

Mini-Case Study: Cost Estimation at Global Green Books Publishing

Global Green Books Publishing is continuing to produce customized eBooks as a key new product line for it as a successful printing and publishing company. It has developed a template to help plan job orders. The major customer for these customized eBooks is a local college, who expected these books to be delivered at a low cost, and the company has not always been doing that. The Accounting department in Global Green Books was having difficult tracking the costs for each of the books.

Each eBook had a separate job order prepared that listed all the steps that needed to be completed, so that tasks could be assigned to each worker and costs estimated. With the existing job orders, estimates of time required for each task were sometimes not completed until after the work was done, causing problems as workers were supposed to move on to new tasks but were still finishing their previous tasks. Some tasks required specialized equipment or skills, sometimes from other groups within Global Green Books.

Along with its template for job orders, Global Green Books wanted to start developing a project estimate for each new eBook project. This cost estimate should capture direct costs and indirect costs. The direct costs for an eBook project include labor costs for those in the company working on the project, materials costs (if any), subcontractor or outside labor, and equipment and facility costs. Material costs for these eBooks include any permissions costs for content and images used in the eBook. Indirect costs for these eBooks computer support costs and sales commissions for each eBook project.

For an incoming eBook order for an eBook for a European History course, the following internal labor costs are projected during the Plan Order Phase:

Phase	Task	Staff	Category	Rate (\$)	Hours
Receive Order	Receive Order	Customer Service Representative	CSR	12.00	.25 *
Receive Order	Check Order	Customer Service Representative	CSR	12.00	.50 *
Receive Order	Verify Order	Customer Service Representative	CSR-1	16.00	1.0 *
Plan Order	Plan Work	Supervisor	Senior-1	28.00	1.0
Plan Order	Assign Work	Supervisor	Senior-1	28.00	1.0
Plan Order	Estimation	Supervisor	Senior-1	28.00	1.0
Plan Order	Reserve Equipment	Supervisor	Senior-1	28.00	.50
Production	Acquire Permissions	Publishers Liaison	PL	22.00	0
Production	Desktop Publishing (DTP)	DTP Specialist	DTP-2	18.00	12.5
Production	Content Conversion	DTP Specialist	DTP-1	12.50	4.0
Production	Produce eBook (Proof and Final)	DTP Specialist	DTP-2	18.00	5.0
Production	Quality Checks	Quality Technician	QC	16.00	3.0
		Customer Service Representative	CSR-1	16.00	1.0
Manage Production	Track Production	Supervisor	Senior-1	28.00	3.0

During the Plan Order Phase, the hours for the Receive Order phase (marked with an *) are actual times, as this work has already been performed.

In addition to these internal labors costs, the Production Supervisor has estimated that the European History eBook will incur these costs:

- An overhead rate on all direct labor of 1.50.
- Material costs of \$1,000 for each permission needed
- Equipment costs of \$800 for unique equipment needed for this project (a special oversize map scanner)
- Subcontract labor of \$500 for installation and training in the use of the oversize map scanner
- Computer support costs of \$600
- Sales commission of 20%

In addition to direct and indirect costs, Global Green Books targets a 25% profit margin on each project, and budgets for a 10% contingency on labor and 20% contingency on permissions.

Comment on the following aspects of the case study:

- a) What are the types of direct costs identified in this case? Why are they viewed as direct costs?
- b) What are two forms of costs identified?
- c) What are some problems that might arise that could impact the budget?
- d) Why would Global Green Books set aside contingencies? How would needed rework, if caught in the quality reviews, be accounted for in the budget?
- e) What are the main cost drivers of this project?
- f) What other information, if any, would you like to see included in the budget for this project? Why?

Create a budget for the European History eBook project.

- a) What are the costs by major phases of work for making this European History eBook?
- b) What are the total costs for direct labor?
- c) What is the total estimated cost of this European History eBook?