CARSON PLANTERS

Elizabeth M.A. Grasby revised this case (originally Morrison Planters written by Neil Campbell under the supervision of Richard H. Mimick) solely to provide material for class discussion. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Early in January, Carson Planters received a special order from a major Canadian retail store chain, requiring a response in one week's time. Richard and Kathy Carson, the firm's owners, believed that this order represented an important opportunity for Carson Planters since the company had been struggling financially for the past couple of years; however, before accepting the order, they wanted to assure themselves that their acceptance of it really was in the best interests for the young company's growth and development.

COMPANY BACKGROUND

Carson Planters (CP) was a small, family-owned and operated manufacturer of plastic pots for plants. The company was located in a small town in South Western Ontario, Canada. CP produced a single size, high-quality garden pot for medium-sized plants with a unique, tapered shape. The pots were produced by an injection molding process which formed the plastic into the required shape. Currently, CP's pots were sold to distributors, who serviced a variety of small independent garden centers and other interested retailers, in Canada and the Eastern United States.

THE SPECIAL ORDER

A garden supplies buyer for a major Canadian retail store chain had been impressed with the shape of Carson's product and approached CP. The buyer wanted to purchase the same pot size and design, so new molds would not be required to complete this order.

After this potential customer initially approached CP, Richard travelled to Toronto to meet with the retail chain's purchasing department team. The meeting had been very successful, and one week later a firm order by the retail store chain was received. Richard's travel and entertainment costs in soliciting the order amounted to $525.

After the initial jubilation of soliciting the order had subsided, Richard began to have second thoughts about the deal. CP's standard wholesale price was $2.74 per unit with n/30 terms, whereas the special order was contingent upon a firm price quote of $2.42 per unit and 3/10, n/45 credit terms. Obtaining the order would certainly be a major step forward for CP and could lead to large future orders from this customer or other major retailers.

The company's profit margins were already "squeezed" severely and Kathy thought that a pot could not be produced for less than $2.58. Although the company's accountant had not yet produced last year's financial results, Kathy expected that the company's net profit would have been between $20,000 and $24,000. The company's budgeted costs for the current fiscal year, excluding any allowance for this special order, are summarized in Exhibit 1. Based on this data, Kathy concluded that the company's profit margin was only about 6 per cent at the existing $2.74 selling price.

OPERATIONS

CP's factory was currently operating at its one-shift capacity of 12,000 pots per month and had a small backlog of orders. The special order under consideration was for 8,000 pots, to be delivered within two months, in time for the spring selling season. Richard believed that this quantity could be handled by having employees work some overtime each week for the next two months.

The production process utilized substantial amounts of power to mold the raw plastic into the required shape. Of the total utilities costs, 90 per cent varied directly with production activity. The remaining utilities expenditures related to keeping the factory and office areas heated and lit.

All production equipment was being depreciated using the units-of-output method, based on the costs and life expectancies of the machinery and molds. Design cost amortization and office equipment depreciation were both calculated using the straight-line method over ten years.

The molds required regular polishing and maintenance after approximately 7,000–10,000 units were manufactured. The mold supplier provided this service on a contract basis at a rate of $500 per visit.

A production supervisor was paid a monthly salary of $3,200 (including benefits). Richard believed that he should be paid a bonus of $500 per month if extended overtime work was needed for this order. The two factory workers (non-unionized) were paid hourly and worked 35 hours each week. They also received time-and-one-half for any overtime work.

FUTURE EXPANSION

As Richard and Kathy mulled over whether to accept this order, they knew that their response to this order would have a major impact on the company's future. Expansion was a desirable strategy, if the financial rewards compensated for the increased risks and additional work involved; however, neither owner was totally comfortable dealing with large retail chains who could wield a great deal of bargaining power. Richard was also not convinced that CP was even efficient enough to compete successfully in the larger, more aggressive retail chain store market. Yet, Richard and Kathy realized that something should be done to improve CP's marginal profitability and, if they were to reject this order, it would be unlikely that this retail store chain would solicit further orders from CP.

Exhibit 1

CARSON PLANTERS

BUDGETED COSTS FOR CURRENT FISCAL YEAR

	Budgeted Cost (144,000 Units)
Raw Materials	$149,760
Wages	54,720
Owners’ Salaries	68,000
Rent	15,000
Utilities	8,000
Supervision	38,400
Mold Polishing	9,000
Production Equipment Depreciation	8,640
Design Cost Amortization	3,760
Office Equipment Depreciation	1,720
Selling Expenses	6,000
Interest	4,800
Office Supplies	520
Other Expenses	3,200
Total Costs	$371,520