Summary

Before SSI can determine whether the alternative distribution concept should be initiated, it must analyze the information gathered and project the potential sales and profits. Profits must be determined for SSI as well as for the retail customers. If retailers do not make sufficient incremental profit, it is unlikely they will continue participating in the plan. A team has been assigned to perform the data analysis. Andy Joslin has identified five questions he feels are critical for the team to analyze. These questions are provided below.

Questions

1. Determine the total number of retailers in the program initially as well as after the trial period.
2. Determine what the average retailer will sell on a daily basis as well as annually. Provide sales in terms of unit and dollar amounts. (Assume 260 business days per year, with 5 business days each week.)
3. Translate the annual sales for an average retailer into the number of large packs that retailers will order per year. Repeat for the small pack order. (Round if necessary.) Include the initial order in the calculation.
4. SSI would like to determine its potential sales for the first year on the basis of the information in question 3. However, there is some concern that the estimate of average retail sales is too high. SSI assumes only 40 percent of the participating retailers will actually achieve the average sales and reorders (this group is designated as high performers). Twenty percent of the retailers are expected to have medium performance success and will only sell/reorder 75 percent of the average suggested order. Low-performing retailers represent the remaining 40 percent and will achieve half the sales/reorder expected on average. Calculate the orders (separate initial and reorder quantities) for the 6-month trial period if 45 percent of retailers exclusively order/reorder large packs and the remaining retailers exclusively order/reorder small packs. Calculate the second 6 months accounting for the dropout. (Round if necessary.) Assume the "performer" ratios remain the same after the trial period (i.e., 40 percent are average performers, 20 percent sell 75 percent of the average, and 40 percent sell 50 percent of the average).
5. Assume retailers pay $205 for a large pack (initial or reorder) and $115 for a small pack. On the basis of the first year's sales calculated in question 4, determine the profit to SSI if three distribution centers are used. Repeat for the four-distribution center network. Which network, if either, should be used? What factor(s) aside from cost/profit might influence the network decision?

CASE 4

Westminster Company

Company Profile

Westminster Company is one of the world's largest manufacturers of consumer health products. Their distinctive name and company logo are recognized throughout the world. Originally founded as a family-owned pharmaceutical supply business in 1923, the company has expanded, by virtue of aggressive new product development, into a global