

CASE 1 – BLUE RIDGE MANUFACTURING

1. What is Blue Ridge's Competitive strategy?

Blue Ridge produces several varieties of towels and gives their customer an option to customize at a lower cost. To stay ahead in the market Blue Ridge uses Cost Leadership strategy. They are leading in the southeastern states and have a total of 986 different customers. They have been upgrading their facilities with time and introduced Activity-based costing system to determine product cost and reduce the cost of production in every way possible. Blue Ridge with its innovative ink which is Non-Toxic and better for the environment is also planning to improve the quality of the towel. Blue ridge is planning to go national by focusing on Sales and Marketing. They also plan to produce higher quality towels with this ink thereby leading to higher profits. All the information suggests that Blue ridge is leaning towards a differentiation strategy.

2. What type of cost system does Blue Ridge Use, and is it consistent with their strategy?

Blue Ridge Manufacturing uses Activity-based costing (ABC) system. They track the price of each towel right from production to customization. Blue ridge customers have various options to choose from, which are in 4 different sizes (Regular, Mid-Range, Hand & Special), different colors, a well-designed logo or a logo according to customers' specifications which includes a license fee, and if the logo is to be printed or embroidered. With all these options and combinations according to the customer, Blue Ridge using ABC system is important. Blue ridge wishes to determine product cost figures for each product line and identify customers that generate high profits & drop those that do not generate enough revenues, all this can be found out using ABC system and will be consistent with their upcoming differentiation strategy in which they plan to improve overall product material and expand their marketing and sales activities with the objective of going national.

- 3. Develop a spread sheet analysis which can be used to assess the profitability of the three customer groups of Blue Ridge – Large, Medium and small customer account sizes. Use the information in Tables 1-4 to trace and allocate the costs necessary for the analysis.**

The spread sheet analysis helped to assess the profitability for all three customer groups, which are as follows:

Profitability for Large customer groups - \$ 12,833.00

Profitability for Medium customer groups - \$323.00

Profitability for Small customer groups - (\$6.00)

This analysis shows us that major profits come from large customer groups. With going national Blue Ridge should focus on increasing the number of large customers and develop different marketing and sales strategies to attract more medium and small customers.

APPENDIX

1. We allocate costs by dividing total costs by percentage of those activities.

Allocating Costs to Activities					
	Shipping	Sales	Marketing	Other	Total
Entering Purchase Orders	\$-	\$85,360	\$-	\$6,850	\$92,210
Commissions	\$-	\$15,520	\$-	\$-	\$15,520
shipping Activities	\$21,125	\$-	\$-	\$10,275	\$31,400
Invoicing	\$-	\$-	\$-	\$13,700	\$13,700
Cost to make Sales calls	\$-	\$46,560	\$-	\$6,850	\$53,410
Checking Credit	\$-	\$-	\$-	\$6,850	\$6,850
Samples, Catalog Info	\$1,625	\$-	\$2,970	\$-	\$4,595
Special Handling Charges	\$1,625	\$-	\$-	\$3,425	\$5,050
Distribution Management	\$3,250	\$-	\$2,970	\$-	\$6,220
Marketing, by Customer Type	\$-	\$7,760	\$-	\$-	\$7,760
Advertising/Promotion	\$-	\$-	\$8,910	\$-	\$8,910
Marketing	\$4,875	\$-	\$14,850	\$3,425	\$23,150
Administrative office support	\$-	\$-	\$-	\$13,700	\$13,700
Licenses, Fees	\$-	\$-	\$-	\$3,425	\$3,425
Total	\$32,500	\$155,200	\$29,700	\$68,500	\$285,900

2. We calculate the cost driver percentage by dividing Large/Medium/Small sales by total sales.

Calculating Cost Driver percentage	Large	Medium	Small	Total
Total units excluding special	36.72%	20.29%	42.99%	100.00%
Sales volume revenue	38.09%	22.67%	39.24%	100.00%
Number of orders Received	2.18%	13.83%	83.99%	100.00%
Number of Shipments Made	2.26%	14.20%	83.54%	100.00%
Number of invoices Sent	2.00%	13.46%	84.54%	100.00%
Account with Balance >60 Days	0.75%	8.21%	91.04%	100.00%
Customers	0.81%	15.62%	83.57%	100.00%

3. We allocate activity costs to customer types by multiplying the total cost we got in 1. with cost driver percentage, we got in 2.

Allocating Activity Costs to customer types					
Activity	Cost Driver	Total Cost	Large	Medium	Small
Entering Purchase Orders	Number of Orders	\$92,210	\$2,008	\$12,757	\$77,446
Commissions	Sales Dollars with Medium Customers	\$15,520		\$15,520	
shipping Activities	Numbers of shipments	\$31,400	\$710	\$4,458	\$26,232
Invoicing	Number of invoices	\$13,700	\$274	\$1,844	\$11,583
Cost to make Sales calls	Sales Dollars with large Customers	\$53,410	\$53,410		
Checking Credit	percent account >60 days	\$6,850	\$51	\$562	\$6,237
Samples, Catalog Info	sales dollars	\$4,595	\$1,750	\$1,042	\$1,803
Special Handling Charges	management estimate (1)	\$5,050		\$1,010	\$4,040
Distribution Management	sales dollars	\$6,220	\$2,369	\$1,410	\$2,441
Marketing, by Customer Type	sales dollars	\$7,760	\$2,956	\$1,759	\$3,045
Advertising/Promotion	management estimate (2)	\$8,910		\$2,228	\$6,683
Marketing	number of units sold (3)	\$23,150	\$8,501	\$4,696	\$9,953
Administrative office support	number of units sold (4)	\$13,700	\$5,031	\$2,779	\$5,890
Licenses, Fees	Sales Dollars with Medium Customers	\$3,425		\$3,425	
Total		\$285,900	\$77,060	\$53,490	\$155,350
(1) 20% to medium-sized customers; 80% to small-sized customers					
(2) 25% to medium-sized customers; 75% to small-sized customers					
(3) Excluding Specials					
(4) Excluding Specials					

4. Now we calculate the revenue for Large/Medium/Small by multiplying per unit price with total number of units.

Calculating Revenue by customer group					
	Sales Price	Large	Medium	Small	Total
Regular	\$3.60	\$98,100	\$59,760	\$37,980	\$195,840
Mid-Size	\$3.20	\$117,248	\$59,366	\$32,986	\$209,600
Hand	\$2.55	\$91,494	\$50,913	\$244,683	\$387,090
Special	\$4.00	\$1,920	\$13,704	\$2,376	\$18,000
Total		\$308,762	\$183,744	\$318,024	\$810,530

5. Similarly we calculate Manufacturing cost as we did in 4.

Calculating Manufacturing Cost					
	Unit Cost	Large	Medium	Small	Total
Regular	\$1.19	\$32,428	\$19,754	\$12,555	\$64,736
Mid-Size	\$1.03	\$37,739	\$19,109	\$10,617	\$67,465
Hand	\$0.89	\$31,933	\$17,770	\$85,399	\$135,102
Special	\$1.44	\$691	\$4,933	\$855	\$6,480
Total		\$102,791	\$61,566	\$109,426	\$273,783

6. Now we calculate cost of customizing in the similar way as we did in 4.

Calculating Cost of Customizing					
	Unit Cost	Large	Medium	Small	Total
Inking (based on passes)	\$0.08	\$16,381	\$9,566	\$19,184	\$45,131
Dyeing	\$0.11	\$2,259	\$1,093	\$1,356	\$4,708
Embroidery	\$1.28	\$7,610	\$8,288	\$37,536	\$53,434
					\$-
Total		\$26,249	\$18,947	\$58,076	\$103,272

7. Now we add from 3, 5, and 6 to get the total manufacturing cost.

Adding Total Manufacturing Cost				
	Large	Medium	Small	Total
Manufacturing Cost	\$102,791	\$61,566	\$109,426	\$273,783
Cost of Customization	\$26,249	\$18,947	\$58,076	\$103,272
Selling & Administration Costs	\$77,060	\$53,490	\$155,350	\$285,900
Total	\$206,101	\$134,002	\$322,853	\$662,955

8. Now we calculate the profitability by getting the total revenues by subtracting 7 from 4 and dividing that amount by number of customers to get the profit per customer.

Calculating Customer Profit				
	Large	Medium	Small	Total
Total Revenues - Total Manufacturing Cost	\$102,661	\$49,742	\$(4,828)	\$147,575
Profit per Customer	\$12,833	\$323	\$(6)	\$150