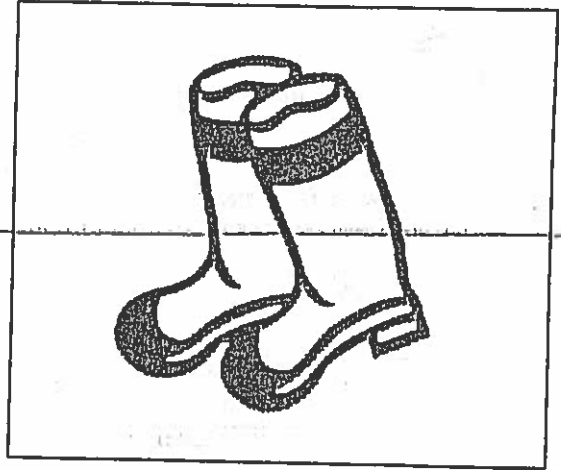


Billy Boot Garbage Bags (Part B)



Introduction

It was the fall of 1993 and Christopher Hutton and his father Noel Hutton were reviewing the year-to-date operating results of their company, East Coast Converters Limited. "Well, I guess everybody is relatively pleased with the initial success of our new product, Billy Boot garbage bags", said Noel, "but I don't feel the product has reached its full potential in terms of sales volume."

"We have experienced some resistance from retailers and consumers, but the results to date are encouraging," replied Chris. "I feel that with some new marketing initiatives focused in the right areas, some new product improvements and an expansion of the product line, we can build on our past successes. We have learned some valuable lessons over the last two years. There is also potential for reducing our costs."

"Let's see what you've come up with," said Noel. "There's no time like the present to make constructive changes."

Background Information

East Coast Converters Limited (ECC) was a privately owned Newfoundland manufacturing and processing company located in Mount Pearl, Newfoundland. The company was incorporated in 1976 and was a member of a corporate group that included a cardboard packaging producer. At its modern plant and facilities in Donovan's Industrial Park, ECC produced plastic products from raw materials -- both virgin and recycled. Their product line included supermarket bags, bread and related product bags and all types of plastic packaging used in the fishing industry.

This case was prepared by David A. Howe for the P.J. Gardiner Institute as a basis for classroom discussion, and is not meant to illustrate either effective or ineffective management.

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A possible solution lay in purchasing of new packaging equipment that could fold the bags individually. The new equipment, however, bore a substantial cost, and management had to determine if the financial benefits, in terms of additional sales and lower costs, would outweigh the cost of the acquisition. In addition to improved packaging abilities, it was determined that the cost of packaging could also be reduced. See Appendix 2 for information on the cost of the new equipment and potential cost savings.

Management also felt that more could be done to promote their product at the retail level. They needed to get retailers, such as supermarkets, "on-side" so they could get maximum exposure in stores where consumers choose between "Billy Boot" and a wide assortment of competitors' products. Shelf space allotment, adequate restocking and in-store location were of concern to management.

Appendix 1 Market Analysis

Market size

Local market size (Newfoundland - per market research):

Annual consumption of standard size garbage bags:	Households:	37 million
	Industrial:	7 million
	Government:	6 million
	Total:	50 million

Market Share

Independent market surveys indicated that for the year ended June 30, 1993, "Billy Boot" sales averaged 6% of total sales for the period.

As this was an annual average and sales increased during the year, it was felt that market share at the time of the survey could be around 8%.

Results of marketing survey of company

Survey taken in December, 1993, of 300 participants in the St. John's and Mount Pearl area by telephone:

Results:

Number of participants who had tried product:	197
Number of participants who continue to use:	84
Number of participants not continuing to use who would use if individually folded:	110
Number of participants who would not try product again even if individually folded:	3

Conclusions

Current sales equals 8% of 50 million bags or 400,000 packages.

Management anticipates market share to reach 20%, resulting in a sales volume of 1,000,000 units (20% * 50,000,000/10 bags per package), if folded -- consumer acceptance would more than double.

Appendix 3
Feasibility of Capital Expenditure

Additional sales volume required to make new equipment feasible:

Selling price:		\$ **
Less: variable costs:		<u> **</u>
Equals: contribution margin:		<u> \$ **</u>
 Required # sales units:	 <u>cost of equipment / # years life</u> contribution margin per unit	
	 <u>\$ ** / 5 years</u> \$ **	
	 <u> **</u> units	

Notes:

The above calculation represents a method used by the management of a company to determine the financial feasibility of making a capital expenditure - such as the purchase of new manufacturing equipment.

Management is concerned about the ability of the company to pay for the capital expenditure through resulting increases in either sales volume or sales prices or the reduction of costs (or any combination of the three).

The contribution margin of a product represents the amount available to pay for fixed costs and to add to the company's profits after variable costs have been deducted from the selling price.

The above calculation represents the number of additional units, given the calculated contribution margin of the product, needed to be sold to generate the additional funds required to pay for the cost of the anticipated capital expenditure.