

DRAM Supply Chain Executive Summary

Problem

What they were doing: A Vice President (the VP) of a major internet information services company (the Company) was charged with all DRAM purchasing to support datacenter operations. The current strategy was to simply purchase 50K units per week, the nominally required amount, thus avoiding inventory costs.

Problems encountered and what it was costing them: The VP recognized that his strategy lacked agility in the face of fluctuating DRAM prices and the potential of supply shortages.

Solution

What they did with us: The VP asked a top manager/analyst (the Analyst) to provide an improved strategy. Using Provisdom's help, the Analyst rapidly incorporated data on the price history of DRAM along with corporate information about possible supply shortages to develop a flexible strategy.

Time required: 1 week

Results: The resulting model indicated the optimal amount of DRAM to purchase given the current price and observed market conditions. This new conditional seven-week strategy had a shareholder value of \$1.15M. The Company's current strategy of buying 50K DRAM every week had a shareholder value of \$1.77M. This means that the cost of shortages and buying and storing DRAM in terms of shareholder value decreased by over 35% with the new strategy.