
Baldwin Bicycle Company Harvard Case Solution & Analysis
Case Facts
Case Facts Continuation
Objective Of The Case
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 affect to it's profitability.
Select Possible Alternative Decisions
Reject the Proposal / Status Quo
Accept the Proposal
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
Identify Quantitative Evaluation
Identify Qualitative Evaluation
Baldwin Bicycle Company
TheCaseSolutions.com


Baldwin Bicycle Company Harvard Case Solution & Analysis
Case Facts
- Exist for almost 40 years. Sales were made through independent stores and bicycle shops.
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.
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.
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Identify Quantitative Evaluation
Added Profit
Loss Contribution Margin
Identify Quantitative Evaluation
Added Assets and Related Costs
Differential Cost Analysis Summary
Differential Cost Analysis
Added Profit
Loss Contribution Margin
Differential Revenue
Added Assets and Related Costs
Net Added Contribution
Identify Qualitative Evaluation
Accepting the Proposal
Reject the Proposal
Baldwin Bicycle Company
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- 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.

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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.

Define the Problem

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SIDE B
Identify Quantitative Evaluation
Added Profit:
Loss Contribution Margin
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
Identify Qualitative Evaluation
Accepting the Proposal
Reject the Proposal
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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%