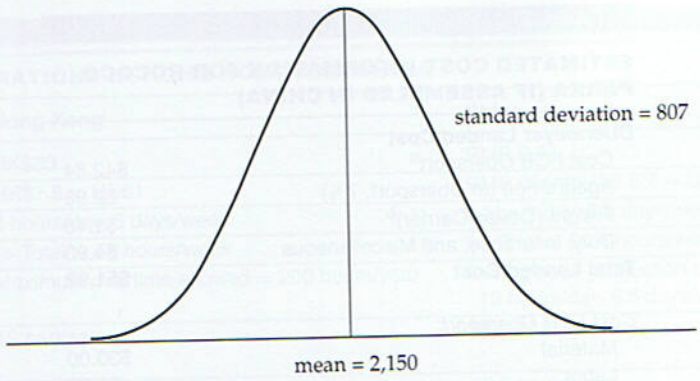

FIGURE 3-18 Forecast distribution for the Electra parka.

some way he could use the differences among each member's forecast as a measure of demand uncertainty? An examination of demand from previous years indicated that forecast accuracy was the highest for those styles for which the Buying Committee had the highest level of agreement. (Technically, he found that the standard deviation of demand for a style was approximately twice the standard deviation of the Buying Committee's forecasts for that style.) With this in mind, he constructed a forecast distribution for each style as a normal random variable with the mean equal to the average of the Buying Committee member's forecasts and standard deviation twice that of the Buying Committee's forecasts (see Figure 3-18).

Where to Produce

To complete the planning decision, Wally would also need to decide which styles to make in Hong Kong and which would be better to produce in China. This year, Obermeyer expected to produce about half of all its products in China. Longer term, Wally wondered whether producing in China would constrain Obermeyer's ability to manage production and inventory risks. Would China's larger minimum order sizes limit the company's ability to increase the range of products it offered or to manage inventory risk? Was Obermeyer's trend toward increased production in China too risky given the uncertainty in China's trade relationship with the United States?

CASE DISCUSSION QUESTIONS

1. Using the sample data given in Table 3-19, make a recommendation for how many units of each style Wally should make during the initial phase of production. Assume that all of the 10 styles in the sample problem are made in Hong Kong and that Wally's initial production commitment must be at least 10,000 units. Ignore price differences among styles in your initial analysis.
2. Can you come up with a measure of risk associated with your ordering policy? This measure should be quantifiable.
3. Repeat your methodology and assume now that all 10 styles are made in China. What is the difference (if any) between the two initial production commitments?
4. What operational changes would you recommend to Wally to improve performance?
5. How should Wally think (both short-term and long-term) about sourcing in Hong Kong versus China? What kind of sourcing policy do you recommend?