



Scotts Miracle -Gro

Spreader Sourcing Decision

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Key Question

- To justify why Scott should not offshore/outsource (closing Temecula manufacturing plant) production of its spreaders to a low-wage manufacturing site, such as China

Company Background

- The Scott Miracle Gro Company is

What is happening!

Corporate people want to outsource the production of the company to a low wage country like China.

Alternatives:

- To continue in Temecula manufacturing Plant
- To outsource to China
- To Offshore in China



What is happening!

Mr Bawcombe obviously doesn't want to do it because:

- His team has produce an important process innovation that has represented 6% productivity over the years.
- Redesigns of hand spreader to make it pressure-fit.
- Pioneered use of “In-molding” labeling. (Tacit knowledge of the entire organization)
- Scotts regulary set up structured regular communication plans with its suppliers assuring quality standards.



Why?

Comparison cost of different alternatives:

	Outsource China	Offshore China	USA
Labor cost	\$0,91	\$0,91	\$16,25
Estimated increase Labor cost (annual terms)	4%	4%	3%
Real increase Labor cost (annual terms)	10%	10%	3%
Electricity fares	\$ 0,065 per Kwatts/hour	\$ 0,065 per Kwatts/hours	\$ 0.1850 per Kwatts/hours
Increase Electricity fares	2%	2%	2,5%
Productivity	Lower	Lower	Higher
Lease cost	\$0,00	\$200.000,00	\$3.000.000,00
Production- quantity of spreader	3000000	3000000	3000000
Freight cost	\$8.000.000,00	\$8.000.000,00	\$0,00
Increase of freight costs	3%	3%	0
Safe inshipment	-\$1.000.000,00	-\$1.000.000,00	\$1.000.000,00
Safety stock	\$460.000,00	\$460.000,00	\$0,00
Overhead cost	50%	0	30%
Margin of outsource	8%	0	0
Appreciation of Yuan (annually)	4%	4%	
Corporate overhead	\$1.000.000,00	\$1.000.000,00	\$0,00

Why?

Pro and Cons of main alternatives:

	Pro,s	Cons
Outsource	Lower cost	Less control/ innovation
Temecula Plant	Quality Control Innovation IP	Higher Cost

Offshore	Lower Cost and IP	
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Decision

To offshore in China!

How?

Case Situation	Argument	Action Plan
Problem	Cost in US is too high Protect IP Mantain control of suppliers to mantain quality	Move operation to China mantainin control of the supply chain
Decision	Offshore in China	Open facility and operate Offshore in China (1 year) and progressive and parallel shut down of the Temecula plant
Evaluation		