PEWTER INC.

Dave Shaw and Elizabeth M.A. Grasby revised this case (originally titled "The Fullerton Company" solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On April 27, 2013, Pewter Inc. received an order for 25,000 pewter mugs from a major Canadian retail chain, Gifts & More Inc., which had stores across Canada and throughout parts of the northern United States. Although there had been discussions for the past couple of months, this was the first time that Pewter Inc. had received an order from this retailer. Over the years, the company had been quite profitable but volume and profitability had declined recently, primarily due to lower consumer demand and increased manufacturing capacity throughout the industry. The order came with some unusual terms and James Jankowski, general manager of Pewter Inc., wanted to evaluate it "from all the angles" before deciding whether to accept.

PEWTER INC.

Pewter Inc. was a small manufacturer of high quality, decorative pewter mugs. The plant was located in Burlington, Ontario. Each mug manufactured by Pewter Inc. bore the company seal on its base which was recognized as a sign of quality in the marketplace. Pewter Inc. was known throughout the jewelry business as an excellent supplier with a quality product and had a reputation for fulfilling orders promptly and efficiently. The firm had excellent relations with its customers and had lost very few to its competition.

Production

The pewter used to manufacture the mugs was comprised of about 94 per cent tin, 5 per cent antimony and 1 per cent copper. The raw material, pewter, used to have a high lead content, but lead mixed with food or drink caused health problems, so lead was not used in Pewter Inc.'s product.

Pewter Inc.'s current production capacity amounted to an estimated 400,000 units per year. In 2011, the production facility underwent a significant change with the addition of new equipment and revised processes using better technology. As a result, plant capacity had increased by about one-third.

Sales

Pewter Inc.'s selling price per mug was $8.55 to these jewelry stores and businesses. The end consumer paid an average of $25.00 for an engraved mug, depending on the amount of engraving. The mugs were sold at irregular times throughout the year, usually in orders of 1,000 or fewer mugs. Customers were primarily small independent and chain jewelry stores with some limited sales to businesses. These businesses frequently procured customer-specified engraving (often to celebrate an anniversary, a team win, a first-time event or some other special occasion) from a jewelry store.

Pewter Inc. employed two salespeople to call on the jewelry stores and other customers. These salespeople were paid a salary plus commission. In addition, the company had a website that displayed the product, its production methods and its quality assurances, and accepted online orders to be processed. Businesses usually called Pewter Inc. directly to place an order or used the company's website to place their order.

In 2012, Pewter Inc. sold 312,000 mugs and in the first three and a half months of 2013, the company's pattern and level of sales mirrored those of the first three and a half months of 2012.

THE SPECIAL ORDER

Two atypical conditions were stipulated for the order from Gifts & More Inc. (Gifts &More). First, the purchase price was specified as $7.49 per mug. Second, Pewter Inc. would not put its seal on the bottom of each mug; instead, Gifts & More's logo would be stamped on the bottom of each mug. The cost to stamp this new logo on the mugs would be identical to the current cost to stamp Pewter's Inc's logo on the mugs. The major retailer also wanted a guarantee that the mug quality would be the same as Pewter Inc. currently manufactured.

Jankowski knew he must consider the possible effects that a cut in price and a special volume order might have on the firm and its regular customers. The fact that the selling price quoted to Gifts & More was much less than his regular selling price, was concerning all by itself. Jankowski would have to take a close look at the data provided by his accountant (see Exhibit 1 for the firm's budgeted operational revenues and expenses for 2013) to determine if the price of $7.49 recovered his costs. He knew that plant overhead would not change if the special order was accepted and that at the current production level the accountant showed an "all in" cost per unit was $7.65. Jankowski certainly did not want to take a loss on this order. The owners of Pewter Inc. believed that part of the company's success was due to its strict pricing policy for all its customers, so if Jankowski accepted the order, he would have to present and defend his reasons for setting a different price for this new customer to the owners.

If he accepted the order, Jankowski wondered about the impact on the company's jewelry store sales. Jankowski was uncertain whether there was any way regular customers could find out about this arrangement. He knew that Gifts & More was not in the engraving business, and the fact that the retailer intended to sell the mugs "as is" in its stores, reduced the chance that others would discover the sale. But what if someone bought a mug at Gifts & More and then took it to one of the company's jewelry stores to be engraved? Would the fact that there was a different crest on the bottom eliminate any concern?

Jankowski was also bothered about the reputation of the large chain. In the past, it had been known to make a small manufacturer dependent upon it for its business and then "swallow it up". If the order was accepted, he also knew that tying this much of the business closer to Gifts & More could result in other potential problems.

THE DECISION

Currently, there were not a lot of additional opportunities for sales in the marketplace and large orders like this one were few and far between. With the increased plant capacity, Jankowski was getting more and more pressure to increase sales which, of course, would also increase plant efficiency and profitability. This was a very large order and it would go a long way toward filling the unused plant capacity and improving the firm's profitability. If Pewter Inc. did not accept the order, Gifts & More most certainly would go to a competitor to fill its order. Jankowski knew that this could be a potential benchmark decision for the company.

Exhibit 1

PEWTER INC. BUDGETED REVENUES AND EXPENSES FOR 2013

PRODUCTION LEVEL (units)	400,000	300,000
Capacity percentage	100%	75%
Revenue:		
Selling price per unit	$8.55	$8.55
Total Revenue	$3,420,000	$2,565,000
Expenses:		
Production Costs		
Raw materials	$640,000	$480,000
Labour	$760,000	$570,000
Plant overhead[1]	$960,000	$895,000
General Costs		
Marketing and selling costs[2]	$260,000	$230,000
Administration costs	$120,000	$120,000
Total Expenses	$2,740,000	$2,295,000
Net Profit	$680,000	$270,000
"All-in" cost per unit	$6.85[3]	$7.65[4]

[1] *Includes costs that cannot be directly related to each unit of production, for example, plant lighting, plant security, accident liability insurance, supervisors, etc. An additional production supervisor was needed once production exceeded 300,000 units.*
[2] *Marketing costs and salaries excluding commissions were budgeted at $140,000 for the year.*
[3] *$2,740,000/400,000 units*
[4] *$2,295,000/300,000 units*