

Case study toys

Education



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Principal of Management Case Study: Toys Galore The Case Toys Galore is a major manufacturer of toys which faces uncertainty about demand for its toys during the Christmas season. If there is a high demand for toys, and if Toys Galore: * Is fully able to meet this demand, then it makes additional revenue of \$4m. * Is partly able to meet this demand, then it makes additional revenue of \$3m * Is able only to supply at a low level, then it makes no additional revenue. If, however, there is low demand, then it makes no additional revenue.

In July, Toys Galore has the option of expanding production. An expansion will cost \$2m. If it expands in July, then it will be fully able to meet a high demand at Christmas. If it decides not to expand production in July, then it has another chance to expand in October. An expansion in October also costs \$2m, but this late expansion does not leave the company sufficient time to fully meet high demand at Christmas; it can only partly meet any high demand. In October, however, the ABS announces the latest national income figures.

Past experience suggests that income figures are high half the time and low half the time. Past experience also suggests that if there is a high national income figure, then there is a 80% probability of high demand, and if a low national income figure, a 80% probability of low demand for toys at Christmas. To summarize: by expanding production in July, Toys Galore is able to fully meet high demand for Christmas toys, if that occurs. By waiting until October, however, it can make the expansion decision on the basis of better information about Christmas demand. Abstract:

In the above case study we see that the management of Toy Galore, a major manufacturer of toys faces uncertainty or a dilemma as how to cope up with the demand / supply and at the same time keep an eye on the expected revenues generated for/during the Christmas season. Moreover the company has to choose whether if they want to expand their production during the month of July or October with low and high risk associated with the respective months. Factors affecting our decision: Before going on and making the decision the company has to look into the following important factors) Calculated Risk Vs Returns: As mentioned in the case as there are many options that the company can opt for but all the options are to be looked in to with respect to the Risk associated with them and The Revenues / Returns generated with each of the option. Options of both expanding and Producing in the month of July or October to meet the Christmas Demand for toys and also the uncertainty or speculation that the income pattern might as well change which may / can affect the sales and the demand for the Toys produced.) Certainty vs. uncertainty: As seen in the case study there is uncertainty that the demand of the toys may increase or decrease based on the historical trends and income patterns. Assuming that the production meets full demand then the company makes maximum revenues i. e. Rise in the income results in the rise of the Demand, Rise in the Demand results in the rise of the Production and the Supply thus, Resulting in the Rise in Revenues. But one cannot ignore the uncertainty factor associated and present in the market environment.

If the Income decreases then the whole scenario changes i. e. Decrease in the Income results in the decrease in Demand and supply, thus low

revenues. 3) Market Competitors: Knowing that we are the major producer and Manufacturer of toys, we still can't ignore the competition that exists or is entering the market. Any opportunity lost can prove to be a big opportunity for the competitors in the market. Suggestions with Reasoning: Based on the above factors I would advise the Toy Galore to; Invest and expand their production as it will not only help them in the short run but also in the long Run. Taking the decision to expand its production capacity doesn't only means that it now has the capacity to produce more now and also in the long run but it also conveys a message of stability, strength and overall market dominance to our competitors * Start the production early i. e. in July and in case of any uncertainty or unforeseen event there should always be a backup plan or a contingency. * Play safe.

There is a likelihood that revenues may increase more in October but again there is an old saying " Sometimes your best investments are the ones you don't make. " So I will advise the management to start production early in July. * Keeping the ABS reports at hand in case the income and the demand decrease during the Christmas season (keeping both directly proportional) resulting in low sales or stock pileup , we always have the option of after Christmas sales, which not only attract more buyers due to more discounts and decrease in the prices but also boost the revenues i. . $\hat{\text{Revenue}} = \text{Price} * \hat{\text{quantity}}$. * Those who forget or ignore the past are doomed to repeat it. Market Speculations play an important role while making any managerial decision. The Company instead of ignoring the signs and news prevailing in the market should keep a close eye on the market, Historic Trends and keep in touch with the Statistical and Financial sectors so to keep

on collecting the latest facts and figures which will always be helpful when it comes to making important decisions.