On Two Wheels in Paris: The Velib' Bicycle-Sharing Program
Case Facts
• Exist for almost 40 years. Sales were made through independent stores and bicycle shops.
• Suzanne Leister, marketing vice-president was approached by Mr. Knott Hi-Valu's buyer of sporting goods about the possibility of supplying bicycles.
Hi-Valu's requirements if proposal will be accepted:
• Hi-Valu must have a ready access to a large inventory of bicycles due to unpredictable volume of sales.
• Hi-Valu wanted to purchase the bicycles from Baldwin at a lower prices compared from the wholesale prices of the same bikes sold in the usual markets
• Hi-Valu wanted the challenger bike to be somewhat different in appearance from Baldwin's other bikes.
TheCaseSolutions.com
Case Facts Continuation
• If agreement could be reached on prices, Hi-Valu would sign an exclusive contract with Baldwin for three years. The contract is renewable unless either of the party express his will to discontinue.
Objective Of The Case
TheCaseSolutions.com
Define the Problem
The proposal of Hi-Valu will increase Baldwin's sales volume however this will result to a higher purchasing, carrying and production cost that has a direct effect to it's profitability.
Select Possible Alternative Decisions
• Reject the Proposal / Status Quo
• Accept the Proposal
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SIDE A
REACH DECISION
Accept the proposal because of its interesting net added contribution that may yield return to Baldwin Bicycle Company.
SIDE B
Identify Quantitative Evaluation
Added Profit
Less Contribution Margin
TheCaseSolutions.com
Identify Quantitative Evaluation
Added Assets and Related Costs
Differential Cost Analysis Summary
Identify Qualitative Evaluation
Accepting the Proposal
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- To come up with a short-run alternative choice of decisions.
- To analyze the cost behavior and its impact.
- To apply differential cost accounting in selecting a good choice
Limitation and Constraints:
- All variable cost are differential and primarily used in the decision analysis.
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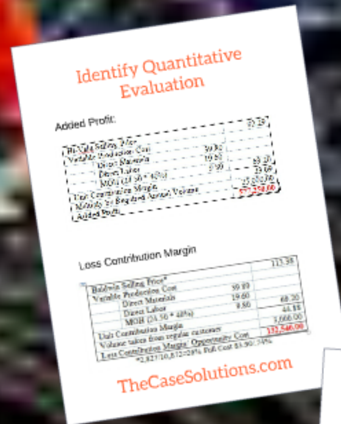
SIDE B


Identify Quantitative Evaluation

Added Profit:

Loss Contribution Margin

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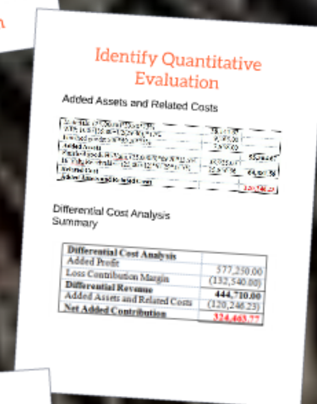
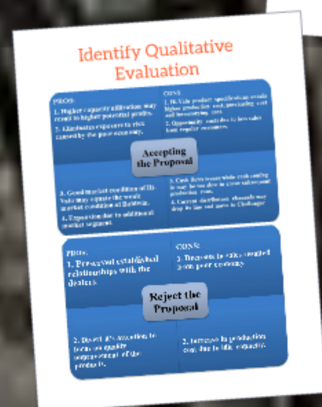

Identify Quantitative Evaluation

Added Assets and Related Costs

Differential Cost Analysis Summary

Differential Cost Analysis	
Added Profit	577,250.00
Loss Contribution Margin	(132,540.00)
Differential Revenue	**444,710.00**
Added Assets and Related Costs	(120,246.23)
Net Added Contribution	324,463.77



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Identify Quantitative Evaluation

Added Profit:

Hi-Valu Selling Price			92.29
Variable Production Cost			
	Direct Materials	39.80	
	Direct Labor	19.60	
	MOH (24.50 * 40%)	9.80	69.20
Unit Contribution Margin			23.09
Multiply by Required Annual Volume			25,000.00
Added Profit			577,250.00

Loss Contribution Margin

Baldwin Selling Price*			113.38
Variable Production Cost			
	Direct Materials	39.80	
	Direct Labor	19.60	
	MOH (24.50 * 40%)	9.80	69.20
Unit Contribution Margin			44.18
Volume taken from regular customer			3,000.00
Loss Contribution Margin/ Opportunity Cost			132,540.00

*2,827/10,872=26% Full Cost 83.90/.74%