

2. Difficult times at Jonson's Pallets Ltd.

Bethan Jonson, Managing Director at Jonson's Pallets Ltd, sat in her office reviewing the latest production figures for the wooden pallets that the business manufactures for sale to the distribution and transport industry in the UK. Five years ago the business was consistently operating at 100% capacity utilisation and the factory was extended to cope with the growing number of orders coming in. By the end of 2012 the picture was entirely different and the economic recession meant that it was currently operating at less than full capacity, forcing up the unit cost per pallet considerably. Whilst operating at 100% capacity utilisation had had its problems, the current situation was proving much worse.



Bethan was also very concerned about losing a number of contracts to competitors in recent months and the failure of the company's Sales Team to generate any new orders. There was no doubt that trying to market pallets to the transport industry during an economic downturn was proving to be very difficult indeed. In an attempt to give the Sales Team a boost, she decided to call in an industrial marketing consultant to give her team expert advice on **industrial marketing** methods. She hoped this advice would help achieve the increase in sales the company so badly needed.

Table 1. Jonson's Pallets Ltd. Output, Cost and Price figures – 1 January to 31 December 2012

Maximum possible output (100% capacity)	400 000 units
Actual output	240 000 units
Variable Costs (per unit)	£6
Fixed Costs	£360 000
Selling Price (per unit)	£14

- (a) (i) What is meant by *industrial marketing*? [2]
- (ii) Analyse the possible methods that the members of the Sales Team might use when selling their products to their industrial customers. [6]
- (b) Calculate the profit that the company would have made if it was producing at maximum possible output over the year, rather than at actual output. (Assume that variable costs per pallet remain the same at £6 per unit and all pallets are sold at a price of £14 each. Show your workings.) [5]
- (c) (i) Calculate the actual percentage capacity utilisation for Jonson's Pallets Ltd. (Show your workings.) [2]
- (ii) Explain the advantages and disadvantages, to a manufacturing business such as Jonson's Pallets Ltd, of operating at 100% capacity utilisation. [8]