



CASE 3-20 Analysis of Mixed Costs in a Pricing Decision [LO1, LO2, LO3]

Christine Dandra owns a catering company that serves food and beverages at exclusive parties and business functions. Dandra's business is seasonal, with a heavy schedule during the summer months and holidays and a lighter schedule at other times.

One of the major events that Dandra's customers request is a cocktail party. She offers a standard cocktail party and has estimated the cost per guest for this type of party as follows:

Food and beverages	\$19.00
Labour (0.5 hour @ \$15.00 per hour)	7.50
Overhead (0.5 hour @ \$20.50 per hour)	10.25
Total cost per guest	<u>\$36.75</u>

This standard cocktail party lasts three hours, and Dandra hires one worker for every six guests, which is one half-hour of labour per guest. These workers are hired only as needed and are paid only for the hours they actually work.

Dandra ordinarily charges \$50 per guest. She is confident about her estimates of the costs of food and beverages and labour but is not as comfortable with the estimate of overhead cost. The \$20.50 overhead cost per labour-hour was determined by dividing total overhead expenses for the past 12 months by total labour-hours for the same period. Monthly data concerning overhead costs and labour-hours appear below.

Dandra has received a request to bid on a 200-guest fundraising cocktail party to be given next month by an important local charity. (The party would last the usual three hours.) She would like to win this contract because the guest list for this charity event includes many prominent

Month	Labour-Hours	Overhead Expenses
January	1,500	\$ 48,400
February	1,560	47,620
March	1,800	52,800
April	2,520	56,320
May	2,700	58,960
June	3,300	62,480
July	3,900	65,120
August	4,500	67,750
September	4,200	66,000
October	2,700	59,840
November	1,860	54,560
December	3,900	64,240
Total	<u>34,440</u>	<u>\$704,090</u>

individuals that she would like to land as future clients. Dandra is confident that these potential customers will be favourably impressed by her company's services at the charity event.

Required:

1. Estimate the contribution to profit of a standard 200-guest cocktail party if Dandra charges her usual price of \$50 per guest. (In other words, by how much would her overall profit increase?)
2. How low could Dandra bid for the charity event, in terms of a price per guest, and still not lose money on the event itself?
3. The individual who is organizing the charity's fundraising event has indicated that he has already received a bid under \$45 from another catering company. Do you think Dandra should bid below her normal \$50 per guest price for the charity event? Why or why not?

(CMA, adapted)