

Baldwin Bicycle Company Harvard Case Solution & Analysis



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

- Even for almost 40 years, sales were made through independent stores and bicycle shops.
- Suzanne Larson, marketing vice-president was approached by Mr. Kovalevich's offer of buying assets about the possibility of supplying bicycles.

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

- H-Hold must have a steady access to a large inventory of bicycles due to unpredictable volume of sales.
- H-Hold wanted to purchase the bicycles from Baldwin at a lower price, compared with the market prices of the same brand.
- H-Hold wanted the challenger bikes to be somewhat different in appearance from Baldwin's other bikes.

Case Facts Continuation

- If agreements could be reached on price, H-Hold would sign an exclusive contract with Baldwin for three years. The contract is renewable unless either of the party agrees to terminate.

Objective Of The Case

- To define the problem when all alternatives of decisions.
- To analyze the cost behavior and its impact.
- To supply alternative solutions in reaching a good choice.

Variables and Constraints

- All variables and its differential and voluntary used in the decision system.

Define the Problem

The proposal of H-Hold will increase Baldwin's sales volume however this will result in a higher purchasing, carrying and production cost that has a debit effect to its profitability.

Select Possible Alternative Decisions

- Reject the Proposal / Status Quo
- Accept the Proposal

Identify Quantitative Evaluation

Added Profit:

Item	Quantity	Unit Price	Total
Added Profit	1000	100	100,000
Less Contribution Margin			(20,000)
Net Added Contribution			80,000

Less Contribution Margin

Item	Quantity	Unit Price	Total
Added Profit	1000	100	100,000
Less Contribution Margin			(20,000)
Net Added Contribution			80,000

Identify Quantitative Evaluation

Added Assets and Related Costs

Item	Quantity	Unit Price	Total
Added Assets	1000	100	100,000
Related Costs			(20,000)
Net Added Contribution			80,000

Differential Cost Analysis Summary

Item	Quantity	Unit Price	Total
Differential Cost Analysis	1000	100	100,000
Added Profit			100,000
Less Contribution Margin			(20,000)
Net Added Contribution			80,000

Identify Qualitative Evaluation

Accepting the Proposal

Rejecting the Proposal

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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 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.

Objective Of The Case

- To come up with a short run alternative choice of decisions.
- To analyze the pros, behaviors 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

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

SIDE A



REACH DECISION

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

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The Case Solution

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:

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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.

Define the Problem

The proposal of Hi-Valu will increase sales volume.

Constraints.
cost are differential and primarily
analysis.

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

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REACH DECISION

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SIDE B

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Identify Quantitative Evaluation

Added Profit:

Revenue	20,000
Variable Production Cost	(10,000)
Direct Material	(2,000)
Direct Labor	(8,000)
MOH (0.50 * 4000)	(2,000)
Total Contribution Margin	7,000
Net Added Contribution	7,000

Loss Contribution Margin

Revenue	11,500
Variable Production Cost	(5,750)
Direct Material	(1,125)
Direct Labor	(4,500)
MOH (0.50 * 4000)	(2,000)
Total Contribution Margin	1,125
Net Added Contribution	1,125

Identify Quantitative Evaluation

Added Assets and Related Costs

Revenue	11,500
Variable Production Cost	(5,750)
Direct Material	(1,125)
Direct Labor	(4,500)
MOH (0.50 * 4000)	(2,000)
Total Contribution Margin	1,125
Net Added Contribution	1,125

Differential Cost Analysis Summary

Differential Cost Analysis	
Added Profit	\$77,250.00
Loss Contribution Margin	(132,540.00)
Differential Revenue	444,700.00
Added Assets and Related Costs	(130,240.25)
Net Added Contribution	324,669.75

Identify Qualitative Evaluation

PROS:

1. Higher capacity utilization may result in higher per-unit profit.
2. Additional revenue to the company is the primary goal.

CONS:

1. The high product specialization may limit product line and profitability over the long term.
2. Operating costs for the high-capacity plant may increase.

Accepting the Proposal

A. Contribution margin of 11% from the plant is a positive contribution margin.

B. Operating costs for the high-capacity plant are not significantly higher than the current plant.

PROS:

1. Preserved established relationships with the clients.
2. No need to invest in new machinery and equipment of the plant.

CONS:

1. Requires to establish a new production line.
2. Investment in production line may be high.

Reject the Proposal

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%