Lush Fruit Processing, Ltd

Lush Fruit Processing (LFP) is losing money this year. The company's accountant, Andrea Burqhart, has not yet completed the financial reports for the year, but she expects to report to the owners a loss this year of over a $100,000. The business was established 22 years ago and was quite profitable in the past. In recent years, however, profits have been small and generally declining - $170,000, $150,000, and last year, only $55,000.

Andrea decided to meet with the Marketing Manager, Julian Van de Merwe, to explore reasons for the declines and what solutions might be suggested to the owners to restore the company's profitability.

The Company

LFP is in the famous Okanagan fruit growing region of British Columbia, Canada. Each year millions of kilograms of fruit are harvested. Most can't be sold in fresh form before it spoils, so must be processed in some way. Possible processing methods:

- Freezing.
- Drying into a “fruit leather”.
- Creating jams, jellies, and preserves.
- Canning.
- Dehydrating into a frozen concentrate.
- Turning the fruit into a juice - “juicing” and bottling.

This is the business of LFP: The company buys fruit from individual fruit growers, or grower cooperatives, and turns it into processed fruit products. The company does two different types of processing:

1. Juicing and bottling.
2. Canning.

Product Details

As Andrea sat down with Julian to explore why the losses might have occurred, she pulled out what data she had to work with on the two product lines:

Fruit juice bottles:

- These are sold to retailers at a price of $2.50 each. The customer pays the shipping costs.
- Costs to manufacture these bottles of juice include:
  - the price of the bottle itself ($0.20)
  - the cost of the juice in each bottle ($1.20) This includes the direct costs of the fruit itself, extracting the juice, and discarding the leftover pulp.
  - shipping-in costs ($0.15)
  - labelling of the bottles ($0.10)
  - boxing the bottles ($0.10)
- LFP sold 300,000 bottles of juice this year.
- Juicing equipment and the juicing process takes up 70% of the processing building's space and utility costs.
- Warehousing is costly for the bottles, as they are physically very big and heavy.

Canned fruit:

- Cans are sold in cases of 12 units.
- Each case sells for $10.00.
- Cost of each can (not case), includes:
  - the price of the empty can itself (0.02)
  - the price of the fruit in the can, including direct costs of buying the fruit, processing it, and discarding of leftover pulp (minimal as most of the fruit is included in cans ($0.25)
  - shipping-in costs ($0.05)
  - labelling of the cans ($0.05)
  - boxing the cans ($0.06).
- LFP sold 80,000 cases (not cans) last year.
- Canning equipment takes up 30% of the processing building's space and utility costs.
- Cases of fruit don't cost too much to warehouse as they are not as heavy as fruit juice and not as big.

Some historical data is included in Appendix 1.

Julian had some comments to help her with her analysis.

> “When I was in South Africa, we never had such a profit problem. We simply filled containers with our [processed fruit] products and sent them off by ship to all sorts of places in the world. Dubai, Tokyo, Montreal, New York - all over. Container load after container load. Big orders, big sales, everyone happy.
>
> 3 years ago, I was hired to do the same here: Take LFP products and do big things with them. I am not liking what I am hearing about a possible loss: We just have to get bigger and ship more juice!”
>
> At this point Julian picked up a juice bottle from his desk to illustrate.
>
> “Look at these beauties! They are a big seller for the company and we are very excited about them. We have a new label and some great new ads. I love them!”
>
> Andrea asked Julian about the sales of cans. His response:

Questions:

1. Calculate the following:

- the margin for each of the two product lines, **per bottle and per can.**
- the total sales for both

- total costs of goods sold for both
- the total margin LFP receives from the sales of each product line. This is calculated by multiplying the number of sales of each product by the per bottle/can prices and by the costs and subtracting the results.

2. Allocate overhead to each product line:

Overhead in the form of running the processing plant costs the company $220,000 per year. This may seem low at first glance, but fruit processing takes place only over a period of about 8 weeks every year. The rest of the year the processing plant acts as warehouse space.

Marketing costs are $200,000 per year.

Management, office, and admin costs are $280,000 per year.

3. Why might the company be losing money this year? What should Andrea report to the owners about what needs to change in order to return the company to profitability?

4. Is Julian a good Marketing Manager? Why or why not?

Appendix 1: Selected Historical Data

	Juice	Cans
Sales - 2019 (units)	200,000	1,400,000
Sales - 2020 (units)	220,000	1,250,000
Sales - 2021 (units)	250,000	1,100,000
Average Selling price - 2019	$3.00	$0.80
Average Selling price - 2020	$2.90	$0.79
Average Selling price - 2021	$2.75	$0.82

Credits:

Page 1: Photo of apple tree - Flickr.com, User: WxMom, photo title: “Apple Trees”. Creative Commons license for commercial use: “Attribution-NoDerivs 2.0 Generic”.

Page 3: Photo of juice glasses - Flickr.com, User: diekatrin, photo title: “Smoothie 2”. Creative Commons license for commercial use: “Attribution-ShareAlike 2.0 Generic”.