

TABLE 3-12

## TRANSPORTATION COSTS PER UNIT IN CENTRALIZED SYSTEM

Warehouse	Atlanta	Boston	Chicago	Dallas	Los Angeles
Atlanta	13	14	14	15	17
Boston	14	13	8	15	17
Chicago	14	8	13	15	16
Dallas	15	15	15	13	8
Los Angeles	17	17	16	8	13

Suppose you are to compare the two systems for Product A only, what is your recommendation? To answer this question, you should compare costs and average inventory levels for the two strategies assuming demands occur according to the historical data. Also, you should determine which regional warehouse will be used as the centralized warehouse.

- c. It is proposed that in the centralized distribution strategy, that is, the one with a single warehouse, products will be distributed using UPS Ground Service, which guarantees that products will arrive at the warehouse in three days (0.5 week). Of course, in this case, transportation cost for shipping a unit product from a manufacturing facility to the warehouse increases. In fact, in this case, transportation costs increase by 50 percent. Thus, for instance, shipping one unit from the manufacturing facility to Atlanta will cost \$18. Would you recommend using this strategy? Explain your answer.



## Sport Obermeyer

## Aspen, Colorado

Wally Obermeyer deftly balanced his office keys and a large printout of forecasting data as he wheeled his mountain bike through the front entrance of Sport Obermeyer's headquarters in Aspen, Colorado. It was a crisp November morning in 1992; Wally paused for just a moment to savor the fresh air and beauty of the surrounding mountains before dosing the door behind him.

Wally had arrived at work early to start one of the most critical tasks Sport Obermeyer, a fashion ski-wear manufacturer, faced each year—committing to

specific production quantities for each skiwear item the company would offer in the coming year's line. The task required carefully blending analysis, experience, intuition, and sheer speculation. This morning Sport Obermeyer would start to make firm commitments for producing its 1993–1994 line of fashion skiwear with scant information about how the market would react to the line. In fact, no clear indications had yet emerged about how end-consumers were responding to the company's current 1992–1993 line. Despite the attraction of waiting for market information, Wally knew that further procrastination would delay delivery to retailers and that late delivery would reduce the exposure consumers would have to Obermeyer products.

As usual, Obermeyer's new line offered strong designs, but the ultimate success of the line was highly dependent on how well the company was able

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