L.l. bean case study – harvard case

Business

While there are several things that go into the decision of how many units to stock I will cover one. One major thing is the hard cut-off date of May 1st to " freeze the forecast". The preliminary forecast is started in December based on past data. The commitments to vendors are based on these forecasts. Because some of the vendors are overseas they have one shot to get the commitment correct due to longer production lead times.

To do this they take the actual demand and the forecast for that year and divide it; Actual/Forecast = historical forecast errors.

The frequency distribution of past forecast errors was then used as a probability distribution for the as yet unrealized future forecast errors" (Schlemiel, 1993). Forecasting just isn't about how many sweaters or boots that L. L. Bean thinks they are going to sell.

There are relevant costs and revenues that also come Into play. Some of those Include: * The cost to produce the Item * The sales price of the Item * The price of the liquidated item This information is used to determine the actual profit generated by each individual item. It can then also be used to determine a loss when items that were over forecasted have to be liquidated.

Forecasting the sales of a new Item can prove to be tricky. In order to properly forecast a new Item the team really must make a Judgment call.

If there Is an Item similar to it already in catalog that other item may steal sales away from the new item or vice versa. If the new item is the " best thing since sliced bread" then the competing items should also be adjusted

so as to not have an overstock of those. While it may seem as though they have more items than will be purchased it may e more beneficial for them to continue business this way.

If they under-forecast a new Item that has a production cost of $10 and sell It for $30 It would have a profit margin of $20, Let’s say they get a backorder of 2, 000 and they can’t produce them quickly enough and then that would mean they would lose $20, 000 in profits. However if they overstock the product and then have 1, 000 items in overstock they show a loss of $10, 000. The benefits outweigh the risks of overstocking.

At one point there were over 6, 000 items in a catalog. That is a lot of items to try and stock properly. L. L.

Bean has a history of inventory management problems, but want malign Nell tons Issue Is to Touch on tenet staple Items, or as teeny call teem ten “ never outs”.

There is a long history of past data on those types of items and with a long history the more accurate the forecasting would be. Making things smaller and simpler would alleviate some of these issues. Works Cited Higher, J. , ; Render, B. (2014).

Operations Management.