Racol Case

Mr. Racol is a prosperous man. He leads a manufacturing company created by his grandfather.

The reputation of Racol made to order cars extends to the whole world, due in part to the fact they do not believe in stocking cars, but create each car unique to the buyer's standards and expectations. The output, 40 cars per year, does not make it possible to satisfy all the demand in spite of a high selling price of 50,000 €. The net margin released by the company (+7%) is very satisfactory.

Currently the company employs 10 workmen whose annual cost for the company is 30,000€ per employee. The production equipment is very new, and cost 1,000,000 €. It depreciated over five years. The purchase of raw materials costs 20,000€ for each produced vehicle. Overhead costs are at 560,000€ per year.

The emissary of a rich emir in the Middle East contacted Mr. Racol to place an order of 20 convertible cars for his elder son's wedding. Taking into account the importance of the order, the emissary asks for a reduction of 10%.

Mr. Racol is perplexed:

Because of geopolitical conflicts, the economic situation is dubious:

-If the market grows, the Racol Company will not have any difficulty in selling 60 cars, beside of the emir's special order.

-On the other hand, if the market is in decline, one will not plan to sell more than 20 cars, beside of the emir's special order.

He’s also thinking about investing in a new production line : if he invest, still 1M€, he will also have to hire 10 workers more

Knowing your managerial skills, Mr. Racol asks you for two things:

-To list all the possible assumptions

-For each assumption, to quantify potential profit or loss, without considering taxes