

Group Assignment: Comet Skateboard's Meeting with the Boss

Student Name: _____ Date: _____

Directions: You have received an email from your boss about the production numbers for your company's new bamboo skateboard line. The company founder wants you to come in and explain to him why Comet is not ramping up production beyond its current level of 200 skateboards a day. He is sure that they could sell more than that. Unfortunately for you, the company founder does not understand economics very well (give him a break, he was a skate punk before he started the company). You now find yourself having to prepare responses to some of his questions that will help walk him through the economics of pricing, production, and profit. Your goal is that when you leave the meeting, he will fully understand why the current production levels make economic sense.

Read the email below and then respond to his questions in complete sentences using the numbers from the completed chart in the previous exercise. To be ready for the meeting, collectively prepare responses that explicitly respond to the issues. Be sure that your responses to each question comply with the following criteria:

- The answers address the explanatory needs of the target audience (your skateboarder boss).
- The responses are written in clear and concise language.
- The responses use examples from the chart from the previous exercise to make them more understandable and relevant.
- The responses display an understanding of the information represented by the production, cost, revenue, and profit schedules.
- The responses present a clear understanding of the relationships between profit maximization and margin analysis.

-----Original Message-----

From: Wallace, Rasheed [<mailto:rasheed@comet.com>]

Sent: Tuesday, May 20 9:25 AM

To: YOU

Subject: Bamboo Deck Production

Just talked to Jill at our production plant in Redlands. She tells me that we are only doing 200 decks a day. It seems to me that the boards should be flying off the shelves and that we should be pumping them out as fast as possible. Jill tells me that the economics say otherwise.

She says that the production level has something to do with marginal returns and variable costs and a whole host of other confusing economic terms that I don't understand. She suggested that you are our ace econ person and that I should have you explain this whole thing to me. Plus, I think that she is tired of me bugging her about this all the time.

Look, you know how busy I am. I've got a business to run and pools to skate. So, I am hoping that you can give me some clear and concise answers to the following questions when we speak tomorrow. And please use examples when you can. They are really helpful.

- 1. I know that the other skateboard companies charge about the same. But why do we charge only \$22 a board? Why don't we charge way more, like \$45 a board? What is keeping the price in check?*
- 2. Why are there only eight guys cutting boards at the factory? Why don't we have twice that number?*
- 3. What's the difference between fixed costs and variable costs? And do we have any of these things at our factory?*
- 4. What is marginal cost and why is it so important?*

I'll see you in my office tomorrow afternoon.

*Rasheed (The Rash) Wallace
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