Baldwin bicycle company case study

Business

Read through the Baldwin Bicycle Case materials and answer the following questions. 1. Based on the income statement for 1992 and the information in item 5 of exhibit 2 that the company sold 98, 791 bicycles for 1992, how much was the average per unit sales price, average per unit cost of sales, and average gross margin per bicycle 2.

If the yearly fixed manufacturing overhead costs of Baldwin are $1 and the total cost of sales are as listed in the 1982 income statement, what is the amount of total manufacturing costs that are variable? 3.

What are the variable manufacturing costs per unit for the standard Baldwin bicycle? 4. What is the per unit contribution margin (sales price -variable costs) of the standard Baldwin bicycle. Assume that $5 per unit of selling costs are variable? 5. What is the current breakable point (pre-tax) for Baldwin Bicycles given its existing cost structure assuming that $1. 5 million of manufacturing overhead is fixed and all selling and general and administrative costs are fixed (except for the $5 per unit of selling costs that are variable? 5.

Based on the average per unit costs of the Challenger, as discussed in Exhibit 2,

Item 1 and the fact that the accountant says that about 40% of the overhead costs of the new brand would be variable, how much are the per unit variable manufacturing costs of the new bike? 7. What is the contribution margin per unit (sales price less per unit variable costs) of the new bikes? 3. Exclusive of the costs associated with the additional working capital requirements of the new arrangement, how much would this contract add to

the company's bottom line –before taxes assuming sales of 25, 000 units less the 3, 000 of existing sales that Mould be cannibalized? 3.

What would be the net profits (loss) of the company before taxes, assuming only the Challenger bicycle were sold, I. E.

, the company did not sell any of its regular bicycle but sold a total of 125, 000 bikes per year and selling and administrative costs remained the same in total? Ere BALDWIN BICYCLE COMPANY CASE n ay 1983, Suzanne Leister, marketing vice president to Baldwin Bicycle Company, Nas mulling over the discussion she had had the previous day with Karl Knott, a buyer from HI-Value Stores, Inc. HI-Value operated a chain of discount department stores in the Northwest.

Hi-Value's sales volume had grown to the extent that it was beginning to add " house-brand" (also called " private-label") merchandise to the product lines of several of its departments. Mr..

Knott, Hi-Value's buyer for sporting goods, had approached Ms. Leister about the possibility of Baldwin producing bicycles for Hi-Value. The bicycles would bear the name " Challenger," which HI-Value planned to use for all of its house-brand sporting goods. Baldwin had been making bicycles for almost 40 years. In 1983, the company's line Included 10 models, ranging from it small beginner's model with training wheels to a Luke 12-speed adult's model.

Sales were currently at an annual rate of about $10 million. The company's 1982 financial statements appear in Exhibit 1. Most of Baldwin sales were

through independently owned retailers (toy stores, hardware stores, sporting goods stores) and bicycle shops. Baldwin had never before distributed its products through department store chains of any type. Ms.

Leister felt that Baldwin bicycles had the image of being above average in quality and price, but not a “ top-of-the-line” product. HI-Value’s proposal to Baldwin had features that made it quite different from Alden’s normal way of doing business.

First, it was very important to HI-Value to have ready access to a large inventory of bicycles, because HI-Value had had great difficulty in predicting bicycle sales, both by store and by month. HI-Value wanted to carry these inventories in its regional warehouses, but did not want title on a bicycle to pass from Baldwin to HI-Value until the bicycle was shipped from one of its regional Morehouse to a specific HI-Value store. At that point, HI-Value would regard the bicycle as having been purchased from Baldwin, and would pay for it within 30 days.

However, HI-Value would agree to take title to any bicycle that had been in one of its Morehouse for four months, again paying for it within 30 days. Mr.. Knott estimated that on average, a bike would remain in a HI-Value regional warehouse for two months. Second, HI-Value wanted to sell its Challenger bicycles at lower prices than the name- brand bicycles it carried, and yet still earn approximately the same dollar gross margin on each bicycle sold–the rationale being that Challenger bike sales would take away from the sales of the name-brand bikes.

Thus, HI-Value wanted to purchase skies from Baldwin at lower prices than the wholesale prices of comparable bikes sold through Baldwin usual channels. Finally, HI-Value wanted the Challenger bike to be somewhat different in appearance from Baldwin other bikes. While the frame and mechanical components could be the same as used on current Baldwin models, the fenders, seats, and handlebars Mould need to be somewhat different, and the tires would have to have the name Challenger molded into their sidewalls. Also, the bicycles would have to be packed in ¶exes printed Witt the High-Value and Challenger names.

These requirements were expected by Ms.

Leister to increase Baldwin purchasing, inventorying, and production costs over and above the added costs that would be incurred for a comparable increase in volume for Baldwin regular products. On the positive side, Ms. Leister was acutely aware that the bicycle boom had flattened out, and this plus a poor economy had caused Baldwin sales volume to fall the past two years. * As a result, Baldwin currently was operating its plant at about 75 percent of one-shift capacity. Thus, the added volume from Hi-Value's purchases could possibly be very attractive.