

CASE 10-2

A Megapixel Opportunity

Alex Delvecchio is the senior electronics buyer for MegaShop, a discount chain with 1,800 stores in Canada, Mexico, and the United States. In preparation for the upcoming holiday season, Alex was reviewing the supplier options for digital camera model JX-25 sold under the MS Platinum private label. This particular model of camera is forecast to sell 40,000 units over the next 12 months.

He had received three proposals from suppliers in different countries. They were all reasonably priced, high quality cameras and worthy of further study, but Alex had some concerns about issues of delivery costs, risks, and foreign exchange rate exposure.

Option 1—continue to purchase cameras from Shinko Electric in Nagano, Japan. Product has been sourced from Shinko for the past 12 years. Sales have historically been on an open account, thereby simplifying the relationship. Quarterly shipments of 9,000 units are made in 40-foot containers under terms Incoterm CPT, Port of Long Beach. The price offered per unit for the upcoming holiday season is 19,500 JPY (Japanese Yen).

Option 2—purchase the cameras from Deep Impex, a Delhi, India-based manufacturer. Deep Impex has a solid reputation in the electronics industry and Alex nearly purchased cameras from them last year. Their offer is based on MegaShop taking a monthly delivery of 4,500 units in 20-foot containers under Incoterm FAS, Port of Mumbai. The price offered for the next year is 9,500 INR (Indian Rupees).

Option 3—purchase the cameras from Foto Technika, a distributor in Odessa, Ukraine. Foto Technika sources cameras from small contract manufacturers in Eastern Europe. Their offer is based on MegaShop taking a monthly delivery of 4,000 units in 20-foot containers under Incoterm EXW, Odessa (the Foto Technika distribution center). The price offered for the next year is \$200 USD (U.S. Dollars).

As Alex considered his options, he consulted an online currency converter to evaluate the price offers. He found the following exchange rates:

1 USD = 98.77 JPY 1 USD = 50.36 INR 1 USD = 7.96 UAH (Ukraine Hryvnia)

CASE QUESTIONS

1. What is the current price per camera in USD for the Shinko Electric offer? What costs, responsibilities, and risks does MegaShop (the buyer) assume under CPT, Port of Long Beach?
2. What is the current price per camera in USD for the Deep Impex offer? What costs, responsibilities, and risks does MegaShop (the buyer) assume under FAS, Port of Mumbai?
3. What is the current price per camera in USD for the Foto Technika offer? What costs, responsibilities, and risks does MegaShop (the buyer) assume under EXW, Odessa Distribution Center?
4. What other transportation costs and issues must Alex consider to make an effective supplier selection?
5. Which of the three options would you recommend? Why?