

Swisher mower and machine company essay sample



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Problem In 1996, Swisher Mower and Machine Company (SMC) was faced with a situation which would have the biggest impact on its company since founder Max Swisher received his patent on the gearbox drive assembly. A certified letter from a major national retail merchandise chain outlined a proposal for a two-year contract to provide a private branding business agreement with SMC and its line of riding lawn mowers. In recent years, SMC's sales and profit figures had reached a plateau far below its all time highest financial figures from 1966. This two-year contractual agreement would provide expanded production in new and existing markets along with the added incentive of broadened distribution in metropolitan areas for SMC. However, the contract did present uncertainties such as increased exposure to liability claims and increased costs due to warranty labor and parts. These reasons along with many others presented new CEO Wayne Fisher with one of the most important decisions he may face with Swisher Mower and Machine Company.

Decision Factors A SWOT Analysis is performed to enumerate the decision factors facing a company when a problem has been defined and a course of action must be taken. In a SWOT analysis, one must identify the strengths and weaknesses surrounding the company, its current business procedures, and external factors relevant to the situation confronting the company. Furthermore, research must be conducted to identify opportunities within the company and those underlying in the newfound situation. Finally, the imposing threats to a company's current practices and future endeavors must be examined. All of this information, along with financial data must be

used to determine the best possible course of action for the company to take.

Strengths There are quite a few strengths in the makeup of the existing Swisher Mower Company. To begin with, SMC is an established company founded in 1945 by Max Fisher, who patented his gearbox drive assembly. This immediately helped to set SMC apart from the rest of the industry. SMC has a history with a foundation of success and has been able to sustain that success in the Midwest and Southeastern markets. It is in these areas SMC conducts an overwhelming majority of its business. The company has returned a consistent annual net profit on sales of ten percent. Financial progress of the company has been directly related to the economic progress of the national industry. During times of recession, SMC's profits of been drastically affected, but have never been in the red. It is also during recession that SMC has been able to limit its borrowing from financial institutions to a minimum. In contrast, the 1990's have showed a steady increase in profits for the company. In accordance, the United States has experienced one of the strongest economies in recent history. SMC has been able to ride the coattails of a bullish economy while staying afloat in the bear markets which have shown up all too often in the U. S. economy.

Riding Mowers, namely the Ride King from SMC, have accounted for 63.6 percent of total sales and 57.8 percent of SMC's total gross profit in the last year. The company has focused on a customer-oriented business philosophy. It has prided itself in recognizing and providing for both dealer and end-user needs. This customer focus is evident in the Ride King's and other products, reliability, ruggedness, and unprecedented longevity. The Ride King and <https://assignbuster.com/swisher-mower-and-machine-company-essay-sample/>

SMC's other mowers have lasted consumers as long as twenty-five years before needing to be replaced. SMC and its products have a reputation for high-quality riding mowers with simple design, low maintenance, and ease of use. Furthermore, most parts and machinery from current mowers are easily interchangeable with earlier antiquated models. The Ride King has distinguished itself from any sort of competition; it is in a class all its own in the zero-turning-radius riding mower segment of the market. It is also propelled by its average cost of \$650 well below the mower industry price range of \$800-\$5000.

This has helped SMC to develop personal relationships with its customers and solidifying a special loyalty that helped build a foundation of authority. Different product lines strengthen Swisher Mower and Machine Company. The T44 trailmower has been well received by consumers and provides a tremendous amount of potential. The T44 can not only be pulled by current SMC riding mowers, but it also possesses the ability to attach itself to all terrain vehicles to perform its mowing function. This is highly attractive to existing and potential industrial/agricultural consumers because of its cutting width of forty-four inches. SMC is striving to branch out even further with its introduction of the Trim Max. The Trim Max is a walk-behind product with a high wheel incorporating a mower, trimmer, and edger all into one unit. This will provide an effective and more important aspect of convenience for the do-it-yourself lawn maintenance consumer. This will assist in strengthening SMC's position in the market.

The private brand arrangement with the national retail chain provides additional support that would strengthen SMC. As stated by CEO Fisher, the <https://assignbuster.com/swisher-mower-and-machine-company-essay-sample/>

brand arrangement provides SMC with a ? bird in the hand.? The agreement guarantees SMC that approximately 8, 200 units will be purchased by the retail chain. This is a two-year contract that can be counted on as steady income by the corporation. This contractual agreement will also lead to increased sales of parts for the units sold by the private label. In addition this could pave the way for the trim mower into the private brand label and guarantee further business. Not only may the trim mower benefit from this larger market, but also other SMC products like the soon-to-be introduced Trim Max could thrive.

Research and development costs would be minimized by this private agreement. The national retail chain is not asking for any change in design or performance specifications of the product. The client wants the product ? as is? with only minor cosmetic changes. In return, the chain will not ask for seasonal or promotional pricing. However, the chain insists on a year-round low price for the Ride King. The title to the Ride King has a complicated transfer process not necessarily considered a positive for SMC. Yet, the title transfer, payment dates, and wholesale price are negotiable upon completion of the original terms of the contract.

Weaknesses Although a ? bird in the hand? may be attractive to CEO Fisher, that ? bird? may not be too attractive if it has already been run over a few times by the Ride King. This is why the weaknesses surrounding the company must be looked at in accordance with the private brand label agreement. Being a new CEO may be a challenge in the coming decisions of SMC. Is Mr. Fisher? s experience commensurate to the responsibility placed upon him by the title of CEO? Does Mr. Fisher need to take a look at other <https://assignbuster.com/swisher-mower-and-machine-company-essay-sample/>

business operations before considering such proposals? The sales figures for SMC peaked at an all-time high almost 40 years ago in 1966. Since that time, SMC has never been able to emulate those numbers. Entering the metropolitan markets may help to increase sales, yet, will SMC be able to combat the reputations of the established lawn care companies with an already existing presence? Perhaps this is an indication that the company may never be able to regain its past glory and shed the small company image it possesses.

Swisher's business operations uncover weaknesses not easily seen. One weakness can be associated with the company's single manufacturing plant in Missouri. Is SMC able to effectively and efficiently distribute their product? With increased national distribution, freight and transfer costs are sure to rise dramatically. Costs associated with outside suppliers and assembly plants will present further financial obstacles to overcome. If business increases dramatically will the profit be able to cover ascending costs for renting office space? These are all questions and uncertainties surrounding the company itself.

The lawn care customers will have the final say as to whether Swisher's mowers will succeed in this new market. Therefore, one of the biggest weaknesses has to be the perception of middle-engine mowers such as SMC's. Even though the Ride King has proven to be a durable product lasting in upwards of twenty-five years, consumer's view front and rear-end engine mowers as stronger and more durable. Can the agreement to sell the mowers in a national retail chain alter the perceptions created by the product for the better? If this does not happen, than guaranteed sales from <https://assignbuster.com/swisher-mower-and-machine-company-essay-sample/>

the private brand may not last the two year contract period because of the six-month buyout option.

The private brand label agreement contains a risky clause concerning the transfer of title. SMC assumes all cost until the unit reaches a store location. The retail chain will acquire the title if the unit sits in the warehouse for at least forty-five days. Although this does absolve SMC of some cost, the research indicates this to be a loophole in the agreement. A weakness in the proposal posing a tremendous threat to SMC, as well, is the increased exposure to liability claims. Another addition to costs will be the overtime paid to workers in order to meet production demands. This represents an additional 4% in sales needed to offset the cost. Coincidentally, increased material and overhead costs require another 1% increase in sales. Another 1.5% increase in sales will need to be experienced in order to compensate for additional insurance coverage, pilferage and breakage, further wear and tear on machines, and a county property tax based on available inventory. With the production agreement, SMC will also incur a one-time sunk cost between \$10, 000 and \$12, 000. The contract with the retail chain could result in an overlap in sales territories. Swisher has the potential of losing sales estimated around 300 units per year.

Opportunities Swisher Machine and Mower Company has experienced long-term success and has a proven history, allowing opportunities to present themselves. Due to its history of survival and success with bull and bear markets, this should enable SMC to capitalize on its economic surroundings.

A small change in marketing the ? self-propelled? push mower during a recession may not have a huge impact on the financial position, but it could

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create a small opportunity to make some monetary contribution. Throughout the years and changing economies, SMC has kept its ? small company? image. Swisher has worked hard to build personal relationships with its customers through reputation and word-of-mouth. It has created an opportunity to take this reliable image and place it on a national scale.

There is also an opportunity for SMC to expand into existing market segments. For example, the market for contractual yard work is increasing at a rapid pace along with the market for convenient, hand-held yard working tools. A hand-held version of the Trim Max is an avenue SMC could consider. The Trim Max is a giant growth opportunity for the company. By entering into the private brand agreement, the foundation will be laid for the entrance of Trim Max into the private label market segment. The introduction of a new product will enable SMC to evaluate the decision to continue and pursue research and development options. Swisher could also begin looking at ways to use this guaranteed long-term capital. Some of these uses could include investment and/or research and development projects.

The private brand label agreement provides SMC a chance to enter a channel of distribution accounting for 90% of industry sales. The new contract enables SMC to look at expanding its production facilities and to enter metropolitan area markets. By entering these new areas, SMC will have the wherewithal to intensify its advertising and sales efforts to recruit new dealers. The benefits of this could overlap into its existing markets and breathe new life into them. Swisher must look at these opportunities and capitalize on the ones it is able to.

Threats Economies and financial indicators are a constant threat to SMC and all other businesses. Trends in the mower industry have altered the way SMC does business. With more and more consumers contracting out their yard work, this poses a tremendous possibility for loss of equipment and parts sales for Swisher. Another threat is the lack of competition in the rear-engine segment containing the Ride King. A more cost effective design by a competitor could challenge the reign of the King.

On a broader scale, Swisher is a regionally oriented business. Its geographic limitations are a direct threat to its business operations. Furthermore, riding mower sales statistics are cyclical and fluctuate on a seasonal basis. A slow consumer-buying season could mean imminent death to a small company like Swisher (although Swisher has been able to weather many of those storms in the past). There are currently ten major manufacturers selling to alternate channels not occupied by SMC. These companies are already nationally known and engaged in private label production. This creates barriers to entry for SMC in these markets and could prove to be insurmountable.

The private brand label agreement possesses threats that could result in damaging financial losses for Swisher. For instance, if Swisher remains with one production facility in Missouri, the Free on Board (FOB) clause in the contract may drastically increase the costs of goods sold. Again the title transfer process and increased exposure to liability claims create loopholes that may hurt SMC's financial position. Swisher would also have to assume any labor costs associated with work done under warranty

specifications. Costs that could be incurred would be due to replacement
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parts purchased at present price and shipped FOB. An additional uncertainty surrounding the contract is the retail chain's desire to change the appearance of SMC's Ride King. Although the change in appearance is cosmetic, it could harm the product's reputation. Consumers could associate the cosmetic change with a change in the product's quality.

As mentioned before, there is the chance that the private label could cannibalize existing sales and a small percentage of independent dealers could drop the SMC line in their stores. Lastly, what is the possibility that this national retail merchandise chain will find a better deal at a competitor to Swisher? These factors must be taken into consideration and how they impact on Swisher Mower and Machine Company must be determined for the company to choose the best possible course of action. A review of the financial data will add more insight on whether Max Swisher should accept the private label offer.

Financial Analysis The analysis of the financial data focused exclusively on Ride King sales. The focus is primarily the result of the Ride King being the target product of the private brand. The Ride King accounts for 63.6% of Swisher sales. Negative manipulation in productivity and/or sales strategy with the Ride King can lead to lower sales for Swisher, resulting in lower profits.

A current breakeven analysis for Swisher resulted in a need for the company to sell 1,408 mowers. This determination was calculated based on fixed costs of five percent of 1995 sales. The five percent was derived by subtracting the net profit margin (10%) from the mark-up on the sales price

versus variable costs (15%). (See Appendix A) If the proposal from the private brand was accepted, to breakeven in year one, Swisher must sell 8,385 mowers. In year two, 7,623 mowers must be sold. To determine breakeven for the proposal, five percent was subtracted from the Manufactures Retail Price.

The private brand proposal stipulated that this must be the price per acquired Road King. Also, variable costs increased by the following: Four percent (\$26.00 per unit for overtime costs), one percent (\$6.50 per unit for overhead costs), one percent (\$6.50 per unit for direct materials costs), and one and a half percent (\$9.75 per unit for increases in property taxes). An increase in inventory levels resulted in an increase of fixed costs. On average, an additional 2,100 units of Road King mowers will be in inventory if the proposal is accepted. The inventory increase is financed by short-term debt with an interest cost of prime plus 2.5% (currently 7%). Year one also included a one-time cost of \$12,000. This cost would be required if Swisher accepts the proposal. (See Appendix A)

A few important non-measurable costs were not included in the cost basis for determining breakeven. This should be dully noted and investigated further before a final decision can be reached. These non-measurable costs include an increase in potential lawsuit liability (the contract stipulates Swisher will be fully liable in the event a negligence lawsuit is filed), an increase in warranty work/repair (the contract stipulates Swisher will be fully responsible for any warranty work/repair and will reimburse the private brand for any labor costs associated with warranty work at \$22.00 per hour), and a small

number of dealers may discontinue their role as a sales outlet for Road King mowers.

The private brand wishes to be an in-house account without manufacturer's representatives or company sales representatives calling on them. This represents a possible savings to Swisher if the contract is accepted and must be investigated further. An in-house account translates into potential sales commissions savings, which will offset some or all of the increased costs, depending on Swisher's commission rates.

A calculation of the contribution analysis and performance measurement resulted in a current net profit for Swisher of \$270,900. This is based on 1995 sales of 4,200 Ride King units. 1995 sales were used as the sales basis due to industry forecasts projecting continued strong sales of riding lawn mowers. (See Appendix A) A calculation of the contribution analysis and performance measurement if the proposal is accepted resulted in a Ride King net profit of \$241,800, a \$2,399 net loss of private brand sales in year one and a \$9,601 net profit of private brand sales in year two. The calculation for Ride King mowers takes into account a 300-unit decrease in Ride King mower sales, resulting in a lower net profit. Private brand sales in years one and two were based on the same variable and fixed costs mentioned above. If the proposal is accepted, total net profits for Swisher in years one and two are a projected \$239,401 and \$251,401, respectively.

Once again, non-measurable costs and savings are not calculated in these results and should be evaluated. (See Appendix A) Recommendation It is our recommendation to Swisher Mower and Machine Company not to accept the

offer to produce lawn mowers for the private label brand. The risks of the venture far outweigh the possible rewards that can be reaped from the offer. The possibility of a lawsuit from a single consumer using the private label brand mower could cost more than all the profit that is made from the contract. The private label brand wants all of the liability to rest on the shoulders of Swisher, even though their name will be on the mower and sold in their stores. Lawsuits have become a cancer to many companies in corporate America. Many times companies have been found at fault and paid out millions in lawsuits on claims that the average citizen would think were common sense to everyone.

Even when companies win the lawsuits, a tremendous amount of money is spent on attorney fees. Also, if Swisher were to accept the proposal from the private label brand, this would mean that the private label brand would account for more than half of all their unit sales of mowers. When a single client accounts for more than half of all of a company's sales, then the client has too much leverage over the company they are dealing with. Another demand that would be made by the private label brand or price cut they requested would need to be made, because Swisher's survival would require keeping the private label contract. The private label company would realize this and many times abuse this privilege of power, and request additional features and/or price cuts. Therefore Swisher should not accept this private label contract, with the current figures that were proposed to them. The idea of a private label contract is definitely worth entertaining, but not the current one that Swisher has been offered.