

On Two Wheels in Paris: The Velib' Bicycle-Sharing Program



REACH DECISION

Accept the proposal because of its interesting net added contribution that may yield return to Baldwin Bicycle Company.

SIDE A

SIDE B

Case Facts

- Ever for almost 40 years, sales were made through independent stores and bicycle shops.
- Suzanne Lavoie, marketing vice-president was approached by Mr. Rouché who is buyer of sporting goods about the possibility of supplying bicycles.

Mr. Rouché's requirements if proposal will be accepted:

- Mr. Rouché must have a ready access to a large inventory of bicycles due to unpredictable volume of sales.
- Mr. Rouché wanted to purchase the bicycles from Baldwin at a lower price than compared with the wholesale prices of the same brand in the usual market.
- Mr. Rouché wanted the challenge to be somewhat different in appearance than Baldwin's other bikes.

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Case Facts Continuation

- If agreement could be reached on prices, Mr. Rouché would sign an exclusive contract with Baldwin for three years. The contract is renewable unless either of the party expresses his will to discontinue.

Objective Of The Case

- To decide on whether or not Baldwin's offering of bicycles.
- To analyze the cost behavior and its impact.
- To study differential cost accounting in selecting a price.

Limitations and Constraints:
All variables cost and differential cost accounting used in the decision analysis.

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Define the Problem

The proposal of Mr. Rouché will increase Baldwin's sales volume however this will result to a higher purchasing, carrying and production cost that has a direct effect to its profitability.

Select Possible Alternative Decisions

- Reject the Proposal / Status Quo
- Accept the Proposal

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Identify Quantitative Evaluation

Added Profit:

Units Sold	10,000
Price per Unit	\$10.00
Total Revenue	\$100,000
Less: Variable Costs	(70,000)
Contribution Margin	\$30,000

Less Contribution Margin

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Less: Variable Costs	(70,000)
Contribution Margin	\$30,000
Less: Fixed Costs	(10,000)
Net Profit	\$20,000

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Identify Quantitative Evaluation

Added Assets and Related Costs

Units Sold	10,000
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Total Revenue	\$100,000
Less: Variable Costs	(70,000)
Contribution Margin	\$30,000
Less: Fixed Costs	(10,000)
Net Profit	\$20,000

Differential Cost Analysis Summary

Differential Cost Analysis	
Added Profit	\$20,000.00
Less: Contribution Margin	(30,000.00)
Net Profit	\$20,000.00
Added Assets and Related Costs	(10,000.00)
Net Added Contribution	\$10,000.00

Identify Qualitative Evaluation

Qualitative Evaluation	
1. The proposal of Mr. Rouché will increase Baldwin's sales volume however this will result to a higher purchasing, carrying and production cost that has a direct effect to its profitability.	
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On Two Wheels in Paris: The Velib' Bicycle-Sharing Program



On Two Wheels in Paris: The Velib' Bic

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 price compared to 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.

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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

- 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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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 its profitability.

Select Possible Alternative Decisions

- Reject the Proposal / Status Quo
- Accept the Proposal

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SIDE A



REACH DECISION

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Case Facts

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Define the Problem

The proposal of Hi-Valu will increase sales volume.

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s: The Velib' Bicycle-Sharing Program



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SIDE B

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Identify Quantitative Evaluation

Added Profit:

Revenue	20,000
Variable Production Cost	(10,000)
Direct Materials	(2,000)
Direct Labor	(8,000)
MOH (10,000 × 40%)	(4,000)
Total Contribution Margin	6,000
Volume Variances from regular customers	(2,000)
Net Added Contribution	4,000

Less Contribution Margin

Baldwin Selling Profit	11,300
Variable Production Cost	(10,000)
Direct Materials	(2,000)
Direct Labor	(8,000)
MOH (10,000 × 40%)	(4,000)
Total Contribution Margin	6,000
Volume Variances from regular customers	(2,000)
Net Added Contribution	4,000

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Identify Quantitative Evaluation

Added Assets and Related Costs

Revenue	20,000
Variable Production Cost	(10,000)
Direct Materials	(2,000)
Direct Labor	(8,000)
MOH (10,000 × 40%)	(4,000)
Total Contribution Margin	6,000
Volume Variances from regular customers	(2,000)
Net Added Contribution	4,000

Differential Cost Analysis Summary

Differential Cost Analysis	
Added Profit	\$77,250.00
Less Contribution Margin	(132,540.00)
Added Revenue	444,710.00
Added Assets and Related Costs	(130,240.25)
Net Added Contribution	324,465.75

Identify Qualitative Evaluation

PROS:

1. Higher capacity utilization may result in higher personal profits.
2. Additional revenue to this company's portfolio.

Accepting the Proposal

CONS:

1. Cash flow requirements may result in cash flow problems.
2. Increased competition may result in lower prices.

PROS:

1. Increased customer relationships with the company.
2. Increased revenue to this company's portfolio.

Rejecting the Proposal

CONS:

1. Increased competition may result in lower prices.
2. Increased customer relationships may result in lower prices.

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%

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