

RealFood Ltd.

RealFood is a small company trying to compete in an industry with many players. Sally Johnson, the founder and CEO of RealFood, had observed a growing interest for healthy breakfast and snack options during her personal health 'kick' in 2010. This was driven by her departure from a highly stressful executive position in the finance industry, which was taking a toll on her personal well-being.



Competition comes from the many muesli/granola providers available in health food shops and large supermarkets. These include large food confectionary manufacturers (e.g. Kellogg's, Uncle Toby's, Macro, and Carman's) who can always beat RealFood on price, small independent manufacturers, as well as individual cafés. In fact, RealFood's beginnings originate from an outstanding interest in the granola bars initially sold in a local café in Brunswick. The company's specialisation is organic ingredients and products with lowest sugar content. The company is also known for its flexibility and speed. For instance, a small customer order can be manufactured and ready for pickup or shipping within three hours if the company already has the standard ingredients in its warehouse. Few, if any, of RealFood's competitors can match this turnaround time or its combination of high-quality products, variety of flavours, and nutritional value.

It is now 2018 and RealFood is starting to get bigger orders, such as the one for 300,000 bars. RealFood bars are also now being sold in some health food outlets around the country, such as About Life and, recently, Coles supermarkets. Their product range is comprised of muesli bars, granola bars and chocolate/yogurt covered nuts-based snacks. As is common with small companies, RealFood has an underdeveloped costing system. For example, it is unable to compute the actual costs per order or per bar. For pricing purposes, the production manager estimates the costs of each type of bar using his experience and knowledge of ingredient prices and what the company pays out each month in expenses. Each order is different, and typically ranges from 150 bars to 10,000 bars. It is difficult for the company to estimate an accurate cost for an order for pricing purposes, so he really never knows with certainty whether orders are profitable or not. He wondered how to accurately determine the cost for the new Coles order—the biggest order in the company's history by far. Adding to the challenge are

limited resources for accounting work. RealFood employs an hourly wage Melbourne University accounting graduate part-time to do its monthly bookkeeping (books are closed at the end of the year). A local CPA does its financial statements, taxes, and provides occasional advice. However, RealFood now senses the need for a new type of costing system to provide accurate cost estimates, and the CEO is wondering what type of costing system makes sense for his small but growing business.

RealFood is based in Victoria, with headquarters in Brunswick and a manufacturing plant in Preston, both fully owned. The company currently employs 80 staff, 75% of which work in the manufacturing plant. The plant has three production departments, all operating as a separate business unit and specialise in a range of products. For instance one department manufactures breakfast bars, while the other department manufactures other snack-related products.

The process for creating a bar begins at RealFood's granola plant in a separate department, where the primary ingredient is made. This process involves mixing, baking and cooling the raw product. Crunchy granola is made by baking and cooling a loosely compacted sheet of ingredients. The process relies on gentle handling and accurate heat transfer to achieve the ideal balance between product quality and efficient production. The mixing process involves blending dry ingredients in a batch mixer and then metering them into a continuous mixer along with oil and a unique low sugar binding mix to form a mass. The mass is placed directly onto the infeed of the oven, where a spreader evenly distributes it across the full width of the band. A compression roll provides a final consolidation and gauging of the sheet before baking. The granola mixture is extruded and spread onto a long conveyor belt, and add-ins like nuts are typically added on top of the granola. The granola-sheet is conveyed under a series of rollers that increasingly compress the mixture.

These manufacturing processes are shared by the multiple products, however the breakfast bar department includes additional processes such as chocolate and yogurt related pouring, tempering and cooling. This department also manages their separate chocolate and yogurt raw material suppliers, while the snacks department sources additional fruits and seeds supplies. All ingredients are locally sourced, with tight quality control from the headquarters to ensure high quality of organic produce and adherence to rigid sugar content specifications.

Once the granola has been processed, it is sent to the bar and snack manufacturing departments. The process involves mixing, forming and baking of a continuous sheet that is cut into bars. Finally, the cooling divides the sheet into individual bars, which are then conveyed to the wrapping machines. Capacity management of the shared equipment of the

primary ingredient has proven to be an issue for the company. To maintain their competitive advantage of high quality and fast order completion, RealFood invests heavily in flexible manufacturing systems and information technology.

Each plant has its own information system linked to the central system in the headquarters. All sales are managed from the headquarters, however, due to the recent Coles uptake and the expected increase in demand, the company is considering expanding to a national sales force network of sales offices in all eight states each comprising a sales manager and up to ten staff sales teams. To tackle the challenges posed by its competitors, RealFood places a strong emphasis on continuous research and development. The company has a 5-person research team in its plant which monitors and updates the recipes to reflect the latest health food trends.

Required:

1. Conduct research to explain the value of cost classifications for RealFood and how this may assist the CEO in improving their decision-making processes.

2. Conduct research into costing techniques that RealFood might find useful. **Based on your research and using the detail provided in the case**, choose a specific technique (or set of techniques) that you believe would be most suitable for RealFood. Describe specifically how your chosen technique(s) could be used, providing tangible examples of how they would operate within RealFood. It should be clear from these examples how RealFood would determine a product cost for their products. Also, briefly describe why you consider your chosen technique(s) to be superior to other techniques.

(Please note: you are not required to actually calculate any costs here, just outline how costing could be done differently. Therefore, you may wish to provide a table or diagram outlining the operation of your proposed costing technique(s).

3. Using the detail in the case, describe **how** your chosen method of calculating product cost will be beneficial within RealFood and have relevance to management.

Other Assignment Requirements:

Word Limit: 1,200 words

Page Limit: 6 pages

Please note: This word and page limit includes any tables, diagrams, figures or appendices that are used. Exceptions to the word and page limit are the cover page, table of contents, and reference list.

Referencing: Please use APA style referencing.

Submission: You are required to submit your assignment to Turnitin via Moodle. Turnitin is a text-matching software that checks a student's written work against electronic texts on the internet, published works (such as journal articles and books), and assignments submitted to Turnitin by other students.

In order to gain access to the Turnitin submission dropbox you must first complete an 'Academic Integrity' quiz on Moodle. Upon completion of the academic integrity quiz, you will be required to complete an electronic assignment coversheet upon which you will be able to submit your assignment. There is no requirement for hard copy submission. The link to the dropbox will be available once you score full marks in the quiz and coversheet – you can attempt the quiz as many times as is necessary. To prepare for the quiz, you should complete all of the modules at the following link:

<http://www.monash.edu/library/skills/resources/tutorials/academic-integrity>

It is likely that you may require to make some assumptions when answering the questions. You are strongly encouraged to go through the 'Guidelines on Assignment Submission' on Moodle before you start working on the Assignment.