

## FINEPRINT COMPANY (A)

John Johnson hung up the phone and began to contemplate the offer he had just received. Abbie Jenkins, a friend of Johnson's and the owner of a small company in nearby Keswick, Virginia, had just called to see if Johnson's printing firm, FinePrint Company, could accommodate a special printing order next month.

### Company Background

FinePrint Company printed elaborate, high-quality color brochures in its facility, located in Charlottesville, Virginia. It primarily served businesses in the central Virginia area, although it did have some clients in southwestern Virginia and as far east as the Chesapeake Bay region of the state. Production at its Charlottesville facility was running at around full capacity: 150,000 brochures a month. Johnson owned and managed the company. He employed one sales representative and one printing-press operator, although he frequently relied on temporary labor to help in the printing process as needed to accommodate any changes in printing volume. Johnson believed that many of his costs were fixed, but that some costs varied with the number of brochures he printed and sold. **Exhibit 1** contains information related to FinePrint's monthly operating costs for the company's current activity level of 150,000 brochures a month.

The company typically priced its printing services at an average of \$17 per 100 brochures printed. Historically, Johnson had encountered little variation in pricing from job to job, although occasionally special situations did arise. He wondered how he should handle those special situations. He did not have a "rule of thumb" he could apply, but he wished he could find one.

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## **The Special Order**

In her phone call, Jenkins indicated that she needed a special job printed next month. She needed 25,000 brochures, concerning a new product, to distribute at three trade shows she was planning to attend. When Johnson quoted Jenkins the usual price of \$17 per 100 brochures, she sighed. “John, I know that FinePrint does a high-quality job, but I’m short on funds right now because I have spent so much on getting this new product up and running. I can’t go any higher than \$10 per 100 brochures on this job. If you can’t do it for that, I’ll have to go to someone else. I’m sure the brochures won’t look as nice, but that’s all I’ve got to spend.”

Johnson was enthusiastic about the potential business, but when he inquired about whether Jenkins would have future printing needs that FinePrint could help with, she expressed doubt. “We just don’t do much of this type of stuff. This is the first material we’ve had printed like this in years, and we’re only doing it because we’re trying to get this new product off the ground. I suspect this will be the last for a long while.”

Johnson knew he did not have the capacity at the moment to handle the special order. And \$10 per 100 brochures sounded low. He replied, “Let me look into this. I’m not sure we can do it for \$10, but I’ll be glad to think about it. I’ll give you a call back in a couple of days.” Johnson realized that with this order he would not have to pay his sales representative the typical sales commission of \$1 per 100 brochures, but that \$1 savings would not begin to make up for the lower price.

Exhibit 1

**FINEPRINT COMPANY (A)**

Summary of Monthly Operating Costs

	Monthly costs at 150,000 volume
Manufacturing costs:	
Direct material, variable	\$ 6,000
Direct labor, variable	1,500
Direct labor, fixed	3,000
Manufacturing overhead, variable	1,500
Manufacturing overhead, fixed	<u>3,375</u>
Total manufacturing costs	\$15,375
Nonmanufacturing costs:	
Sales, variable	\$ 1,500
Sales, fixed	1,875
Corporate, fixed	<u>3,750</u>
Total nonmanufacturing costs	<u>\$ 7,125</u>
Total costs	\$22,500