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ACUSHNET CANADA INC.: THE BONDED WAREHOUSE INITIATIVE

Ian Friedman prepared this case under the supervision of Professor Greg Zaric solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

On Ian Friedman's desk sat several file folders filled with information on Canada Customs Bonded Warehouses. It was two weeks into May 2004, and Acushnet Canada Inc.'s vice-president of finance and operations, Chris Perkins, and the company's accounting manager, Ed Sluys, wanted Friedman to assess whether storing imported golf equipment in a bonded warehouse would provide significant enough cash flow savings to warrant the cost of storage.

BACKGROUND

Fortune Brands was a leading consumer brands company, with 2004 sales exceeding US$7 billion. Fortune Brands' strategy focused on developing market leading consumer brands amongst four attractive consumer categories: home and hardware, spirits and wine, golf equipment, and office products. Its strategy focused on the strength of their brands: more than 90 per cent of their revenues came from No. 1 or No. 2 market positions. Fortune Brands' goal was to have double digit earnings growth year over year.

The golf equipment category was controlled by Acushnet Company, a subsidiary of Fortune Brands. Acushnet Company was comprised of the Titleist (No. 1 golf ball worldwide and No. 2 golf clubs in the United States), FootJoy (No. 1 golf shoes worldwide, No. 1 golf gloves worldwide and No. 1 golf outerwear in the United States), Cobra and Pinnacle golf brands.[1] Acushnet Canada Inc. (ACI), located in Newmarket, Ontario, was a subsidiary of Acushnet Company and functioned as an independent company. ACI relied on Acushnet Company for the majority of its product development, and ACI's locally developed products required Acushnet Company approval. Pricing and sales programs were developed by ACI, independent of Acushnet Company; however, ACI did not traditionally stray too far. Fortune Brands' golf equipment sales exceeded US$1.2 billion in 2004.

[1] All rankings are in terms of revenues. Source: Fortune Brands 2004 annual report.

PURCHASING AT ACI

Sales of golf products experienced large seasonal fluctuations and peaked in the months leading up to the golfing season. ACI secured relationships with small overseas manufacturers for the manufacturing of golf shoes, gloves, outerwear and club heads. ACI's manufacturing requirements often filled their suppliers' entire capacity. The small size of their suppliers did not allow ACI to take advantage of just-in-time purchasing. In fact, ACI often had to procure inventory four to six months before it was needed in order to ensure that the company would be able to meet customer requirements during the busy season.

Procuring inventory four to six months ahead had negative effects on cash flow. Besides the cost of the goods themselves, ACI paid duties of five per cent to 19 per cent when Canada Customs cleared the goods.

CANADA CUSTOMS BONDED WAREHOUSES

The Canada Border Services Agency (CBSA) implemented Canada Customs Bonded Warehouses (CCBWs) in 1997. CCBWs were licensed and regulated facilities operated privately where goods could be stored duty-free and tax-free until they were exported or consumed domestically. The time limit for storage was four years. For example, ACI could import Cdn$500,000 of golf shoes in January that they didn't need until May, and delay the 19 per cent duty cost for four months before clearing the goods. This allowed ACI to free up cash to reinvest back into their strong golf brands and into growth opportunities. Perkins commented that ACI was looking to earn 13 per cent on capital employed. Perkins thought that a reasonable goal would be to use CCBW to maximize cash flow savings.

THE DECISION

Friedman compiled some data that would help him make his decision. For all four categories of goods, he compiled the duty rates and monthly storage costs per carton. He also calculated the average value per unit, number of units in each carton, and the number of cartons that were stored on each pallet (see Exhibit 1).

The bonded warehouse facility that provided the most favorable quote told Friedman that it would not be able to store more than 200 pallets at any one time. Friedman also compiled a monthly schedule for the maximum number of pallets for each product type that ACI would be willing to store in the offsite CCBW (see Exhibit 2). These figures were generated from a combination of many factors including market demand, supplier production schedules and amount of goods held in ACI's onsite warehouse. Sluys reminded Friedman that there was no requirement to store all the pallets indicated on the schedule; any pallets not stored in the CCBW could be cleared and stored in the onsite warehouse, but the duty would have to be paid when the items were cleared by the CSBA.

Looking over the quote from the CCBW facility, Friedman noted the monthly storage costs per carton for each of the different products.

Exhibit 1

CASH FLOW
(in Cdn$)

	Duty Rate (%)	Monthly Storage Costs Per Carton	AVG Value Per Unit	Units Per Carton	Cartons Per Pallet	TOTAL
Shoes	19.0	$0.36	$40	12	20	$9,600
Gloves	13.0	0.22	7	336	15	35,280
Club Heads	5.0	0.44	88	25	48	105,600
Outerwear	18.5	0.32	60	42	15	37,800

Source: Acushnet Canada Inc.

Exhibit 2

MAX DEMAND IN STORAGE

	January	February	March	April	May	June	July	August	September	October	November	December
Shoes	350	330	140	60	-	80	140	200	220	220	230	240
Gloves	70	100	20	-	-	50	70	90	100	110	115	100
Club Heads	18	16	10	8	5	3	5	15	25	30	30	30
Outerwear	12	10	8	8	6	3	3	30	70	70	80	80

Source: Acushnet Canada Inc.