the iPhone 4 is handled by the different individual who has different skill and type of working style. This will indirectly cause a lot of wastage in terms of cost and time due to carelessness and lack of skill of the labor.

The main root of why the shipping department has an unfavorable variance is due to a lack of manpower. When there is a lack of manpower with the expertise or skill that is needed, the departure and the arrival of Apple iPhone 4 will be a delay and according to the schedule that has been planned. Therefore, there will be an increment in the cost of shipping which will lead to unfavorable variance. The last unfavorable variance is on supervision. Due to changing from the assembly of computer parts to the iPhone 4 parts, the supervisor has taken some time to learn before they could guide the labor under the supervision. Not only that, but the burden in the supervisor's work also had increased as the assembly of the iPhone parts involve too many steps and individuals. Thus, the company needs to increase the salary of supervisors which had because the amount of supervision increased. But the increment is not that significant compared to the increase in the material parts.

Danshui Plant No. 2

Flexible Budget for the Month End of August 2010

	Budgeted(\$'00 00)	Actual (\$000)	variance
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	180000unit	180000unit	
Revenue (41240000/200000) * 180 000	37116	37476	360 F
Variable cost:			
Material:			
Flash memory (180k*27)	4860	5249	(389)U
Application Process(180k*10. 75)	1935	1935	-
Chips -phone(180k*14. 05)	2529	2529	-
Gyroscope(180k*2. 60)	468	468	-
8 Other Chips (180k* 70. 95)	12771	12643	128 F
Variable Supplies; Tools(180k*62. 54)	11257. 2	11305	(47. 8)U
Total Material Cost	33820. 2	34129	(308. 8) U
Labour:			
Assembly; Packing (180k*13.	2359. 8	3092	(732. 2) U

11)			
Shipping (180k *1. 06)	190. 8	191	(0. 2) U
Total Variable Cost	36370. 8	37412	(1041. 2) U
Fixed Cost:			
Factory Rent	400	400	-
Machinery Deprecation	150	150	-
Utility Fees; Tax	52	52	-
Supervision	127	134	(7) U
Total Fixed Cost	726	736	(7) U
Total Cost	37096. 8	38148	(1051. 2) U
Net Income	\$ 19. 20	\$ (672. 00)	(691. 2) U

As the conclusion after a tare analysis is done we, found the labor is the root cause of why the budget is unfavorable and Danshui could meet the requirement. This because labor plays an important in from the early process installation of iPhone 4 parts to the ending process which includes the shipping. Thus, any wastage from the labor due to lack of skill or

recklessness will bring an impact on the budget. Solution and the justification for the solution that is suggested.

1. Reward to the Labour.

When the company, give reward to the labor, they will feel that they are appreciated and valued for their contribution to the company. Other than that, giving rewards also can be one of the motivations for the labor to work hard in order to meet up with the target of producing 200000unit Apple iPhone 4 in the next nine months. The type of rewards that can give to the labor are coupons for shopping, free trip, free lunch coupon, certificates, and gifts.

2. Training

The training that is given to the labor will improve the skills of the labor, especially on the assembly the parts of the Apple iPhone 4 since it involves a lot of steps, individual and time. Through training, also the labor can learn how to handle care on the pars that sensitive during the installation especially the flash memory and this avoids the wastage that will occur.

Not only, during the training process, can the supervisor or the manager identify the potential and the specialty of the labor on assembly the parts. This will indirectly help the management to place the correct labor at the correct assembly parts in order to fasten up the process, save time, and avoid wastage.

3. Hired Skilled Supervisor.

The skilled supervisor will have enough experience to guide the labor to be on the track in order to meet the target to produce 200000 units of Apple iPhone4. The supervisor will able to respond to the problem that arises

without waiting for the plant manager. The skilled supervisor also will know how to motivate the labor to achieve the target.

4. Chen(Plant Manager) Should Do a Surprise Visit

This will make the labor to be alert all the time and do their work with a minimum error and in time. Chen can get feedback and evaluate performance more accurately as he knows what is really going on. This surprise visit also can build a relationship between Chen and labor. It's also will become a motivation for the labor to work hard as they now the management is concern regarding their needs and welfare.

Conclusion

Training is the best solution to overcome the labor problem and meet up the requirement to produce 200000unit of Apple iPhone 4 per month for the upcoming nine months that is left. Other than that, training also can faster up the assembly process of parts in iPhone4. To cover up the cost that accrued from the training to the labor, Danshui can ask Apple to contribute or increment in the revenue form to equalize the cost the occurred. This because the training also will not jut benefit Danshui but also Apple they can their iPhone to be ready on the time in order to meet up with the demand of their customer. The short-term plan that we are planed to ensure the success of the solution that had been chosen is ' on the job training'. ' On Job Training ' means the labor will be given the training while they are doing their work with the supervision from their supervisor. By doing this, the mistake committed by the labor will be corrected on the spot and it will reduce the chances of error from occurring as the labor will be used their job quickly and their mistake is corrected faster.