

Scotts Miracle-Gro: The Spreader Sourcing Decision

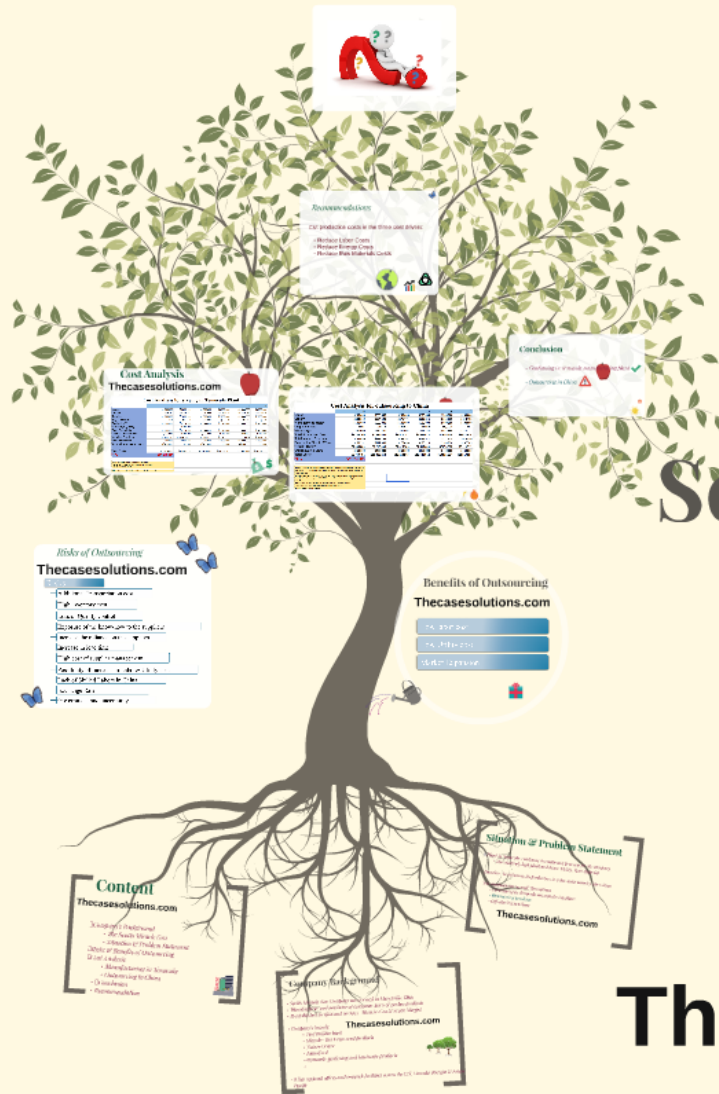
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Content

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Company Background

- *Scotts Miracle-Gro Company was formed in Marysville, Ohio.*
- *Manufacturer and marketer of consumer lawn & garden products*
- *It established in 1868 and on 1995- Miracle-Gro & Scotts Merged*

- *Company's brands:*

- *Turf Builder lawn*
- *Miracle-Gro Grass seed products*
- *Nature's Care*
- *LiquaFeed*
- *Osmocote gardening and landscape products*
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- *It has regional offices and research facilities across the U.S, Canada, Europe & Asian Pacific*

Situation & Problem Statement

- *Plant in Temecula continues to create cost pressure for the company*
 - *The relatively high plant and labor, Utility, Raw Material*
- *Decision- to outsource its production to a low wage country like China.*
- *The company has several Alternatives*
 - *Continuing in Temecula manufacturing plant*
 - *Outsourcing in China*
 - *Off-shoring in China*

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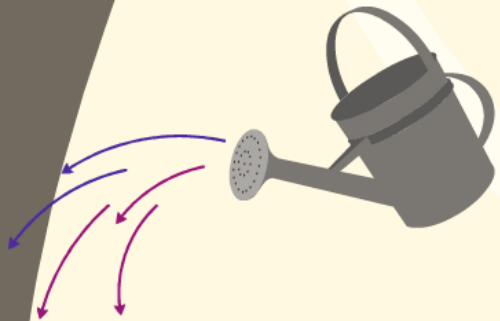
Benefits of Outsourcing

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Low labor cost

Low Utility cost

Market Expansion



Risks of Outsourcing

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Risks

Additional Transportation cost

High inventory cost

Loss of Quality control

Exposure of the know-how to the suppliers

Increase the reliance on the suppliers

Increase in lead time

High cost of supplier management

Possibility of Increase in Labor & Utility cost

Lack of Skilled Labors in China

Exchange Rate

Government and uncertainty



Cost Analysis

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Cost Analysis for staying in Temecula Plant

	0	1	2	3	4	5
Lease	\$3 000 000	\$3 000 000	\$3 000 000	\$3 000 000	\$3 000 000	\$3 000 000
Labor*	\$5 957 250	\$6 135 968	\$5 940 844	\$5 751 925	\$5 569 014	\$5 391 919
Salaries	\$2 000 000	\$2 000 000	\$2 000 000	\$2 000 000	\$2 000 000	\$2 000 000
Avg. Kwh rate	0,16	\$0,1640	\$0,1680	\$0,1720	\$0,1760	\$0,18
Electricity**	\$1 280 000	\$1 312 000	\$1 344 000	\$1 376 000	\$1 408 000	\$1 469 440
Surcharge (.025)		\$200 000				
Total Electricity	\$1 280 000	\$1 512 000	\$1 344 000	\$1 376 000	\$1 408 000	\$1 469 440
Capital Investment	\$200 000	\$200 000	\$200 000	\$200 000	\$200 000	\$200 000
Variable Overhead	\$2 171 175	\$2 294 390,25	\$2 382 253	\$2 325 577	\$2 270 704	\$2 217 576
Fixed Overhead	\$1 000 000	\$1 000 000	\$1 000 000	\$1 000 000	\$1 000 000	\$1 000 000
Regrind process savings	-\$100 000	-\$100 000	-\$100 000	-\$100 000	-\$100 000	-\$100 000
Total Costs	\$15 508 425	\$16 042 358	\$15 767 097	\$15 553 502	\$15 347 718	\$15 178 935
NPV	\$36 912 043					

*Assuming work 8hr/day+5 day/week+50 weeks/year

*Productivity increases 6% every year for next five years

*Labor costs increase by 3%

**Electricity goes up by 12% in next five years (0.4% each year)

