

## FINEPRINT COMPANY (B)

John Johnson listened intently as Ernest Bradley, sitting across the table in Johnson's office, outlined his proposal. Bradley, the owner of a local one-room printing operation in Charlottesville, Virginia, called SmallPrint Shop, had stopped by to see if Johnson's printing firm, FinePrint Company, could use some help printing color brochures over the next few months.

### 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 Outsourcing Opportunity

Bradley's largest customer had just informed him that it was going out of business and would no longer need his printing services. Most of SmallPrint's customers were small companies needing basic printing services for small jobs. But several of his customers, including his largest customer, used his services for both basic printing services and more elaborate work, including color brochures. Bradley had a long-standing relationship with the customer's owner, and had purchased the small printing press he used for color brochures partially to serve this customer's needs. He was unsure how he was going to get enough business to make up for this

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loss, especially as he was primarily known for his basic printing services rather than printing elaborate brochures.

Bradley decided to stop by and talk with Johnson. "I've had some bad luck. My largest customer just informed me that it is closing its doors. I've been doing their color printing work for several years, and their closing leaves me with a lot of idle capacity. I wonder if you have any extra brochure printing I can help with. I'd be happy to do it really cheaply, just to keep my press going. I would go as low as \$8 per 100 brochures. And I could handle 30,000 brochures for you next month."

Johnson thought that \$8 per 100 brochures sounded like a good deal. He was unsure that even he could print that cheaply. And he knew that SmallPrint did a good job. He had used them before. They did high-quality work, and were dependable.

Exhibit 1

**FINEPRINT COMPANY (B)**

Summary of Monthly Operating Costs

	<u>Monthly costs at 150,000 volume</u>
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