B&N Bookstore

Scenario

B&N Bookstore, with many locations across the United States, places orders for all the latest books and then distributes them to its individual bookstores. B&N needs a model to help it order the appropriate number of any title. For example, B&N plans to order a popular new hardback novel, which it will sell for $30. It can purchase any number of this book from the publisher, but due to quantity discounts, the unit cost for all books it orders depends on the number ordered. Specifically, if the number ordered is less than 1000, the unit cost is $24. After each 1000, the unit costs drops: to $23 for at least 1000 copies; to $22.25 for at least 2000; to $21.75 for at least 3000; and to $21.30 (the lowest possible unit cost) for at least 4000. B&N is very uncertain about the demand for this book – it estimates that demand could be anywhere from 500 to 4500. Also, as with most hardback novels, this one will eventually come out in paperback. Therefore, if B&N has any hardbacks left when the paperback comes out, it will put them on sale for $10, at which price it believes all the leftovers will be sold.

How many copies of this hardback novel should B&N order from the publisher?
Go to next item

Key Insights

1. B&N should order the number of copies that balances the cost of holding excess inventory and the potential revenue from sales at the full price and at the save price. The best order quantity will likely be between 2000 and 3000, depending on the estimated demand.