

Quantity Discount

A supplier to the Emma Corporation has made the following offer for the price they will charge for a product based on order quantity.

- \$10/unit if purchased in quantities of at least 250 units
- \$9.75/unit if purchased in quantities of at least 1000 units
- \$9.50/unit if purchased in quantities of at least 5000 units

If forecasted annual demand is 10,000 units, holding costs are 20% of the inventory value, and ordering costs are \$10 per order.

- a. What is the total cost for purchasing 1000 units at one time ($TC=OC+HC+DC$)?
- b. What is the total cost for purchasing 5000 units at one time?
- c. Which quantity discount would you recommend?