

CAPITAL BUDGETING AT CD INDUSTRIES: HOW TO MAKE A CHOICE

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CASE DESCRIPTION

The primary subject matter of this case concerns calculation for and discussion of capital budgeting for mutually exclusive projects. Secondary issues examined include projects with uneven lives and investments, opportunity costs, sunk costs and externalities. The case has a difficulty level of four (appropriate for senior level) or five (appropriate for first year graduate level) The case is designed to be taught in two class hours and is expected to require four hours of outside preparation by students, more if a group presentation is given where each member of the group represents a different member of the board of directors.

CASE SYNOPSIS

This case involves the conflict between the president of the company who has been making capital budgeting decisions on what feels right and his sister who has recently received her MBA and want to employ a more formal capital budgeting process. Various members of the board of directors are brought into the case to present alternative points of view. The decision is between to proposals for the use of an existing warehouse. The proposals have different size investments and different lives. In addition, desire by the production manager to try new computerized equipment is weighted against the option of abandoning the project if the other proposal is accepted and sales are less than expected. Using a group presentation where each member of the group represents a member of the board of directors can be especially valuable to discuss the alternative points of view.