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**ADM 2302
Business Decision Models
FINAL EXAM
December 7, 2005**

Last Name: _____ **First Name:** _____

Student #: _____ **Section:** _____

Professor (circle): Lane (A) Michalowski (B) Jaber(C and D)

Instructions:

1. Please answer all the questions in the space provided. Please use scrapbook for notes, etc. Only answers in this questionnaire will be marked.
2. This is a closed-book exam: One review sheet (double sided) and calculator are allowed.
3. Verify that your exam has 11 pages (including this front page and the last page containing the Normal Distribution table).

DO NOT WRITE ON THE TABLE BELOW

Question	1	2	3	4	5	Total
Notes						
Points	25	12	13	25	25	100

Statement of Academic Integrity

The School of Management does not condone academic fraud, an act by a student that may result in a false academic evaluation of that student or of another student. Without limiting the generality of this definition, academic fraud occurs when a student commits any of the following offences: plagiarism or cheating of any kind, use of books, notes, mathematical tables, dictionaries or other study aid unless an explicit written note to the contrary appears on the exam, to have in his/her possession cameras, radios (radios with head sets), tape recorders, pagers, cell phones, or any other communication device which has not been previously authorized in writing.

Statement to be signed by the student:

I have read the text on academic integrity and I pledge not to have committed or attempted to commit academic fraud in this examination.

Signed: _____

Note: an examination copy or booklet without that signed statement will not be graded and will receive a final exam grade of zero.

QUESTION 1: (25 points)

Electronics Play Group (EPG) of Pakenham, Ontario is considering how to distribute a new portable MP3 player they manufacture of which a first production run of 5,000 units is now in progress in time for the Christmas season. EPG expects to sell all 5,000 units. A strategy for distributing the new MP3 player involves deciding how many units to distribute among different markets. These markets include: (1) retail technology distributors (e.g., Future Shop, Best Buy, The Source); (2) retail business equipment distributors (e.g., Business Depot/Staples); (3) retail commercial big box outlets (e.g., Wal-Mart); and (4) direct on-line Internet purchases (e.g., eBay).

Profits from the product will vary according to the distribution market because of differing costs of distribution. As well, advertising costs and personnel sales requirements by market also differ as per the table below. The advertising budget is limited to \$50,000 and a maximum sales force time of 4,600 hours is available.

Distribution Channel	Profit per Unit	Advertising Cost per Unit	Sales Effort per Unit
1. Technology (T)	\$75	\$14	2.5 hours
2. Business (B)	\$63	\$9	3.75 hours
3. Commercial (C)	\$50	\$10	3.80 hours
4. Internet (I)	\$44	\$7	0.50 hour

A contract with Wal-Mart requires that at least 40 dozen (480 units) new MP3 players be distributed there. The company wants to establish a distribution strategy to maximize total expected profits from the distribution of the new MP3 player. The correct linear programming formulation for EPG's market distribution problem is given below:

Let T, B, C, and I denote the number of units of the new MP3 player to distribute to Technology, Business, Commercial, and Internet markets respectively.

$$\begin{array}{ll}
 \text{MAX} & 75T + 63B + 50C + 44I \text{ Profits (\$)} \\
 \text{Subject to} & \\
 1. \text{ Advertising Budget:} & 14T + 9B + 10C + 7I \leq \$50,000 \\
 2. \text{ Sales Effort Limit:} & 2.5T + 3.75B + 3.8C + 0.5I \leq 4,600 \text{ hrs} \\
 3. \text{ Production Limit:} & T + B + C + I = 5,000 \text{ units} \\
 4. \text{ Commercial Contract:} & C \geq 480 \text{ units} \\
 5. \text{ Non-negativity:} & T, B, C, I \text{ all } \geq 0
 \end{array}$$

Consider the following problems (a) and (b) below. Modify the formulation above to include the changes implied by the problems. The problems (a) and (b) are to be considered independently. Note: you need only write the changes to the original formulation – not the entire formulation – in the spaces below.

(a) Consider the opportunity to purchase more hours for the sales effort. There are up to 900 additional hours available at a cost of \$14.50 per hour. Write down the revised formulation to account for this change. (5 points)

(b) EPG wants to ensure that their distribution of the MP3 product in the technology retail stores (T) is at least 75% of total distribution in all the retail stores (T+B+C). Write down the revised formulation to account for this change. (4 points)

QUESTION 1: (continued)

The following correct output for this problem above in its original form is provided below as Excel Solver output. You will need this output to answer the following questions (c) through (f) below each part of which is to be considered independently of all others.

Microsoft Excel 11.0 Answer Report

Target Cell (Max)

Name	Original Value	Final Value
Total Profit	\$230,878	\$230,878

Adjustable Cells

Name	Original Value	Final Value
Decision Variable Values T	258	258
Decision Variable Values B	0	0
Decision Variable Values C	480	480
Decision Variable Values I	4262	4262

Constraints

Name	Cell Value	Formula	Status	Slack
Advertising Cost LHS	38246	\$H\$14<=\$J\$14	Not Binding	11754
Sales Effort LHS	4600	\$H\$15<=\$J\$15	Binding	0
Production Limit LHS	5000	\$H\$16=\$J\$16	Not Binding	0
Commercial Contract LHS	480	\$H\$17>=\$J\$17	Binding	0

Microsoft Excel 11.0 Sensitivity Report

Adjustable Cells

Name	Final Value	Reduced Cost	Objective Coefficient	Allowable Increase	Allowable Decrease
Decision Variable Values T	258	0	75	1E+30	19.30769231
Decision Variable Values B	0	-31.375	63	31.375	1E+30
Decision Variable Values C	480	0	50	45.15	1E+30
Decision Variable Values I	4262	0	44	31	1E+30

Constraints

Name	Final Value	Shadow Price	Constraint R.H. Side	Allowable Increase	Allowable Decrease
Advertising Cost LHS	38246	0	50000	1E+30	11754
Sales Effort LHS	4600	15.5	4600	3358.285714	516
Production Limit LHS	5000	36.25	5000	1032	3409.6
Commercial Contract LHS	480	-45.15	480	156.3636364	480

QUESTION 1: (continued)

(c) From the optimal solution, what are the sales effort allocations to each of the distribution channels? (4 points)

d) What would need to happen to the Business distribution option unit profits before it would be optimal to acquire an advertising and sales force allocation of its own? (4 points)

(e) Given the highly competitive markets for MP3 players in 2005, EPG was considering committing more financial resources to support the advertising costs for this project. After some discussion, the Board of Directors approved another \$12,000 for this project. What will be the impact on the new optimal profit of these new operating funds for advertising? (4 points)

(f) Given a high volume of sales in early December, Wal-Mart has sent a memo to EPG requesting that the current contract be renegotiated so that the 480 units be increased by 144 more units. Determine the impact on EPG's total optimal profit if the new terms of the contract go into effect. (4 points)

QUESTION 2: (12 points)

The Research and Development Department of DWR Ltd has developed new game consoles: zbox and ybox. Production of these consoles requires setting up computerized and fully automated production lines that would cost \$25,000 for zbox and \$32,000 for ybox. Once the initial costs are covered, each console generates hefty profits: \$150/unit for zbox and \$210/unit for ybox.

In its current production facilities in Kanata, DWR Ltd has space for creating three production lines capable of manufacturing the consoles and each line can be used to manufacture both consoles (if necessary) at the same time. However, management has decided that in order to mitigate the risks, only one production line would be open.

Console zbox can be produced at the rate of 15 units/hr on line 1, 18 units/hr on line 2, and 22 units/hr on line 3. The ybox can be produced at the rate of 20 units/hr, 17 units/hr, and 10 units/hr respectively. Line 1 has 340 hours production capacity, line 2 has 400 hours capacity, and line 3 has 380 hours capacity.

Write in the space below the algebraic formulation for the above mixed binary integer programming problem. DO NOT SOLVE.

QUESTION 3: (13 points)

Slight differences in the broad back measurement of tires for large body passenger jets result in different safe lifetime periods for the tires. The broad back test is not entirely accurate. However, Bo Ng Aircraft manufacturers would like to determine as best it can the relationship between broad back measurement and safe lifetime period, in order to advise clientele as to tire usage. Bo Ng has decided that goal programming would provide the best predictive approach.

For data, Bo Ng has collected observations on 135 tires. For each tire, the broad back measurement (BM) and actual safe lifetime period (ASLP) were recorded. For simplicity, assume that it is sufficient to base the study on only three tires. Data are given below:

BM: Broad back Measurement (mm)	ASLP: Actual safe lifetime period (hours)
2.22	813.6
2.10	975.2
1.96	791.0

The model that will be used to predict ASLP is:

$$\text{predicted same lifetime period (PSLP)} = a(\text{BM}) + b$$

For example, if “a” were 365 and “b” were 27, the PSLP for the first tire would be equal to $365(2.22) + 27 = 837.3$ hrs. Thus, the PSLP would exceed the ASLP by $837.3 - 813.6 = 23.7$ hrs.

We would like to determine values for “a” and “b” using goal programming by applying the equation

$$\text{PSLP}_i + u_i = \text{ASLP}_i,$$

where the residual for the i^{th} tire (observation) is:

$$u_i = \text{ASLP}_i - \text{PSLP}_i$$

For “n” observations ($n=3$ in our example), the goal programming objective function would be

$$\text{Min } \sum_{1 \leq i \leq n} (d_i^- + d_i^+)$$

where $u_i = (d_i^-) - (d_i^+)$.

Formulate the goal programming model that will predict the ASLP given the broad back measurements (BM’s) based on the sample. DO NOT SOLVE.

QUESTION 4: (25 points)

T. Bone Puckett, a corporate raider, has acquired a textile company and is contemplating the future of one of its major plants located in Ontario. Three alternative decisions are being considered: (1) expand the plant and produce lightweight, durable materials for possible sales to the military, a market with little foreign competition; (2) maintain the status quo at the plant, continuing production of textile goods that are subject to heavy foreign competition; or (3) sell the plant now for a net profit of \$500,000.

If one of the first two alternatives is chosen, the plant will still be sold at the end of a year. The amount of net profit that could be earned by selling the plant in a year depends on foreign market conditions, including the status of a trade embargo bill in Parliament. If the future political and foreign competitive situations are good, the net profit of the first and second alternatives will be \$800,000 and \$1,300,000 respectively. In case of poor foreign competitive conditions, the net profit will be \$500,000 for the first alternative, and a net loss of \$150,000 (or negative profits, (\$15,000)) for the second alternative.

- a) Develop the decision (payoff) table for this problem. If T. Bone Puckett wants to be conservative in his decision, what should he do? Justify. (4 points)
- b) Assume it is now possible to estimate a probability of 0.3 that poor foreign competitive conditions will exist. Construct the decision tree for this problem. What should T. Bone Buckett do? Justify. (4 points)
- c) What is the expected value of perfect information (EVPI)? (4 points)

QUESTION 4: (continued)

- d) T. Bone Puckett is considering hiring a consulting firm at a cost of \$10,000 to predict future political and market situations. There is 0.55 probability that the consulting firm will predict good conditions, but even if it predicts good conditions, there is a 10% chance that its prediction is wrong. If the consulting firm predicts poor conditions, there is still a 40% chance that good conditions can occur.

Determine the decision strategy that T. Bone should follow and the expected payoff of this strategy. (10 points)

- e) What is the maximum amount T. Bone Puckett should pay the consulting firm for the report results on future political and market situations? (3 points)

QUESTION 5: (25 points)

Klone Computers is a small manufacturer of personal computers which is about to design and manufacture the Klonepalm 2005 palmbook computer. The company faces two major tasks in introducing the new computer: (1) manufacturing the new computer; (2) training staff and vendor representatives to operate the new computer.

The entire project can be represented by 8 activities – five manufacturing (A, B, C, D, E), and three training (F, G, H). These activities are provided in the table below with the corresponding precedence relations.

Activity	Description	Immediate Predecessors
A	Prototype model design	---
B	Purchase of materials	A
C	Manufacture of prototype models	B
D	Revision of design	G
E	Initial productions run	D
F	Staff training	A
G	Staff input on prototype models	C, F
H	Sales training	D

The Table below details the three time estimates for the completion of the activities (in days)

Activity	Optimistic Time (o)	Most Likely Time (m)	Pessimistic Time (p)	Expected Time	Variance
A	76	86	120	90	
B	12	15	18		
C	4	5	6	5	0.11
D	15	18	33		
E	18	21	24		1.00
F	16	26	30	25	5.44
G	10	13	22	14	4.00
H	24	28	32	28	1.78

- a) Complete the table above, draw the project diagram of the Klonepalm 2005 Model, and compute ES, EF, LS, LF and Slack for each activity in the space below. (9 points).

QUESTION 5: (continued)

- b) What are the critical path, the expected project length and its standard deviation? (6 points)

Critical path: _____

Expected Project duration: _____

Project Standard deviation: _____

- c) What is the probability of completing the project in 170 days? (4 points)

- d) What time should Klone Computers report such that they are 99% sure that the project will be complete by that time? (4 points)

- e) The company is considering reducing the length of the project by one day. To do so, they have the option of either expediting the purchase of materials (B) at an additional cost of \$500 or hiring another designer to assist in the Revision of Design activity (D) at an additional cost of \$1,000. Recommend to the company which option they might use to crash this project by one period. (2 points)

