**OM 305 S23**

**Team Case 2**

**Model Building and Decision Making**

**WetLawn**

John, a CEO of “WetLawn”, cannot sleep at night. He has to decide whether or not he should approve a new pricing plan and enhance his company’s channel support program, proposed by Steve, the company’s VP of Sales. His firm designs, sells and services lawn sprinkler systems through independent distributors.

John is caught between the proverbial “rock and a hard place.” On the one hand, he is under pressure from the Board of Directors to deliver a stronger bottom line (net income) performance.

This is what is needed, according to some members of the Board, to increase company’s market value.

The Board wants John to grow the company’s market share, within a year without decreasing the dollar value of "WetLawn's" Gross Profit.

John is not convinced that this is the right way to go, but he knows that his job may be on the line if he doesn’t meet the Board's expectations of the net income growth and does not follow its directives. He has long

suspected that Steve would stop at nothing to become the next CEO of the "WetLawn".

There is a well-founded possibility that Steve has already shared his plan with some Board members.

Steve manages 10 sales representatives each earning on average $100,000 per year servicing distributors in their assigned geographical territories. Typically, a salesman stays with “WetLawn” for 10 years and is responsible for delivering a sales quota of 1,000,000 units per year. The sales process is "consultative in

nature".

Any undue pressure by the Board would trigger a churn amongst his most seasoned sales representatives and this would have significant, negative effect on the company’s financial performance.

The “WetLawn” company has been in business for nearly 30 years. It was built on the strength of its innovative “non-clog” lawn sprinklers that are easy to install and maintain. Today, “WetLawn” enjoys an estimated 50% market share.

The company competes with two other sprinkler manufacturers who quietly own the remaining 50% of the estimated 20,000,000 units per year market. For many years the sprinkler business represented one of the most stable and mature of industries. All three companies were satisfied with the status quo and did not encroach on each other’s territory.

Steve claims that any additional sales can only come from taking business away from its competitors. This would, most likely, disrupt the industry's delicate balance and lead to the disastrous price war.

John knows that if he spends $100,000 on a secondary market research, he will quickly get a better estimate of the true market potential in his area of operations.

According to Steve, less expensive competitive products from a Shanghai based “Tall Grass” company started clawing their way into “Wet Lawn’s” distribution channel last year. The quality of “Tall Grass” sprinklers is said to be inferior to anything on the market today. In addition, it is not known if “Tall Grass” provides any type of value-added services. However, at the price point that is 20% lower than “WetLawn’s” products, “Tall Grass” is apparently generating a significant amount of interest.

Of course, “WetLawn” does not want to open the door to any foreign competition. To the best of Steve’s knowledge, “Tall Grass” is a direct exporter from China to the United States. The website of “Tall Grass” is in Chinese and John does not know that language. He himself does not have the time

to look for a dependable translator.

Steve’s plan is to reduce the price of “WetLawn” sprinklers to distributors by 10%. According to Steve, this change would allow “WetLawn” to maintain its competitive edge and still maintain dealer loyalty.

In addition, Steve has suggested that “WetLawn” should increase its overall channel support budget by 20%.

The current channel support budget is 5% of gross sales. This would help dealers to provide more value-added services such as: system design, documentation, customer service support, and free replacement of parts.

“WetLawn” sprinklers are sold to distributors for $2.05 each. Currently, the unit cost of each sprinkler is broken down as follows: raw materials cost is $0.50 per unit, while direct labor cost is another $0.50 per unit. Administrative overhead is set at 10% of sales.

Three years ago, “WetLawn” spent $1,000,000 for each of its two production lines. Today, it would also cost $1,000,000 to buy similar machinery. This type of equipment is depreciated over 5 years using a straight-line depreciation schedule. Each line can produce 5,000,000 units per year.

John must act quickly. He is inclined to commission a primary market research study to learn more about what “Tall Grass” is up to. This will help him get more of the facts that he needs to make his final decision. This research will take two months to complete and will cost $400,000. The Board is meeting in 60 days. He knows that he has to decide immediately whether or not to commission this report.

He is also whether or not he should spend $100,000 on consultants who will collect the secondary market research. This could be done within 30 days.  
These both options (primary and secondary research) are not mutually exclusive .

What would you do if you were John? What would you tell Steve?