

## CHAPTER TWO

### Discussion Questions

1. How would you characterize the competitive strategy of a high-end department store chain such as Nordstrom? What are the key customer needs that Nordstrom aims to fill?

The Nordstrom website states the following: Over the years, the Nordstrom family of employees built a thriving business on the principles of quality, value, selection, and service. Today, Nordstrom is one of the nation's leading fashion retailers, offering a wide variety of high-quality apparel, shoes, and accessories for men, women, and children at stores across the country. We remain committed to the simple idea that our company was founded on, earning our customers' trust one at a time.

Nordstrom fills customer needs for high quality fashion merchandise and outstanding levels of customer service. Price is secondary for the typical Nordstrom shopper.

2. Where would you place the demand faced by Nordstrom on the implied demand uncertainty spectrum? Why?

Implied demand uncertainty is demand uncertainty due to the portion of demand that the supply chain is *targeting*, not the entire demand. A high-end department store chain such as Nordstrom falls on the high end of the implied demand uncertainty scale. There is significant variety of products that Nordstrom carries and it is generally hard to predict demand for these fashion items. The fashion items that Nordstrom stocks have extremely high product margin, high forecast errors and stockout rates, and once the season is over, these items are sold at deep discounts at their Nordstrom Rack outlet stores.

3. What level of responsiveness would be most appropriate for Nordstrom's supply chain? What should the supply chain be able to do particularly well?

Supply chain responsiveness takes many forms, including the ability to respond to a wide range of quantities, meet short lead times, handle a large variety of products, build innovative products, meet a high service level, and handle supply uncertainty. The Nordstrom supply chain must be highly responsive in the areas of handling highly innovative fashion products, customer response, and service level; they are effective in supplying well-heeled customers with merchandise and their return policy is legendary in the Pacific Northwest.

4. How can Nordstrom expand the scope of the strategic fit across its supply chain?



Scope of strategic fit refers to the functions within the firm and stages across the supply chain that devise an integrated strategy with a shared objective. By adopting an intercompany interfunctional scope strategy, Nordstrom will maximize supply chain surplus. Nordstrom can move in this direction by working with its suppliers as if they are actually owned by Nordstrom. Rather than viewing the supply chain as a zero-sum game of inventory cost minimization and profit maximization, Nordstrom must recognize that spreading the wealth and occasionally taking on more inventory than is optimal for them will result in improved customer service. The intercompany interfunctional scope of strategic fit requires more effort than the other approaches presented in this section; Nordstrom must evaluate all aspects of its supply web.

5. Reconsider the previous four questions for other companies such as Amazon, a supermarket chain, an auto manufacturer, and a discount retailer such as Walmart.

Amazon focuses on cost and variety by providing books, music, and a host of other household products at low prices. Customers place orders online and expect to receive purchases in a number of days. Customer orders are processed at central warehouses or are drop shipped from suppliers by mail or common carrier. For the most part, the implied demand uncertainty for Amazon is lower as they cast such a wide net. Amazon's supply chain must be responsive in terms of flexibility; they handle an incredibly diverse range of products. Amazon's supply chain should be able to provide low prices, wide variety, and reasonable delivery schedules for its customers. In every link of the supply chain, Amazon must function on the cost-responsiveness efficient frontier in order to support its competitive strategy.

A supermarket chain focuses on cost and quality, with some specialty chains adding flexibility by carrying a broader range of products that may be targeted toward customers interested in organic products or ethnic cuisine. Implied demand uncertainty for a supermarket chain tends to be low; shoppers are typically repeat customers and have a constant demand level. The supermarket supply chain must be responsive by receiving produce quickly to ensure freshness and have a high service level. Supermarket supply chains tend to be well-established and can improve strategic fit by emphasizing speed to maintain freshness, hence perceived quality.

Auto manufacturers have extremely complicated supply chains that are increasingly focused on flexibility and lean operations. Implied demand uncertainty for auto manufacturers varies considerably by target market and manufacturer. Automotive supply chains among the big three in the United States have made great progress in the last decade and recognize that they must be responsive from a time and flexibility standpoint.

Walmart's supply chain is obsessed with cost and is facilitated by a low implied demand uncertainty, its impressive logistics system and its management



information systems. Its supply chain is able to respond quickly to fill a wide variety of products to keep merchandise on Walmart's shelves. Walmart's level of coordination along the supply chain is excellent; it would be difficult to point out areas where true intercompany interfunctional scope of strategic fit has not been achieved. The sole supply chain criticism that surfaces is an occasional report that suppliers feel as if supply chain surplus is not shared equitably.

6. Give arguments to support the statement that Walmart has achieved very good strategic fit between its competitive and supply chain strategies. What challenges does it face as it works to open smaller format stores?

The best argument to support the statement that Walmart has achieved very good strategic fit is its success as a company. Competition today is supply chain versus supply chain, not company versus company, so a company's partners in the supply chain often determine the company's success. Walmart's strategic focus on cost is evident in its competitive, product development, supply chain, and marketing strategy. Its marketing strategy of advertising everyday low prices appeals to consumers and does not disrupt the supply chain by causing surges in demand. Visiting one of its big box stores reveals low-priced merchandise, both national and store brands, stacked from floor to ceiling without elaborate displays or decoration. Walmart's logistics and information systems are famous for coordinating its entire supply chain and allowing it to meet customer needs at minimal cost.

Walmart has had difficulty both with small format stores and its online sales. Challenges have arisen because the supply chain structure that is ideal for the standard Walmart stores is not as effective for both small format stores and online sales. Small format stores require replenishment in much smaller quantities and online sales requires the ability to handle a wide variety of slow moving items. The current supply chain structure is not very good at handling either.

7. What are some factors that influence implied uncertainty? How does the implied uncertainty differ between an integrated steel mill that measures lead times in months and requires large orders and a steel service center that promises 24-hour lead times and sells orders of any size?

From a customer perspective, implied demand uncertainty increases when the customer's range of quantity required increases, lead times decrease, variety of product increases, rate of innovation increases, and required service levels increase. We also see high implied uncertainty attributed with high product margins, forecast errors above 40 percent, stockout rates above 10 percent and forced season-end markdowns. On the supply side we see increased supply uncertainty when the supply source has frequent breakdowns, unpredictable and low yields, poor quality, limited supply capacity, and evolving production processes.



For the steel mill that requires large orders and has lead times measured in months both the implied demand and supply uncertainty is less due to a better predictable capability and a better defined schedule for production. Due to the increasing number of sizes and the shorter response time associated with the steel service center, implied uncertainty is high.

8. What is the difference in implied uncertainty faced by a convenience store chain such as 7-Eleven, a supermarket chain, and a discount retailer such as Costco?

When customers go to a convenience store chain such as 7-Eleven, they go there for the convenience of a nearby store and are not necessarily looking for the lowest price. Implied demand uncertainty would be high as customers are looking for a variety of products and convenience versus cost and demand levels are hard to predict.

A supermarket chain focuses on cost and quality, with some specialty chains adding flexibility by carrying a broader range of products that may be targeted toward customers interested in organic products or ethnic cuisine. Implied demand uncertainty for a supermarket chain tends to be low; shoppers are typically repeat customers and have a constant demand level. The supermarket supply chain must be responsive by receiving produce quickly to ensure freshness and have a high service level. Supermarket supply chains tend to be well-established and can improve strategic fit by emphasizing speed to maintain freshness, hence perceived quality.

Low price is very important to customers of discount retailers such as Costco. This customer is willing to tolerate less variety and even purchase very large package sizes as long as the price is low. Customer demand can be more predictable and supply side needs are large and fairly stable.

9. What are some problems that can arise when each stage of a supply chain focuses solely on its own profits when making decisions? Identify some actions that can help a retailer and a manufacturer work together to expand the scope of strategic fit.

High inventories, poor quality, low customer service, increased returns are just a number of problems that occur when each stage of a supply chain focuses solely on its own profits. The trucking company requires full truck loads for delivery forcing the retailer to carry more inventory than wanted or needed. The supplier offers discounts to their buyers to maximize production but forcing the buyers to purchase in larger quantities than desired. Ordering in large batches was very prevalent during the 1950s and 1960s as companies to minimize local costs and maximize their own profits.

Today, retailers and manufacturers have the opportunity to plan promotions jointly such as Walmart and P&G. They can share sales information to determine



customer trends. Joint product development opportunities are being explored throughout the supply chain among retailers, manufacturers, and raw material suppliers.

10. For each of the five levers—capacity, inventory, time, information, and price—identify an example where a supply chain has focused on this lever to deal with uncertainty. In each case, identify reasons why you think it is or is not an appropriate choice.

The paint supply chain carries mixing capacity at every paint store to deal with demand uncertainty across colors. This is an appropriate choice because the relative cost of a mixer is low and the inventory saved by carrying base colors is large.

W.W. Grainger and McMaster Carr carry inventory in centralized warehouses to meet demand. This is an appropriate choice because pooling allows them to lower the inventory required and they carry products that have a long shelf life. Zara uses speedy replenishment to deal with uncertain demand for its trendy products. This is appropriate because demand for its products is highly unpredictable and the ability to match supply and demand more than makes up for the higher cost of speedy replenishment.

Seven-Eleven Japan and Zara use current demand information to drive replenishment. The investment in information coupled with speedy replenishment allows them to deal with uncertainty.

The airline and hotel industries use price variation as the main lever to deal with uncertain demand with prices falling when demand is low and prices rising when demand is high.

