

1.1. MyBabyDreamsInColors – Answers

Hello, so we'll discuss now the three questions I gave to you. And I really hope you did **prepare the questions** because the important thing is not the answer to one question. The important thing is the way to think here.

Question 1: Why to source from Russia? There are many arguments in favor of Russia. I'll list here a few of them, **five major arguments**. We can discuss all of them but they are quite obvious. One point maybe is the argument four, when some students say: "It's good to be close to the processing site". That's true but when I will ask you where to process, you will tell me close to the sourcing area which is also true. So both have to be **close** to each other.

Do you have an argument **against** Russia? Maybe I've heard some. Some could say for example if my company wants to be sure wood is sourced from a place which is managed in a sustainable way, is it easier to check this in Russia? Maybe not. It's maybe easier to check this in Sweden. So it could be an argument against Russia.

The second question is: Why to process wood in Estonia? Again, there are many arguments, and here I listed some of them, you can watch (**on the video**). There's not much to be discussed about these arguments, they are quite obvious. Low-wage, yes, maybe you don't know. Salaries are about four times cheaper in these countries compared to Germany, which is a big advantage. And the EU brings also some other advantages. But if we talk about cost and wages, then some people could say: "Why not go to Belarus, which is even cheaper?" And if we take another point of view, this is a point of view of controlling the quality and so on. Maybe a country like Sweden or Norway would be even easier to control. So, again, many questions related to this.

The third question, much more difficult: Why three DCs, three distribution centers? Well, the answer I get from many students is usually: "Well, we have three markets, so you have three DCs". It's partially true but I could **argue** that now the market is a global one. We have one world as a market. Then you should have one DC. Or you have 200 countries and you should have a DC per country. So, the argument **does not hold**.

Some students sometimes say: "3 DCs because the **assortment**, the type of products is very different". This is true, for some businesses this is true. What you sell in the US is very different than what you would sell in Europe or what you would sell in China. But **this is not the case here**. So, these two arguments: I don't take.

For three DCs, what are the arguments we can find? In fact, you **cannot** find a single argument. You need to find several arguments. And we'll take two major arguments that will explain why

we have three distribution centers. The first argument is an **economical** one. One DC is cheaper than 3 DCs. Why? You need only one building, you need only one manager, you need only one painting equipment. So, to have three DCs does increase the costs and this is not so good.

So, if I follow this rational argument, I want to have **one** DC. Not three, not ten, not twenty. Just one. So why not one, then?

This is the second argument. The second argument is the **time to deliver** the customers. How much time does it take if I have one DC to deliver my customers? He will order some furniture. We will paint it in the DC and we will ship it to him. It has to go over the sea, unless you're on the same continent but for overseas customers, it has to go over the sea. How much time does it take? The trip, a month, and you can add the administration and so on so it makes two months, plus the preparation at the factory, the distribution locally, three months. Are you willing to wait three months for a furniture? Most likely not.

So, if I follow the economical argument, I would decide one DC. I know it's the cheapest one. But it's simply not possible. If I look at the time argument, then I will have more DCs. Why to stop at 3? Let's think. With three DCs, we have one per continent. So what, basically, we do: we **spare** the trip over the sea. How much is it? About two months, we spare. How much is there left? Something like 4-6 weeks. **Is it okay?** Is it enough? If it's enough we have our **solution**: 3 DCs. If the customers want shorter delivery times, four weeks, then you need to go maybe to 5, 6, 7 or 8 DCs.

So, we have an **argumentation** here to have 3 DCs. But again, if you discuss with your marketing people, some will tell: "Yes, but if we had five DCs in the US, we could reduce the delivery time to two to three weeks". Yes, this is true. So, we have again a good explanation for three DCs. But, we've again some question marks.

