Study Assignment

Dakota Office Products Case Study

A regional distributor of office supplies needs to understand its rising costs and determine how to return to profitability. The case explores the option of customer segmentation.

Be prepared to discuss the following questions in class. Draw on information in the case, other readings, your relevant experience, and any assumptions you consider reasonable.

1. Develop an activity-based cost system for Dakota Office Products (DOP) based on Year 2000 data. Feel free to use charts or diagrams to describe it. Calculate the activity cost-driver rate for each DOP activity in 2000.

2. Using your answer to Question 1, calculate the profitability of Customer A and also for Customer B.

3. What explains any difference in profitability between the two customers? What are the limitations, if any, to the estimates of the profitability of the two customers?

4. Suppose that a major customer switched from placing all its orders manually to placing all its orders over the internet site. How should this affect the activity cost drivers rates calculated in Question 1? How would the switch affect Dakota's profitability?

5. Assume that Dakota applies the analysis done in Question 2 to its entire customer base. How could such information help Dakota managers increase company profits?

6. Given the analyses, what should Dakota do?