Scotts miracle-gro outsourcing decision essay sample

The largest company in the North American lawn and garden industry, Scotts Miracle-Gro, which was based in Marysville, Ohio, formed through a merger in 1995. A corporation of great success, with $2. 7 billion dollars of net sales in 2007 had a difficult assessment to make between outsourcing a contract manufacturer in China or continuity of manufacturing in the United States.

In 2000, Scotts management decided to lease a 412, 000-square foot facility in Temecula, California after finally realizing a three independent building site was not cost effective. The annual cost of the new property was $3 million dollars and they were contracted for 15 years. In the five years between 2002-2007 Scotts Miracle-Gro was greatly prosperous in improvement of productivity through continuous investment in product and process innovations. An example of this kind of improvement was the development of a new hand spreader assembly process.

The redesigned automated assembly line that allowed the plant to develop and build in-house required four people in comparison to six for the old one. Temecula Plant was the pioneer of “ in-mold labeling” which allowed the labels to be molded into the plastic product. Raw materials, labor, electricity, and overhead (including building lease), were the main cost drivers of this plant. Although Scotts used a discount rate of 15 percent they spent historically $500, 000 dollars per year in building repair/maintenance. Since a contract manufacturer had lower labor costs and less incentive to invest in capital improvements, it was estimated they would only spend $300, 000 dollars.

The alternative to Scotts Miracle-Gro keeping that plant open was outsourcing to a contract manufacturer in China. They already had experience sourcing some components for its spreaders. The labor cost was a staggering $0. 91 per hour. The electricity cost was currently at $0. 065 per kilo-watt hour. There would be many initial costs, but these would be paid off over the course of the business. The estimated lease for the space needed to do this work was calculated to be around $200, 000 dollars. If the production of all three million spreaders were to be transferred to China, the annual freight costs were expected to be $8 million in 2005.

A third option had also been available of setting up a Scotts production plant in China. Starting up this plant in China would cost $8 million and would take up to a year. This would allow the company to obtain the cost benefits of manufacturing in China while allowing Scotts to be in direct control over its product and process rather than a contracted company.

Looking at all the details, counting all the costs, factoring in management issues, I think the best option for Scotts Miracle-Gro was to outsource to China with a contract manufacturer. Although there are many initial costs, a lack in management oversight and a stress of transportation, in the long run the most money will be saved in China. Some of these little problems can be fixed; sending managers overseas on random intervals to enforce strict supervision and deadlines will make sure the contracted company is doing their job properly.

While transportation issues happen to every company, with shipping evaluations and multiple checkpoints the mistakes will be minimal. The labor cost would have saved the company $5. 7 million dollars and the difference in electricity cost between the two countries was $127. 5 million dollars based on the cost drivers of Temecula. The company’s third option of running a plant in China would be a good idea for a small company, but one with a reputation like Scotts Miracle-Gro would get an abundance of blame for outsourcing and leaving American workers broke. To save the most money in the long run and keep their image reputable, Scotts should have outsourced to China with a contracted manufacturer.