Using the Scenario below:

A. Create a business proposal in which you provide recommendations to the company for increasing revenue for the company, achieving ideal production levels, determine how fixed and variable costs should be adjusted to maximize profit, and identify methods to reduce costs.

B. Describe your process to make recommendations.

C. Include economic concepts to provide support for recommendations.

D. Answer the question: What assumptions did you make about the organization and its values?

Clear Hear Scenario

Clear Hear is a manufacturer of cell phones, where Kendra Sherman works as a business development specialist. Kendra anxiously awaits her appointment with Lisa Norman, the production manager for Clear Hear. Kendra has secured an order for 100,000 cell phones that are nearly identical to Clear Hear’s Alpha model, which will support a promotion that a major chain, Big Box, is running with a telephone service provider. The delivery date is in 90 days. Lisa is interested, in part, because she has an excess capacity of 70,000 cell phone units over the next 3 months, and part of her bonus is based on running the factory at capacity. The larger part of her bonus, however, is based on factory total profitability. Big Box, however, will not pay more than $15 for each of the cell phones, which are based on the $20 per unit Alpha model, lessening Kendra’s enthusiasm.

Clear Hear runs two production lines at its factory. The other line produces the Beta model, which has more features. The Beta model sells for $30 but also costs more to produce. Lisa knows that she could switch production of 30,000 units from the Beta model to Alpha to complete the order. Just last week, however, an Original Equipment Manufacturer (OEM), which has extensive experience manufacturing cell phones for other brands and has won several quality awards for its manufacturing processes, showed Lisa a prototype of the Alpha unit. The OEM sought to convince Lisa that not only could they produce up to 100,000 units of the Alpha on short notice, but the performance of the cell phone would be identical to Clear Hear’s product. The price would be a nonnegotiable $14 per unit.

After the meeting, Lisa reviewed the last month’s unit profitability report that revealed the following:

Table 1

*Unit Profitability Report*

|  |  |  |
| --- | --- | --- |
|  | Alpha model | Beta model |
| Price per unit  | 20 | 30 |
| Variable cost per unit | 8 | 12 |
| Fixed overhead | 9 | 10 |
| Profits | 3 | 8 |

*Note*. All unit prices are in dollars.

Unfortunately, although unit profits were good and cost controls met factory standards, the underutilization of capacity deprived Lisa and the factory of profits that could have been earned on an additional 70,000 units. Kendra wants to know if she should accept the order from Big Box.

As Lisa Norman thinks about how to proceed, she studies Clear Hear’s statement of values. Clear Hear’s values include the following:

* Keep our employees working.
* Provide our customers with products on time and that reliably meet or exceed their expectations.
* Treat our business partners the same as we want to be treated.