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Ryder Rides: The Synergy Between Accounting and Marketing

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Abstract. The synergy between accounting and marketing is often overlooked despite the implications in strategic decision-making (Roslender & Hart 2006) and cross-functional operations (Cravens & Guilding 1999). Marketing students are rarely exposed to the accounting information they need to be effective decision-makers. Accounting information is typically not included in comprehensive marketing case studies. Yet, management accountants provide financial information and analysis such as product line and individual product profitability, product and customer costs and brand valuations to marketing professionals that is crucial effective decision-making. This case exposes accounting and/or marketing students to the interdependencies of accounting and marketing and provides an opportunity to analyze and evaluate internal financial reports for Ryder Rides® (R^2), a company that assembles and sells professional and recreational bicycles. R^2 experienced a significant decrease in operating income year-over-year despite selling the same number of bicycles. Students are required to analyze the impact of a sales mix shift, manufacturing variances and changes in marketing expenditures on the company's operating income and generate recommendations to improve R^2's financial performance.

Keywords: marketing strategy, management accounting, sales mix, manufacturing variances, competitive analysis, strategy, income reconciliation, operating income.

1. Introduction

> *James Ryder, the brainchild behind Ryder Rides® (R^2), never claimed to be a financial whiz. However, he has enough business sense to understand that when operating income begins to significantly decline, action is required. A review of R^2's sales units indicated that even though the company sold the same number of bicycles year-over-year, operating income declined from \$3.7M to \$0.4M.*

Ten years ago and after a very successful career as a professional cyclist, James was forced to retire after recovering from a major health scare. Even though his health was compromised, James' passion for professional cycling remained strong. So, he decided to establish R^2 with his long-time training partners, John and Marie, to leverage his professional cycling network as well as his firsthand product knowledge of the deficiencies in existing bicycle technology. The team was formidable with James responsible for sales and marketing, John overseeing bicycle assembly and operations, and Marie handling accounting and procurement. While the partners did not possess formal academic training in their areas of responsibilities, each shared genuine interest in the area and was willing to learn the nuances of their tasks.

The company elected to assemble purchased frames and kits into state of the art mass produced bicycles in their Texas facility and to prominently feature James' last name, Ryder, in its marketing campaigns and branding strategy selling the ProRyder and RecRyder bicycles to high-end [bicycle] shops worldwide. ProRyder bicycles were targeted towards professional or advanced cycling enthusiasts (i.e., prosumers) with a desire for high-end parts in their bicycles for use in local competitions (e.g. biathlons and triathlons). RecRyder bicycles were geared towards recreational or novice cyclists with a budget less than $1,000.

Driven to ensure quality, enhance brand appeal, and control growth, the R^2 team decided to sell no more than 5,000 bicycles per year with the expectation that the highly profitable ProRyder would comprise at least 70 percent of their sales. Even though the RecRyder's contribution margin was very low, the R^2 team elected to add the product line to generate excitement for the brand among novice cyclists who may eventually advance to become enthusiasts. Based on their costs at the time, they established selling prices for ProRyder at $5,000 and RecRyder at $900. These prices had not changed since the company's inception. To build and sustain the Ryder brand, they agreed to invest $1M in marketing annually.

During the initial years of the company, the R^2 team carefully monitored quarterly sales and operating income. Once the company was firmly established, they discontinued quarterly reporting preferring an annual retreat to celebrate the previous year's success. At one of their annual meetings, the team decided to divert $400,000 of marketing spending to executive salaries after several successful years of the company generating average operating income of $3.7M. For a few years after the reduction in the marketing spending, R^2 continued to generate consistent operating income until last year when operating income declined to $0.4M, causing them to barely breakeven.

2. The Rude Awakening

Late on a Sunday night, James sent a text to his team members to convene a meeting early Monday morning. To convey a sense of urgency, the text simply stated, "URGENT: Operating income down!"

When John arrived, James and Marie were already in James' office. So, he went in and closed the door. With a hint of irritation, John blurted out, "What's going on, James? The text you sent sounded ominous."