Supply Chain Management Strategy Planning and Operation 6th edition Chopra Solutions Manual

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Chapter 2 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 web site 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 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 no object 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. 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 the 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

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adopting an intercompany interfunctional scope strategy, Nordstrom will maximize supply chain surplus. Nordstrom can move in this direction by working with their 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 their supply web.

5. Reconsider the previous four questions for other companies such as Amazon.com, a supermarket chain, and auto manufacturer, and a discount retailer such as Wal-Mart.

   Amazon.com focuses on cost and flexibility 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.com is low as they cast such a wide net. Amazon.com's supply chain must be responsive in terms of flexibility; they handle an incredibly diverse range of products. Amazon.com'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.com 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 towards 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.

   Wal-Mart's supply chain is obsessed with cost and is facilitated by a low implied demand uncertainty, their impressive logistics system and their management information systems. Their supply chain is able to respond quickly to fill a wide

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variety of products to keep merchandise on Wal-Mart's shelves. Wal-Mart'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 Wal-Mart has achieved very good strategic fit between its competitive and supply chain strategies.

   The best argument to support the statement that Wal-Mart has achieved very good strategic fit is their 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. Wal-Mart's strategic focus on cost is evident in their competitive, product development, supply chain, and marketing strategy. Their marketing strategy of advertising every day low prices appeals to consumers and does not disrupt the supply chain by causing surges in demand. Visiting one of their big box stores reveals low-priced merchandise, both national and store brands, stacked from floor to ceiling without elaborate displays or decoration. Wal-Mart's logistics and information systems are famous for coordinating their entire supply chain and allowing it to meet customer needs at minimal cost.

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%, stockout rates above 10% 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?

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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 towards 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 truckloads 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. This concept 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 Wal-Mart and P&G. They can share sales information to determine customer trends. Joint product development opportunities are being explored throughout the supply chain between retailers, manufacturers and raw material suppliers.

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