ANSWER 1

List of risks:

The 60-day business production run to complete the finished goods is on the higher side, steps can be taken this to shorten this duration so as to attain some leeway to account for delays in shipping.

Similarly, 140 days for delivering the entire 600 units can be a strain on all our resources, if the terms can be favorably negotiated to change the time horizon it can go a long way in eliminating the penalties currently involved which are extremely debilitating.

Currently there are no contractual obligations on our manufacturer in China, if we could arrive at an arrangement that would legally bind them to ship the sub-assemblies that would be in line with our production plans it would enable us to go ahead with our processes seamlessly without any delay associated with them.

There is no clarity on the number of days taken for the sub-assemblies to arrive from Shenzhen in Chicago by ship, my research shows that it would take anywhere between 21-24 days for the same to arrive by ship. So taking into account that we have a delivery window of only 140 days for the 600 units to be delivered, we shall be using air as a mode of transport to get the sub assemblies to Chicago and would be using the sea route to ship the completed units onto Valencia.

Shipping:

For shipping the goods from Shenzhen to Chicago, I would prefer the Boeing 747’s to begin with as outlined earlier the number of days available for ensuring the adequate number of units to be produced on the lower side.

For Air, I would be using the DDP Incoterm as it would ensure that the seller assumes all costs, risks and obligations, including import duties, taxes, clearance fees etc., right up to the destination point

DDP would help me account for any damages that might occur due to the shipping and it would also ensure that the sub-assemblies are delivered right until the point of delivery.

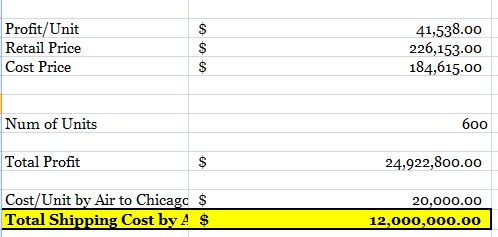
For the finished goods to be shipped to Valencia, I shall be using the sea route combined with railroad. The goods would be sent by rail till the port of New York from where they would be transported by sea to Valencia.

The route of the vessel would be the one going from the ports of Freeport to ports in the Persian Gulf, India. Example: Freeport - Charleston - New York - Valencia - Salalah- Nhava Sheva – Mundra

Here I would be using EXW, wherein the buyer is responsible for carrying out the whole shipping process. The buyer would be responsible for loading, transportation, clearance and unloading. Also, the buyer pays all transportation costs and also bears the risks for bringing the goods to their final destination.

The estimated time of delivery is assumed to be 25 days (taking an average of the 19-31 day window mentioned in the case). This route is the most economical in the given scenario, as shipping the goods by air all over again would entail a huge cost to Brightfield and we would be making a loss on the entire deal.

Estimated transportation cost for this contract:



ANSWER 2

Solution is given as

Over all risks of the contract could have been reduced if Brightfield would have maintained the safety stock at their plant to arrange the emergency orders. This could have minimize the involvement of air lift as well as to reduce the impact of delay for delivery of finished goods. There is no such point mentioned in this scenario.

The main risk associated in this contract is delay. Considering the lead time to get the raw material from its supplier will play a vital role in fulfillment of this contract. As mentioned in the scenario Brightfield was involved in the movements from China earlier. In this case Brightfield need to extend the association to its supplier who is normally provides service through intermediary courier service to get the competitive rates in place within the specific contractual period. This will also helps to reduce the possibility to fly down the raw material by air. Air transportation will help to reduce the lead time however will have major setback on the logistics cost hence will directly reduce the profit percentage.

Considering the various lead times in this process (raw material transportations, production lead time finished goods delivery lead time), except raw material transportation other factors are uncontrollable. Normal ex-port lead time from China to Chicago is 45 days approx. by sea. Hence involvement of air lift is unavoidable. Air lift charges to fly down finished goods are more expensive than the raw material.

Brightfield needs to ask its supplier to arrange the raw material to immediate delivery. They can go for sea shipment initially to see the ETA of first consignment. At the same time it can make the arrangement for air shipment considering the damage rate and actual lead time. Brightfield needs to focus on the continuous supplies of the finished goods to customer rather than the delivering the entire lot. Hence Brightfield can arrange earlier consignment of raw material by air mode.

Second major risk factor is seems to be damage and quality of the material considering the multiple handling steps in the logistics process from both the ends (raw material as well as finish goods).

To arrest the theft and cargo loss, Brightfield needs to make the specific arrangements with the logistics partners in the form of contract.

To conclude at the end, major risk factors are delay and damage.