

Sport obermeyer

Sport & Tourism



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***Sport Obermeyer:** Case Analysis Pratyusha Lakshmi Puranam Executive Summary: 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. 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. In the current situation, Obermeyer is facing two major issues: inability to meet the demand of retailers during peak sales and a confusion of where to produce the garments – Hong Kong or China. The best way to mitigate the inability to meet the demand of retailers during peaks sales would be to forecast the demands with either past data or with the help of a forecasting committee. It would be idea for Obermeyer to forecast future demand with the help of a forecasting committee.

To come over the confusion of which city to continue production in, Obermeyer should choose to continue short term production in Hong Kong but the Long Term production should be in China. Sport Obermeyer has the following main problems: Inability to meet the exact demand of the retailers of the latest fashion which is actually a result of poor forecasting of the jackets: Sport Obermeyer depends on the Las Vegas show to determine what fashions were going to dominate the season coming up and then produce the best fashions.

This was a problem because the gap between the show and the production of final product and making it available to the retailer takes time and meanwhile anything can happen. Thus a rigid and accurate forecast must be made based on data as well as experience. They are in a dilemma of which location to continue their production in - Hong Kong or China: Raymond Tse had built the new factory in China where the cost was less but the quality had to be compromised. Moreover, the labor had to be trained and a higher minimum order was required.

These issues were addressed by the Hong Kong facility where quality of product was good, the labor could multitask, a lower minimum order size was required and the time of production was low. But the overall cost was high. Recommendations: In order to overcome the forecasting issue, effective forecasting methods like forecasting with the committee should be adopted. The calculations can be based on the newsvendor problem and will help to forecast the optimum requirement of products. To overcome the dilemma of where to produce, the production initially continue in Honk Kong and should be eventually moved to China.

Later, Hong Kong should be used when the minimum order size does not suit that in China. Supporting Analysis: Sport Obermeyer has the issue of lack of stock during peak sales of certain types of parkas. This is very similar to the New Vendor problem. The newsvendor problem is a classic in management science partly because selecting an optimal inventory level in the face of uncertain demand is an important problem but also because the solution is so elegant and intuitive: the inventory should be selected so that

the probability that the vendor stocks out should be set equal to the ratio of the item's unit cost to its unit price.

Precisely, the Newsvendor Framework is: One chance to decide on the stocking quantity for the product you're selling Demand for the product is uncertain Known marginal profit for each unit sold and known marginal loss for the ones that are bought and not sold Goal: Maximize expected profit Numerically, $P(x)\text{Marginal Profit} - (1 - P(x))\text{Marginal Loss} = 0$ i. e. $P(x) = \text{Marginal Loss}/(\text{Marginal Profit} + \text{Marginal Loss})$ Obermeyer's situation is more complicated than the Newsvendor problem because it is highly dependent on what color, style in the most popular at the moment.

Moreover, the higher lead time and constraints of minimum number of orders defined by factories worsen the situation. Risk associated Production: Sport Obermeyer should produce the designs and styles that have the least standard deviation because they are least risky. For these products, the demand uncertainty is very less and thus there is a very low chance of incurring a huge loss. A loss, if any, will not be taxing for Obermeyer and will be in a very low level. Moreover, the trade show results from Las Vegas are not required to produce these parkas. Thus their production can be started immediately.

On the other hand, Obermeyer would want to wait till the trade show is complete before starting the production of the parks with a high standard deviation because it has a higher risk. Any loss incurred due to this segment will be huge and taxing. Demand forecast: The following table shows the demand forecast by the forecasting committee. According to basic principles

of statistics, in a sample there is a 68% probability of success i. e available demand in the range (Mean + or - Standard Deviation) and 97% probability of available demand in the range (Mean + or - 2*Standard Deviation).

The uncertainty in these two cases is the chance of being outside the range.

For example there is a 32% uncertainty of availability that if the demand is below 823 or above 1211 in the Gail model. Similarly it follows for the rest of the data. With the Newsvendor problem, the Demand Forecast would be:

Here, $P(x) = \text{Marginal Loss} / (\text{Marginal Profit} + \text{Marginal Loss})$ Z has been

taken from the frequency distribution tables. Produce = Average

+Z*Standard Deviation First Production Quantities: styles for which expected

demand is more than twice the minimum order quantity styles for which

expected demand is less than the minimum order quantity all other styles

From the above data we have the least forecasted order as 639 which are

higher than 600, which is the minimum order quantity for Hong Kong. If the

demand is more than double of what has been forecasted there is no issue at

all and any factory (Hong Kong or China) can be chosen. If the demand is

less what we have forecasted it again depends on how much lesser than the

minimum order size it is.

As we have seen all the forecasted demands are greater than 600 and

therefore there will not be much of an issue. A typical scenario is when the

demand is in between the minimum order and the double the minimum

order. For such a situation we will have to further analyze. We cannot blindly

order the minimum both times not can we split the demand into half. In such

a situation we have to choose a combination of both factories. *Effect of

reducing minimum order quantities on profits*: If there is reduction in the

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minimum order quantities, then it would be profitable only in case of Hong Kong.

There may not be a big difference in profitability if China lowers its minimum order quantity. The reason being, if the company selects China for its order, it is probable that the order is of bulk quantity. Hence, the minimum would not matter for bulk orders. As discussed earlier, it is a good idea to choose Hong Kong for quick and small orders. Hence, if Hong Kong lowers its minimum order quantity, then the number of orders with low quantities will increase for Hong Kong - because, Hong Kong produces the product in half the time as China.

Hence, minimum order quantities are directly related to quick orders, which implies, if there is a reduction in minimum order quantity in Hong Kong, then it is profitable than the minimum order quantity reduction in China. Thus when we have to choose a location based on the aspect of reducing the minimum order quantities, we must go ahead with Hong Kong as it is more profitable than reducing minimum order size in China. *Increasing the capacity to react to observed demand*: The second order happens immediately after the Las Vegas show.

Hence, to improve the capacity to react for the demand, more number of resources need to work for gathering and capturing the market ASAP during the trade show. This would marginally affect the order date, by increasing the time for Obersport to deliver to sport Obermeyer. But, at that moment, every moment is highly crucial. Once, Obersport is asked to deliver on a prior date, the retailers have the chance to start selling the products at an earlier

date. From a profitability point of view, it may not affect a major percentage of profit. But, gaining every penny is the motto of a business.

Hence, the capacity to observed demand if increased might result in improved profits. Thus Obermeyer should hire extra resources for this job.

Improving Performance: Effectively and efficiently forecasting the demand will be the key factor in improving the performance of Obermeyer another important point would be to reduce the lead time. These two aspects will ensure that when retailers are in the peak sales period and request for replenishment of stock, Obermeyer is in a position to do the needful.

Reducing lead time is the easiest to control and will help a lot in improving the performance.

Moreover, Obermeyer can also restrict its suppliers (fabric etc) to one to two suppliers. Finally, Obermeyer should define the functionality of Obersport. Obersport should be restricted to can be in charge of sewing and cutting the clothes. Shipping and handling can be taken care by another smaller company so that it will be more efficient and timesaving. Sourcing in China versus Hong Kong Although the time taken for production in china is higher compared to Hong Kong, Sport Obermeyer should give the larger proportion of orders to china, to save labor costs.

There are orders which need lesser quantity in lesser time. The urgent orders from retailers can be diverted to HK to save time and business. Hence, as decided previously by the company, over 50% of the orders can be given to China. Bibliography: <http://www.hbs.edu/research/facpubs/workingpapers/papers2/0102/02-024.pdf> <http://www2.https://assignbuster.com/sport-obermeyer/>

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