

Case Studies

Zychol Chemicals Corporation

Bob Richards, the production manager of Zychol Chemicals, in Houston, Texas, is preparing his quarterly report, which is to include a productivity analysis for his department. One of the inputs is production data prepared by Sharon Walford, his operations analyst. The report, which she gave him this morning, showed the following:

	2008	2009
Production (units)	4,500	6,000
Raw material used (barrels of petroleum by-products)	700	900
Labor hours	22,000	28,000
Capital cost applied to the department (\$)	\$375,000	\$620,000

Bob knew that his labor cost per hour had increased from an average of \$13 per hour to an average of \$14 per hour, primarily due to a move by management to become more competitive with a new company that had just opened a plant in the area. He also knew that his average cost per barrel of raw material had increased from \$320 to \$360. He was concerned about the accounting procedures that increased his capital cost from \$375,000 to \$620,000, but earlier discussions with his boss suggested that there was nothing that could be done about that allocation.

Bob wondered if his productivity had increased at all. He called Sharon into the office and conveyed the above information to her and asked her to prepare this part of the report.

Discussion Questions

1. Prepare the productivity part of the report for Mr. Richards. He probably expects some analysis of productivity inputs for all factors, as well as a multifactor analysis for both years with the change in productivity (up or down) and the amount noted.
2. The producer price index had increased from 120 to 125, and this fact seemed to indicate to Mr. Richards that his costs were too high. What do you tell him are the implications of this change in the producer price index?
3. Management's expectation for departments such as Mr. Richards's is an annual productivity increase of 5%. Did he reach this goal?

Source: Professor Hank Maddux III, Sam Houston State University.