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Search 4-1 Discussion: Actual Cost



4-1 Discussion: Actual Cost

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For your Milestone Two assignment, you will be analyzing actual cost to determine the profitability of certain areas of the business. To help you get started with Milestone Two, you will use this discussion to analyze a specific area of the organization and discuss with your peers all of the costs associated with it.

For your initial post, consider the Vinho Winery scenario. Choose either production or transportation and explain how you would account for the costs associated with that part of the business. What factors need to be considered?

In response to your peers, select a classmate who chose the business area that is different from yours. Do you feel your peer accounted for all of the associated costs? Why or why not? Which factors are the same as the factors from the business area that you chose? Which factors are different?

Note: You will not be able to see your peers' posts until you make your initial post.

To complete this assignment, review the [Discussion Rubric](#) document.

Rubrics

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4-1 Discussion: Actual Cost-Transportation

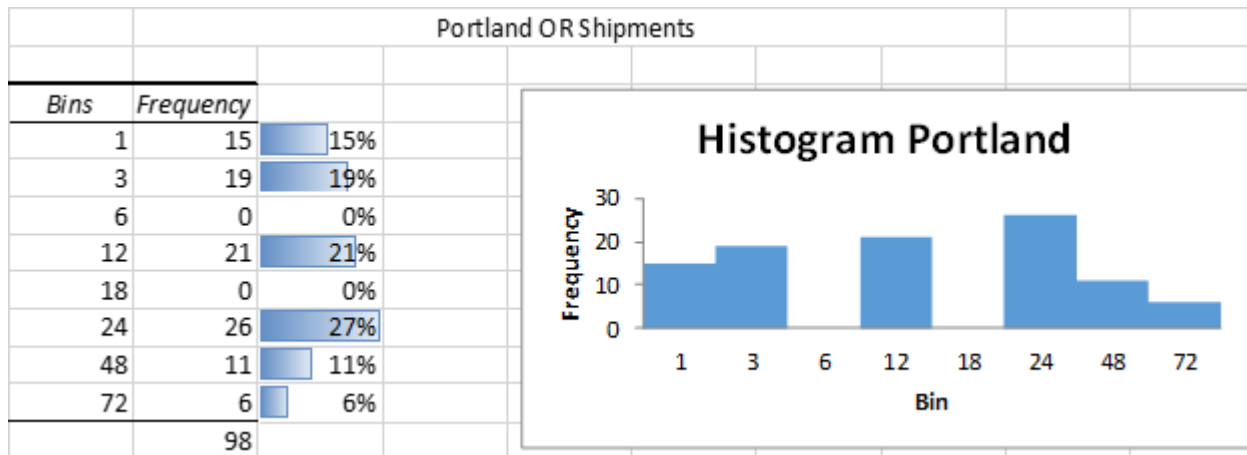
Darryl Littleton posted Sep 21, 2020 3:39 PM [☆ Subscribe](#)

Hello Future Business Analyst,

I feel strongly that substantial savings can be achieved if we concentrate on transportation. When I created a histogram for the Portland Oregon shipments, it became apparent that many trucks were departing the winery with only 1 or 3 pallets. I added data bars with percentages to create another visual graphic to better understand the inefficiency. 1 and 3 pallet shipment frequencies are prevalent and represented as 15% and 19% for a cumulative total of 34%. If a fully loaded truck can carry 24 pallets, and it leaves with 1 pallet, it is traveling at 4% capacity or 13% for 3 pallets. Not very efficient when compared to the Mean pallet size of 19 or Median of 12. Of interest to me is none of the shipments had 6 or 18 pallets. Perhaps smaller shipments can be consolidated to create 6 and 18 pallet loads or supplement the 12 pallet trucks.

Good stuff.

Darryl



	Mean pallet	Median pallet	Mode pallet
Oakland CA	22.2	24.0	24.0
Portland OR	19.0	12.0	24.0
Riverside CA	22.2	24.0	24.0
Seattle WA	23.0	24.0	24.0

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4-1 Discussion: Actual Cost

Matthew Berk posted Sep 24, 2020 1:09 AM [☆ Subscribe](#)

Looking at the shipping of the product there are three numbers that need to be considered. First is FTL shipping cost. Each location has a different shipping cost associated with it. I would multiply the shipments to each location by the cost of each trip. Rounding the total to the nearest FTL and multiplying the remainder by the shipping cost. To determine the total percentage of the retail price that is allocated to transportation I would take the total cost of shipping and divide by the bottles sold.

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4-1 Discussion: Actual Cost

Thomas Green posted Sep 24, 2020 11:57 AM [☆ Subscribe](#)

The actual costs are composed of direct labor costs or wages. The fees that are part of the price added to the total and raw material (direct material) utilized, such as grapes, bottles, corks, etc. The indirect cost, such as facility operational costs, fixed fees that go into the prorated production fee listed in the study.

I would consider items such as these direct labors, material, and overhead in a production scenario. However, in the Vinho winery case study, it would specifically entail wages, production cost per bottle of wine, per case, per pallet, whatever applies in this case. The cost would be a pre-sales tax total. Before shipping, the application of tax is appropriate.

Actual cost= (direct labor costs + direct material costs + indirect costs(overhead))

1. Direct labor

Wages & any insurance (labor cost) used on the production line

2. Direct Material

Raw materials(for production of wine) cost of raw materials used in production.

3. Overhead factory related cost incurred during production(indirect cost)

Equipment-related costs(machinery, production lines)

Occupancy costs(rent for building)

utilities

reference

3-1 Final Project Milestone One: Organizational Sales

Spielman, Business News Daily (2020) Direct Costs vs. Indirect Costs: What Are They, and

How Are They Different? Retrieved from <https://www.businessnewsdaily.com/5498-direct-costs-indirect-costs.html>

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4-1 Transportation Analysis

Aaron Lesseski posted Sep 21, 2020 7:25 AM [★ Subscribe](#)

Good morning everyone!

After looking over the data concerning the transportation costs for Vinho Winery, there are multiple factors that go into their distribution. Somethings the company may want to consider include:

- Profitability of shipments
- Demand by location
- Deadhead percentage and ability to capitalize on the return trips
- Frequency of low quantity shipments

The company may want to consider making some changes regarding the restrictions or requirements concerning the sales of their products.

Shipping the products to Oakland, CA is not the most efficient shipment for Vinho Winery. It costs the company \$3.00 per mile. This short range, just over an hour's drive, may be cheaper by utilizing in-house transportation vs. outsourcing. Shipping a pallet of wine to Oakland currently costs them \$200. For an 80 mile trip, it could possibly be done cheaper by using a company or personally owned vehicle. This is not necessarily the case for shipping their products to Seattle; the trip is significantly longer and would take more time and resources than it is worth.

The company could also implement a "minimum order" requirement, ensuring that shipment costs are worth their while. According to Stephen Bulger, higher than expected shipping costs are one of the top reasons e-commerce buyers abandon their shopping cart when making an online order (2012). By offering free shipping, it can greatly increase sales, however this also takes away from profits associated with the sale. However, if the company meets in the middle and offers free shipping on a minimum threshold scale, this can be beneficial by promoting bigger orders. Shelf life is not necessarily a concern for unopened wine, making it feasible for distributors to purchase bulk quantities. It may even be advantageous to offer free or discounted shipping to consumers that are closer.

The fact of the matter is that Vinho needs to incentivize their distributors to maximize shipments and make the most out of their shipping costs. Since Vinho is footing most of the bill for shipping, they need to ensure that all shipments are worth their value in profit. Shipping costs can greatly affect a company's profits; maximizing efficiency is the most reliable way to counter and offset these costs.

Bulger, S. (2012, April 10). *How to Offer Free Shipping without Going Broke*. Practical Ecommerce. <https://www.practicalecommerce.com/bulger-free-shipping>

Murray, M. (2019, July 29). *How to Reduce Supply Chain Transportation Logistics Costs*. The Balance Small Business. <https://www.thebalancesmb.com/reducing-transportation-costs-2221049>

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Last post **yesterday at 12:03 PM** by Thomas Green

4.1 Discussion

Lanchester Dardar posted Sep 24, 2020 2:46 PM [★ Subscribe](#)

Transportation cost are subject to various factors such as fuel, maintenance, and payroll. A good system for storing records must be put in place. Some factors to consider for Vinho Winery is to first track overall transportation cost by (hub) destination. Tracking miles on fronthaul and return for trips is on step. Also fuel cost should be accounted for when calculating overall expenses. The cost associated with paying driver should be factored in as well.

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Module 4: Production

Ryan Cotton posted Sep 23, 2020 4:29 PM [★ Subscribe](#)

Hello,

For this weeks' discussion topic I have decided to choose the topic of the production of the wine that Vinho is making. Then reason that I chose to focus on this area is that there are many areas that they will need to focus on such as number of trucks that they receive with the products that they need to make the wine. Another area within the production area is the number of employees that they have there to make the wine. If they don't have enough people there then they will be short handed when it comes to the production of the wine and this can lead to shortages.

Ryan Cotton

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Last post **yesterday at 6:38 PM**
by Darryl Littleton

4-4 Discussion: Production Costs

Thomas Motz posted Sep 22, 2020 1:46 PM [★ Subscribe](#)

When considering production costs for Vinho Winery these are the costs you need to consider.

Labor: What is the cost of the labor force.

Time: How much time is spent by the labor force making a bottle of wine.

Materials: How much is the cost of materials for a bottle of wine.

Machinery: Is there a depreciation value or hourly rate for equipment used to produce a bottle of wine.

Downtime: Is there any wasted or wait time in the production process. This includes scrap, was there cost associated with loss of product.

Overhead: How much do the overhead items cost per bottle. Lights, gas, insurances...etc.

All of these things can be broken down in Excel to find the true cost of goods sold. Once this is found you can see any inefficiencies in the production process.

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Last post **yesterday at 7:17 PM**



4-1 Discussion

Tal Peleg posted Sep 24, 2020 8:39 PM [★ Subscribe](#)

For this discussion, I will focus on the shipping process of Vinho Winery. When it comes to shipping, there is many aspects that effect your cost and efficiency. One of these is your warehouse team and the warehouse itself. Ensuring you have employees that can work quickly and correctly who also have experience with shipping material inventory can cut down increase efficiency by a large margin. Using a warehouse(s) that is big enough to hold all the inventory required while not being more than you need will make rent costs more efficient. Your tucking costs are another big variable. As stated in the module overview, a company must decide if they should outsource or use their own trucking. When using your own, you need to consider many variable costs along with using a trucks trip back to the warehouse correctly. When using a private company, you need to be prepared for unexpected issues, varying rates, and less consistent shipping times. Lastly, you must strategize where you will ship your products from and your proximity to certain areas may be a big benefit or disadvantage for a company.

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4-1 Discussion: Actual Cost

Yvonne Luna posted Sep 24, 2020 5:14 PM [★ Subscribe](#)

I choose production!

Hello all, I have chosen production as you can see from above. Production costs do not only consist of making the product. Production costs go as far as labor, materials, manufacturing supplies, overhead costs and often delivery. You must account for the machinery that is used and what type of energy they function off of (gas, electricity, oil, etc). How much does that machine cost and what is the maintenance on it? When it comes to labor, how much are you spending per hour per employee and how much land are you having to harvest? There is labor for planting, tending and harvesting grapes. There is labor for transferring and maintaining grapes during the fermentation process. You must de-stem, stir, separate, etc. In addition to these costs, how much are you spending on the wine barrels, corks, bottles, pallets, boxes, packaging and etc.

"Grapes are no small item. According to Bob Holder, a wine industry accountant at G & J Seiberlich in St. Helena, they can vary from \$1,000 a ton at the low end up to \$10,000 a ton from the very best land. (Last year, cabernet sauvignon commanded an average of \$4,021 a ton in the Napa Valley. Mr. Hobbs declined to say how much his grapes cost.) A ton of grapes yields about 700 bottles of wine, and so can add anywhere from roughly \$1.40 to \$14 to the production cost of a single bottle.

And if you want to buy your own land, get in line. Vineyard prices have soared over the years. In the 1980's, Far Niente, a respected winery in Napa, bought a property for \$18,000 an acre. A vineyard it bought five years ago cost \$100,000 an acre, which is now the average. A vineyard with a top pedigree could run to \$300,000 an acre.

Expensive wines like Mr. Hobbs's also require more labor, both in the fields and in the winemaking. Grapes may be placed in small tubs after they are picked, so that none are crushed. The wine may be racked by hand and tasted daily. And by pruning heavily to concentrate the flavor in the best grapes, winemakers get lower yields."

<https://www.nytimes.com/2003/04/09/dining/why-wine-costs-what-it-does.html>

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Last post **yesterday at 8:46 PM**
by Tal Peleg

Vinho Winery scenario 4-1 discussion, Brian Dunsmore

Brian Dunsmore posted Sep 23, 2020 6:55 PM [☆ Subscribe](#)

For this discussion I will choose production and the way I would account for the costs associated with that part of the business. As well as what factors need to be considered? The factors I will need to consider are how much is the supply and wines needed, how much is it to create the wine, and where is the wine coming from? The quality of the wine? How much are the grapes, and actually produce the wine? What about storage? How about the team, do we have enough personnel to handle the shipments? You also need to know if your peers can handle the responsibility of making it all happen? Some factors that could stop production is possible running out of wine, not ordering enough or not even having a backlog to remind yourself where your at. Cost wise you should make sure your profit margins are high enough to cover the cost of your product.

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Last post **yesterday at 8:51 PM**
by Tal Peleg

4-1 Discussion: Actual Cost - Transportation

Lesly Filien posted Sep 25, 2020 10:41 AM  [☆ Subscribe](#)

Hi Class,

Keeping with my theme from our previous discussion, transportation is an aspect of a business that sometimes does not get the attention it deserves. Vinho would need to analyze the profitability of shipments, as well as the overall costs of transporting a

shipment to the different distribution points. Looking at the case study, the Cost & Distances tab show the Oakland distributor has the lowest cost to ship per pallet and mileage. The Seattle distributor on the other hand has the higher price tag to ship which would make sense as it is further away from the production plant. Using this basic information, we first need to determine how often are we making a run to each location and how many pallets are getting delivered on these runs. In our previous introduction to Vinho Winery, we were told that the company did some of its own delivery. Would it be more cost effective in the long run to look at expanding our own truck fleet to accommodate the longer trips. Long term savings could be obtained by having more control over the freight to minimize costs.

The factors that need to be considered is looking at the most frequent order size as the could be the cause of high freight costs. Does the frequently ordered size equal the truck load capacity? If not, that could certainly be the cause of the shipping cost being so high and a loss of possible profit. Could also look at the order sizes of each distributor. If a certain location is consistently ordering small quantities, an increase in the minimal order size may need to be implemented to help minimize those shipping costs and maximize return. Even more so if it is the Seattle or Portland location as those are further away from Lodi.

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Actual Cost

Juan Carlos Perez posted Sep 25, 2020 11:13 PM [☆ Subscribe](#)

Actual Cost

For this discussion, I chose to analyze the actual cost of the winery's production side to determine the profitability of the business. For this, there are specific things that one has to consider. The first one is the labor cost required to pay the farmers who plant the grapes and tend to the fields. Farming is an intensive process, especially for a wine company that does production on a large scale. The grapes need time to mature, and all the processes in between requiring labor, which costs money. The people who operate the machines in the factory also require money. Bottlers and packers also fall in the labor costs category.

Another factor to consider is the raw materials that the business requires. The winery needs to determine the type of grape that they want to use to produce wine. Each type of grape costs a different amount of money, which is one of the most important decisions. Other raw materials include sugar and yeast required for the fermentation process. The winery also has to consider the cost of the machines that they require for production. These machines include automated bottlers, grape harvester, crusher-stemmer, centrifuges, and filters, among other machinery.

These machines consume power and petrol or diesel. These also cost money, and the company also has to account for them. The company also has to consider the wine's fermentation like the materials needed, such as wooden barrels and steel tanks, the costs of the materials, and the labor associated. The other thing is the packaging process, and it includes the type and cost of the bottling glass, the cost of the labels, the type of cork, and the material that the company looks to use for the cork.

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