

subcontractors in Shenzhen. This year, the company planned to produce half of its parkas in China, continuing production by subcontractors, and starting production in a new plant in Lo Village, Guangdong. Labor costs in China were extremely low, yet Wally had some concerns about the quality and reliability of Chinese operations. He also knew that plants in China typically required larger minimum order quantities than those in Hong Kong and were subject to stringent quota restrictions by the U.S. government. How should he incorporate all of these differences into a well-founded decision about where to source each product?

### **Tsuen Wan, New Territories, Hong Kong**

Raymond Tse, managing director, Obersport Limited, was anxiously awaiting Sport Obermeyer's orders for the 1993-1994 line. Once the orders arrived, he would have to translate them quickly into requirements for specific components and then place appropriate component orders with vendors. Any delay would cause problems: increased pressure on his relationships with vendors, overtime at his or his subcontractors' factories, or even late delivery to Sport Obermeyer.

Obersport Ltd. was a joint venture established in 1985 by Klaus Obermeyer and Raymond Tse to coordinate production of Sport Obermeyer products in the Far East. (See Figure 3-14.) Obersport was responsible for fabric and component sourcing for Sport Obermeyer's entire production in the Far East. The materials were then 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 skiwear manufacturing plants in Hong Kong as well as a recently established facility in China. Sport Obermeyer's orders represented about 80 percent of Alpine's annual production volume.

### **Lo Village, Guangdong, China**

Raymond Tse and his cousin, Shiu Chuen Tse, gazed with pride and delight at the recently completed factory complex. Located among a wide expanse of rice paddies at the perimeter of Lo Village, the facility would eventually provide jobs, housing, and recreational facilities for more than 300 workers.

to predict market response to different styles and colors. Feedback from retailers on the 1993-1994 line wouldn't begin to surface until the Las Vegas trade show next March, long after many of Obermeyer's products had entered production. Wally mused:

How appropriate that our fate is always determined in Las Vegas. Like most fashion apparel manufacturers, we face a "fashion gamble" each year. Every fall we start manufacturing well in advance of the selling season, knowing full well that market trends may change in the meantime. Good gamblers calculate the odds before putting their money down. Similarly, whether we win or lose the fashion gamble on a particular ski parka depends on how accurately we predict each parka's salability.

Inaccurate forecasts of retailer demand had become a growing problem at Obermeyer: in recent years greater product variety and more intense competition had made accurate predictions increasingly difficult. Two scenarios resulted—both painful. On one hand, at the end of each season, the company was saddled with excess merchandise for those styles and colors that retailers had not purchased; styles with the worst selling records were sold at deep discounts, often well below their manufactured cost. On the other hand, the company frequently ran out of its most popular items; although popular products were clearly desirable, the considerable income was lost each year because of the company's inability to predict which products would become best-sellers.

Wally sat down at his desk and reflected on the results of the day-long "Buying Committee" meeting he had organized the previous day. This year Wally had changed the company's usual practice of having the committee, which comprised six key Obermeyer managers, make production commitments based on the group's consensus. Instead, hoping to gather more complete information, he had asked each member independently to forecast retailer demand for each Obermeyer product. Now it was up to him to make use of the forecasts generated by the individuals in the group. He winced as he noted the discrepancies between different committee members' forecasts. How could he best use the results of yesterday's efforts to make appropriate production commitments for the coming year's line?

A second issue Wally faced was how to allocate production between factories in Hong Kong and China. Last year, almost a third of Obermeyer's parkas had been made in China, all by independent