Washburn Guitars: Using Breakeven Point to make Pricing Decision

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**Breakeven point to make pricing decision**

The break-even –point is regarded as the point where the total cost and revenue generated by a company is equal (Owen, 2018).

1. **Break-even-point of $349**

Break Even Point (BEP) Quantity = Unit cost/ Fixed cost – unit variable cost

 = ($14,000+$4,000+$20,000)/$349-$25-+$120)

 = $38,000/$349-$145

 = $186.27.

It means that $186 units are required by the Company at the rate of $349 for the company to breakeven (Gamble, Gilmore, & Durkan, 2011).

1. **Break-even point of $389**

Break-even-point – (BEP) Quantity= Unit cost/ Fixed cost – unit variable cost

 = ($14,000+$4.000+$20.000)/$389-$25-+$120)

 = $38,000/$389-$145

 = $155.74.

1. **Break-even-point of $309**

Break-even-point (BEP) Quantity = Unit cost/ Fixed cost – unit variable cost

 = ($14,000+$4.000+$20.000)/$309-$25-+$120)

 = $38,000/$309-$145

 = $38,000/$164

 = $231.71.

1. **Profit obtained from 2000 at $349**

Profit = Total Revenue – Total Cost

 = (P \* Q) – {FC+ (UVW\*Q)}

 = ($349\*2000) – ($38,000+ ($145\*2000)

 = $698,000 – 328,000

 = $370,000.

**4. Assume the merger with Parker resulted to reduction**

40% of the reduction in rent and taxes = $14,000 - $5,600

 = $8,400

15% of the reduction in hours of work = 15 – 2.25

 = 12.75

Fixed costs = $8,400 + $4,000 + $20,000

 = $32,400Unit variable price

= $12.75 x 8

= $102

Break –Even- Point (BEP) Quantity = ($8,400 + $4,000 + $20,000) / $349 – ($25 + $102)

= $32,400 / $349 - $127

= $32,400 / $222

= 145.95

It is therefore, obtained that 146 units will be required to break even at a cost of $349 if Washburn merges with Parker.

However, the analysis indicates that Washburn will eventually be required to move its operations back to Asia where the fixed and variable cost might be lower to reduce the cost of production (Hartley & Kerin, 2017).

# References

Gamble, J., Gilmore, A., & Durkan, P. (2011). The Marketing concept in the 21st century: A review. *he Marketing Review,* , 2-15.

Hartley, S. W., & Kerin, R. A. (2017). *Marketing 13 edition.* New York: McGraw Education.

Owen, T. M. (2018). What is Break Even Analysis? *https://corporatefinanceinstitute.com/resources/knowledge/modeling/break-even-analysis/* , 2-15.