Case 2.1 – Senco Electronics Company

Assignment 01:

- 1) If you were Skip Grenoble, which alternative would you advise Jim Beierlein to implement? What criteria would you use to arrive at your decision?

- If I were Skip Grenoble, I would advise Jim Beierlein to utilize air transportation as this would afford Senco greater flexibility in reacting to fluctuations in demand in a high tech industry that is characterized by short product life cycle. As a U.S based contract manufacturer of laptop and personal computers, in my opinion, Senco is providing a fairly high substitutable service. It this case, it then follows that Senco needs to provide higher customer service levels in order to gain repeat customers. Air will provide higher customer service levels since it provides faster transit times at the supply side, which when utilized properly translates to shorter order cycles. For example, if Senco can reliably provide customers with its products in a relatively short time period, then its customers can often minimize inventory costs. It follows, then, that such a cost reduction could be as important as a price reduction. Hence, minimizing customer's inventory costs is just as important as keeping products low as it will contribute to more profit or in turn enable the seller to become more competitive. Last but not least, faster transit times can also translate to shorter and more reliable forecasting, as Senco would be able to rely more on smaller and more frequent shipment of goods to their warehouse. Nevertheless, this decision was also made with the consideration that Senco aspires to become more lean and efficient by adopting operational models such as Just in Time in order to be able to operate with a minimal amount of inventory at any given moment as variable cost for air transport is fairly high. It is only with this consideration in place that Senco should stick with air transportation in the case that their forecasted 5% ($2.5 Mill) annual increase in demand for the next 5 years becomes a reality. Hopefully, the superior customer service that is achieved with air will help Senco reach its profit and service goals better than ocean, offsetting additional costs incurred by air's higher replenishment rates and transportation costs. All in all, the successful utilization of air as oppose to ocean would be a good example of sub optimization as higher costs are undertaken in exchange. Air transportation meets the needs of a 21st century company.

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2) At what level of demand (in pounds) per year would these two alternatives be equal?

- At 3,000,000 pounds per year of demand these two alternatives will equal each other in total costs, with air being forecasted as being the more expensive option above this level.

3) Graphically represent these two alternatives and their tradeoff points - NO GRAPH PRESENT –

- Tradeoff point = 3,000,000 POUNDS @ $875,000 roughly

4) Which alternative would you recommend be in place to accommodate future demand growth? What additional factors should be considered?

- I would recommend either air transportation or ocean. The total cost of using either form of transportation will be practically the same within five years based on several different factors; Although I would more so choose air transportation due to the fact that it is more efficient and timely and serves the customers needs faster and leaves them happy in contrast to the delayed shipping time from using ocean transportation.