

Sport obermeyer: economic production quantity



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Analysis The Company Sport Obermeyer (SO), Ltd. Is a high end fashion design and merchandizing company based in Aspen Colorado. It was, founded by Klaus Obermeyer, a German ski instructor. SO aims to provide U.S skiers with the same high quality ski wear that is protective and , stylish and comparable in standards to the clothing and equipment available in Germany. Over the years, the company developed grew into a dominant competitor force in the United States skiwear market with estimated sales of \$32. 8 million in 1992.

The company held a commanding 45% market share of the children's skiwear and 11% market share of the adult skiwear market. SO competes with Columbia Sportswear which held 23% market share in this the adult skiwear segment. Obermeyer competed by offering an excellent price/value relationship, where value was defined as both functionality and style and targeted the middle to high end of the skiwear market. Although the company has a global supply network, most of its critical products are sourced through Hong Kong based company, Obersport.

In 1985, Klaus Obermeyer teamed up with Raymond Tse to establish Obersport Ltd. This joint venture was used to coordinate production of Sport Obermeyer products in the Far East. Obersport manages supply and production operations in Hong Kong and China. Obersport was responsible for fabric and component sourcing for Sport Obermeyer's production. Materials sourced were cut and sewn either in Raymond Tse's own " Alpine" factories or in independent subcontractors located in Hong Kong, Macau, and China. Raymond was owner and president of Alpine Ltd. which included ran skiwear manufacturing plants in Hong Kong as well as a recently established

facility in China. Sport Obermeyer's orders represented about 80% of Alpine's annual production volume. Management Approach Management of the company was based on Klaus's personal philosophy that the skiwear industry should be left to people who were comfortable with an uncertain bottom line. It emphasized trust in people and providing value to customers. Some of the decisions were guided by judgment, extensive industry experience and intuition.

However, when In contrast, Klaus's son son Wally Obermeyer, a recently joined joined the company as Vice President, his has a management style was quite different than his father's. With an MBA degree from Harvard Business School under his belt, Wally that relied more heavily on formal data-gathering and analytical techniques for forecasting demand and optimizing the supply chain management, in contrast to his founder father Klaus who was heavily informed by his extensive industry experience..

Products offered

Obermeyer offers a broad line of fashion ski apparel, including parkas, vests, ski suits, shells, ski pants, sweaters, turtlenecks, and accessories. Parkas are considered the most critical design component of a collection; the other garments were fashioned to match the parkas' style and color. To attract the vast majority of the skier population, their products were offered in five different genders: men's, women's, boys', girls', and preschoolers'. The company segments each "gender" market according to price, type of skier, and how "fashion-forward" the market was.

Within each “ gender”, numerous styles are offered, each in several colors and a range of sizes. Functionality was critical to the serious skier. and hence Obermeyer products offered warm, waterproof and stylisht gear, yet that was comfortable and did not compromisesing on the wearer’s movement. skier’s movement and comfort while wearing these. Order Cycle Due to the seasonal nature of the demand, retail sales of skiwear occurred between September and January, with peak sales in December and January. Most retailers requested full delivery of their order prior to the start of the retail season.

To meet this demand, the concept, design and manufacturing has to start two years ahead of time to complete manufacturing in time to meet the demand. Design and senior management team attended the annual international outdoors wear show and the trade show for ski equipment and apparel in Las Vegas. Based on these ideas, the teams came up with a concept for their prototypes, which were later prototyped with real material and demonstrated to retailers. Concurrent with sample production, Obersport determined fabric and component requirements for Obermeyer’s initial production order.

Issues facing Obermeyer Some of the issues that Obermeyer facedd are: 1. Measuring demand uncertainty from disparate forecasts 2. Allocating production between factories in Hong Kong and China, determining how much of each product to be made in each factory. 3. Long lead times for orders. 4. Little of no feedback from market – the only little feedback that they get is at trade shows in Las Vegas (American Styles) and the in Munich (for European Styles). 5. Inaccurate forecasts resulting in loss of sales and

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deep discounts of excess left over and out of fashion inventory. . United States Import Quotas forcing for early delivery from Chinese factories in the season. Recommendations 1. Effective Supply Chain management Looking at the order cycle of Obermeyer, it takes nearly two years before the product hits the retail stores. The main issues are operating in an environment with long lead times and the inability to obtain timely market feedback. 2. Improving Operational Efficiencies One of the big operational inefficiencies is in material management large lead times of the principal and more expensive components of the parka.

The lead times for raw materials should be negotiated with the suppliers. One way to alleviate this problem is to have a safety stock of the materials with longer lead times to buffer the waiting time. In this age of computers, Obermeyer should definitely consider using computer aided design software to prototype new designs and show these to the retailers rather than to make a real sample prototypes. This will greatly reduce the time to make these prototypes and would also allow incorporating any last minute recommendations / variations from the design team.

One of the main issues with performance is quality control. Wally should focus on cross-training the employees so they can complete more than one production process and at the same time have a wider picture of the entire production process. In doing this, employees will have a better understanding of the product and have higher quality with their new product knowledge. Another area Wally may want to focus on would be the actual control of quality before the product even leaves the plant. If he could set up a better quality control procedure at the manufacturing level he could

reduce the amount of product eing sent out with defects that will end up being shipped back and thus reducing production and transportation cost while raising the customer service level of Sport Obermeyer. 3. Sourcing in China verses in Hong Kong Wally should choose Hong Kong to improve performance. Since it is the initial production, they don't want to send back their defective products from China because they have of a repair rate that is eight percent higher. As a result, they can achieve their customer satisfaction and demand.

Also, China has a problem with the management of production and inventory risk, so they don't want to take a risk when compared with Hong Kong. They might spend more money at the beginning for the initial production cycle, and achieve their profit as an end result. Other benefits of using the Hong Kong production center are line configuration, cross training, and the labor time per parka is substantially lower. The line configuration is also a lot lower when compared to the 40 employees needed in China. Employees in China are only trained to complete one operation in the production process which is why 40 employees are needed in each line.

This is why cross training in Hong Kong is so valuable. Sourcing should be based off of the previous factors, which were: training, line configuration, repair rates, and labor time per parka. If these needs are met with a certain production facility with lowered cost then this should be the location of choice. However, producing in China has its own advantages, some of which are, because the labor rate is very low, the cost of manufacturing is relatively very cheap which could mean very good long term cost strategy.

Additionally, workers stay overtime to complete the production requirements, this could be very helpful during times when time or market is very important. To summarize, In Hong Kong they would have better quality products but with a little higher price, also this place produces most of the components needed for making a parka so the lead times may become lower if they produce in Hong Kong. It would be better to produce only some percentage of the total production requirement in here and some other percentage in China to reduce costs.

Implementation Operations is just one of the areas that Sport Obermeyer could improve upon. The need for this improving Operations arises because greater product variety and intense competition has have led to inaccurate forecasts at Sports Opermeyer. This These inaccurate forecasts has been eating into their bottom line. Some examples of the inefficiencies that result from the inaccurate forecasts because of are lost sales due to stock outs and saddling being saddled with excess inventory from unpurchased styles and colors.

There are a number of operational areas that Sport Obermeyer could improve upon on that can to reduce their time to market as well as extract cost efficiencies from their current process in order to maximize profitability. The following are the various areas they could improve upon are: Optimize Obersport production between in Obersport's operations in China and Hong Kong Obersport's independent subcontractors in Hong Kong and Macau offers a different manufacturing environment to that found in their new factory and other subcontractors in China.

While the subcontractors in Hong Kong offer the ability to ramp up production quickly, a smaller minimum order quantity, a lower repair rate and no quota restrictions with the US; the production here in Hong Kong is also more expensive per garment. In contrast China has cheaper labor and lower production costs (resulting in higher profit margins for goods sold or lower loss per unsold item). , but However China is constrained by a US trade quota that requires goods to be produced and delivered ahead of time.

The trade agreement with China also, dictates minimum order quantities that are requires double double the minimum order quantity than that required in Hong Kong. In addition, Chinese made garments and have a much higher return and repair rate. We believe Hong Kong's production capacity should be utilized for producing lower volume items, styles for the Freds and Klausies in each gender, retailer replenishments as well as new colors and designs. These are the products that are likely to set trends, be durable, require quick turnarounds and be produced in smaller quantities.

Chinese subcontractors and the factory in Lo Village should be used to produce high-volume products that have high forecast accuracy (low standard deviation in the forecast and more consensus), have less color, pattern and style variations; and those that can be either adapted to be used all over the world should excess quantities need to be sold at deep discounts. Hold Stock Greige fabric The authors have already mentioned that Wally and Obersport have begun stocking Greige fabric. We believe this is a step in the right direction.

Although This stocking Greige fabric might increase the holding cost, it but the sheer number of types and quantity of fabric required ensures that shell and lining fabric is available when needed to be used in production. In fact we believe Sport OberMeyer and Obersport should increase the quantity of Greige fabric it holds so that they could use it Greige fabric for replenishment orders or the following year. Furthermore, fFabric is not something that changes drastically every season like the style or colors, so left over fabric could can be used the following year.

This Stocking Greige fabric could can greatly improve the 45-90 day lead time and can can also protect against shortages or fluctuations in stock the following year. Decrease fabric dying and printing lead times The 45-60 day lead time for the dying and printing operations is completely dependantdependent on the styles and colors for the coming season (in our case 1993-94). There is not much Sport Obermeyer can do in this case. One area that they Sport Obermeyer could can improve on is to begin the dying and printing of patterns that have not changed over the last few years.

Standard colors like Black, Grey and Red as well as standard patterns like checks would most likely remain for the new season. Sport Obermeyer could begin the dying and printing operations for these colors and patterns as soon as the first batch of Greige fabric arrives. This would also help reduce some of the holding cost between the Greige fabric order placement and the onset of full scale production. During this process, improvements in the color setting and dying process could be implemented as well as kinks in this process ironed out. This could also help repeats of the lab-dip process for unsatisfactory work and coloring.

Stock additional raw materials Obersport stocks snaps to reduce the lead times. Similarly Sport Obermeyer could stock additional inventory to help with repairs resulting from the lower quality products manufactured in China. The advantage of producing items using standard components is that overstock would not result in waste. Overstock of components would also help in easy repairs of goods. Automate and make use of intelligent design processes Sport Obermeyer needs to improve their design process by making use of advances in Computer Aided Design (CAD) technology.

Sport Obermeyer They could create an initial set of designs before the international outdoors wear show in Munich. After the show Sport Obermeyer they could revamp or augment their designs without having to sketch multiple times to remake changes. Sport Obermeyer They could also test their designs and break them into individual components without going through an expensive prototyping phase. The final prototype would require minimal changes before finalizing the design. This could help them reduce the time it takes from designing to the final design, a process that currently takes about seven months between February and September.

Another advantage would be the ability to test, design and redesign products using overstocked and standard components with smaller lead times like the standard, low-cost zippers from YKK. Optimize shipping costs and order arrival schedules Shipping costs add a non-significant amount to the final cost of the goods. By reducing the lead times of sourcing materials and dying the fabric as well as the design process, Sport Obermeyer could have products ready to ship well before the current June timeframe.

For goods manufactured in China, it would mean arrival in Seattle well-before the China-US import quota limitations for the year took effect. This would mean their products are present in their Denver warehouse well ahead of the August shipping schedule. It would also allow Sport Obermeyer to package goods appropriately so as to reduce cost of shipping from the warehouse to the retailers. The replenishment goods would have to be produced in Hong Kong because the quotas for importing from China would most likely have been filled. Air-shipping these and goods finished in August would ensure timely delivery. Improve Quality Control

Sport Obermeyer could work with Obersport to develop a strict Quality Control process. They should ensure that goods are checked more frequently and at various stages of production than just random inspections before shipment of the finished products to the United States. By improving quality control checks and balances, Sport OberMeyer would ensure a smaller repair and return rate on goods manufactured in China. This would reduce repair costs and satisfy more customers. Risks and Contingencies Obersport production in China and Hong Kong The new Obersport factory in Lo Village is conceived so that it can fulfill large orders.

However that new facility needs to train its 200 new workers. What if that factory cannot meet its initial round of production? What if the quality of production from that factory does not compare with the level of quality that is expected in other Chinese factories? The quality produced at the Lo Village facility needs to be set very high and yet not compromise production rate.

Reduced Consumer Demand What if there is an unexpected loss in consumer demand for ski wear in the US? What can Sport Obermeyer do to hedge

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against this risk? Could Sport sell the excess inventory in other markets?

Stock Greige Fabric and other raw materials

Stocking a large quantity of Greige fabric and other raw materials ahead of production schedule makes sense if Sports Obermeyer receives replenishment orders. What if the price of Greige fabric and other raw materials drop in the middle of the production schedule? Should Sport Obermeyer buy options that hedge against this event? New Technology CAD tools are the way of future design. Training design staff on these tools requires additional time and expenses. What if the current design staff cannot adapt to these new tools? What if these tools limit the design expression and that designing free hand produces a better product?