**Assignment Problems (39 points in total):**

1. Dell manages a small number of suppliers and serves its customers directly. It has enjoyed great success by implementing "Virtual Integration", which as described by Michael Dell seems to be a way of capturing the advantages of vertical integration without actually vertically integrating. He described it as "stitching together a business with partners that are treated as if they're inside the company".

Now think about the following question: What can be the benefits and risks of implementing “Virtual Integration”? **List at least 3 benefits and 3 challenges for full credit. (6 points)**

1. Please find examples of firms that have sustained competitive advantage by competing on the basis of (1) cost leadership, (2) response, and (3) differentiation. **Cite one example in each category and provide a sentence or two in support of each choice.** Note that a “99 cent menu” in fast-food chains may not be a good source of sustained advantage since it can be very easily copied. **(9 points)**
2. Price Technologies, a California-based high-tech manufacturer, is considering outsourcing some of its electronics production. Three firms have responded to its request for bids, and CEO Willard Price has started to perform an analysis on the scores his OM team has entered in the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Criterion | Weight | Supplier 1 (rating) | Supplier 2 (rating) | Supplier 3 (Rating) |
| Labor | 0.2 | 4 | 4 | 5 |
| Logistics system | 0.3 | 3 | 4 | 3 |
| Price | 0.3 | 4 | 3 | 2 |
| Management | 0.2 | 5 | 4 | 3 |

The outsourcing provider scores are on a scale of 1 through 5, with 5 being the most satisfactory.

Which supplier should Mr. Price choose? **Please provide the overall ratings of each supplier for full credit. For each overall rating, please provide at least one step of calculation. (14 points)**

1. Mark Berenson is CEO of Montclair Electronics. He is currently producing 100,000 video telephones a year in his New Jersey plant, where fixed cost are $900,000 and the variable cost per unit is $5. By outsourcing to a Mexican firm, annual fixed cost payments will rise to $1 million.
2. When the variable cost of outsourcing is $4 per unit, what is the break-even quantity in this case? **Please provide the formula, at least one step of calculation, and the correct answer for full credit. (6 points)**
3. Should the company outsource and why? **(4 points)**