Marketing management – swisher mower and machine company

Business, Company

SMC planed to broaden SMC product line in 1996 by introducing a high-wheel string trimmer product, Trim-Max, a high-wheel, walk-behind product. With manufacturing plant in Warrensburg, Missouri, SMC owned an annual capacity of 10, 000 riding mower units on a single 40-hour-per-week shift with distribution mainly in non-metropolitan areas. About 75% of sales of SMC were made in non-metropolitan areas. SMC sold 30% through wholesalers, 25% through direct-to-dealer, 40% as private-label, and the rest 5% as exports. It sold the Ride King through wholesalers, who located throughout the country, focusing on farm dealers situated in the south central and southeastern US.

SMC remained a profitable company since its founding with a net profit return on sales of 10 percent or more annually. The sound financial position minimized the need for any major short-term or long-term financing. Industry Backgrounds: Riding lawn mowers are classified as lawn and garden equipment with two basic configurations, the front-engine lawn tractors and rear engine riding mowers. However there are some mid-engine riding mowers on the market, such as those produced by SMC. Front-engine lawn tractors are the most popular design followed by rear-engine and mid-engine models. Rear engined lawn tractors are perceived as stronger and more durable.

Competition in riding lawn mower market was fierce with ten manufacturers comprising major competitors in 1995, while SMC only occupied around 0. 3%, based on sales units. All these companies made Riding mowers under a nationally branded name and at the same time were engaged in private-label production. It was estimated that private-label mowers account for 65 to 75 percent of total industry sales. Each riding mower manufacturer priced its products at price points. The representative retail prices for national and private-label riding mowers typically ranged from $800 to $5, 000. The manufacturer's price of Ride King of SMC, $ 650, was quite comparative, compared with industry average.

Sales trends of riding mowers were cyclical and highly seasonal. With slice decline of sales in 1991, projections for 1995 and 1996 point toward further increases in unit volume. Industry statistics show that over half of manufacturer shipments of these products occur in the four-month period from January to April.

Upon adopting the proposal, SMC would contribute more than 50% of its capacity for Ride King to one single private label mower production. Furthermore the improvement of SMC's own brand could be limited by the remaining 42% production capacity. Limited capacity could hamper the introduction of new product, say missing the good timing, or could lead SMC to miss the good chance to grow current brand, say if demand for current brand increased.

Other than capacity, the proposal also put pressure on SMC's other resources, such as financial budget, labor, general management, etc. Private label production would consume a certain part of the limited and valuable corporate resources. Moreover, accepting proposal to manufacture private brand and distribute the private brand through other channels might lead to potential conflict with its traditional distributors. Although the chain's outlets were located in metropolitan areas, there would be some overlap in trade areas with SMC's current dealers. SMC, a small concern, relies heavily on its regional dealers to promote its products to consumers. Such a bold move might lead to certain percentage of independent dealers to drop the SMC line.

The less profitable Private Label could cannibalize 300 units of the sales of more profitable Ride King annually in 1997 and 1998. What is more, the cannibalization rate could be higher than estimated 300 units a year. Additionally, SMC had to bear the risks associated with the private label plan. Accepting the proposal is confronted with two uncertainties. One is that the mower producer had committed two third of its current capacity to one single distributor.

Once there was no renewal of the contract, it would be difficult to develop another comparable buyer. The other is that the contract would be terminated midway, i. e. one party is entitled to break the deal with a six-month notice beforehand at any time. Furthermore, although the total sales and output would expand almost twice, the increase in profits will not keep the same pace with the increase of the sales. Finally, SMC should consider other potential costs. For example, sudden expanded production might lead to quality insurance challenges. The product liability claims might eat up the minute increase in profit from the contract. Plus, the warranty costs would $22 per labor hour.