



F a i r D e a l i n g (S h o r t E x c e r p t)

Reading: Mini-Case 8: Bose 301SE: Sourcing and Contracting (*Operations Strategy: Principles and Practice*)

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Editor: N/A

Publisher: Dynamic Ideas Publication Date: 2015 Pages: 323

Course: COMR_V 398 201 202 2024W2 Introduction to Business Processes and Operations

Course Code: 202 Term: 2024 Winter Term 2

Department: COMR_V

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Mini-Case 8 | BOSE 301SE: SOURCING AND CONTRACTING

⁴Bose Corporation is planning to release a special Christmas edition of its popular 301 speakers. Lance Dixon, director of Purchasing and Logistics for Bose, is negotiating a special order with his preferred supplier, G&F Industries. After implementing a successful JIT II program, G&F has increased its manufacturing capabilities, thus becoming a full service supplier of full speaker systems for small, special orders. Given that customer disappointments are not conducive to building the Bose brand, Bose decided that all 301SE's must be produced before December to ensure their sufficient availability at the beginning of the short Christmas season.

Ursula von Trapp, Bose's marketing executive for special programs, has performed market research and analyzed sales of similar past offerings. She recommends a target price of \$200 per speaker pair, for which she predicts the demand forecast as illustrated in Figure 8.15.

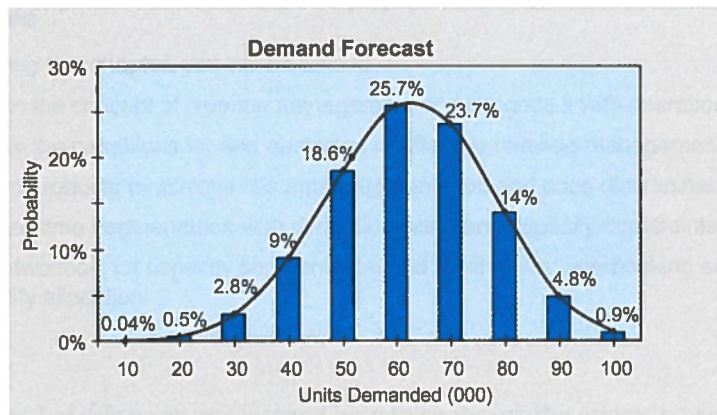


Figure 8.15 The demand forecast for 301SE is specified using 10 scenarios.

John Argitis, president of G&F, has agreed to a \$120 wholesale price per 301SE pair. G&F incurs a cost of \$60 to manufacture and deliver a pair to Bose. Bose can sell any left over stock at the end of the Christmas season to discounters in Belgium at an expected salvage price of \$40 per pair.

Lance, a clever negotiator, proposes G&F to buy back from Bose any 301SE's that are left over at the end of the Christmas season for \$70 per pair (G&F can also salvage such pair to the Belgian discounter for \$40). On the other hand, Tom Beesen, VP of Manufacturing at Bose, is an ardent proponent of vertical integration and suggests bringing the 301SE in-house.

1. What production level should G&F plan for? Should it accept Lance's proposal?
2. Would vertical integration improve profitability?

⁴Professor Van Mieghem prepared this case as the basis for class discussion rather than to illustrate either the effective or ineffective handling of a managerial situation. No part of this case study may be reproduced without permission; direct all inquiries to permissions@vanmieghem.us