The Wharton School   Quarter II
University of Pennsylvania   Fall 2022

OID 6970 Retail Supply Chain Management
Tuesday/Thursday 10:15am-11:45am and 1:45pm-3:15pm
Huntsman 240

Course Outline and Assignments

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Retailing is a huge industry (40% of the U.S. economy and the largest employer) that has consistently been an incubator for new business concepts. In the 80's and early 90's Walmart pioneered new approaches to supply chain management and human resource management, and also influenced major established firms like P & G to change their approach to supply chain management. Starting in the mid 1990's, Amazon.com led the way in transforming the Internet from an academic toy to the primary technology influencing business today. More recently, a number of fast fashion retailers such as Zara and Shein have forged a strategy based on a highly flexible supply chain that can respond quickly to fickle consumer demand.

The course is highly recommended for students interested in careers in
- Retailing and retail supply chains
- Businesses like banking, consulting and information technology that provide services to retail firms
- Manufacturing companies that sell their products through retail firms

Even if you don't expect to work for a retailer, this course can be useful to you in two ways. First, because retailers are such dominant players in many supply chains today, it is

important that the processes they follow be understood by manufacturers and distributors, and by the consultants and bankers that service retailers and their suppliers.

Second, the problems retailers face (e.g., making data accessible, interpreting large amounts of data, reducing lead-times, eliciting the best efforts from employees, and so forth), are shared by firms in many other industries. It's easier to understand these issues through case studies in retailing because we all experience the industry as consumers and can readily relate to chronic problems such as stock outs and markdowns.

The course class sessions will deal with the following major themes: 1) planning the assortment of products a retailer should carry in each store, 2) optimizing the inventory carried of each SKU (Stock Keeping Unit) in each store, 3) within store execution, 4) supply chain design and 5) forging and executing an effective omni-channel strategy.

A number of the sessions will be based on research of the instructor with Professor Ananth Raman of Harvard Business School and others. An early description of this research is in M. L. Fisher, A. Raman and A. McClelland, "Rocket Science Retailing is Almost Here – Are You Ready," *Harvard Business Review,* July/August 2000 and a full coverage in the book The New Science of Retailing by Marshall Fisher and Ananth Raman, *Harvard Business Press*, 2010, five chapters of which will be assigned reading.

CASES AND GUEST SPEAKERS

The course will be highly interactive, using case discussions in more than half of the classes. All retail formats will be considered – bricks and mortar, e-tailing and omnichannel. A variety of product segments will be considered, including apparel, convenience, consumer electronics, fast food, general merchandise, grocery, and hardware. For many classes, we will have a senior executive from the retailer in the case being discussed that day to serve as a resource during our class discussion. They will also make remarks and answer questions for about 20 minutes at the end of class.

COURSE MATERIALS

We will use the book The New Science of Retailing by Marshall Fisher and Ananth Raman, *Harvard Business Press*, 2010, as a text for the course and five chapters of this book are assigned reading. The book is available from the Penn Bookstore. Cases and readings are in the course pack available on Study.Net. In addition, copies of key overheads, readings, and some cases will be available for download on the course website. The website has a Files tab and within this I'll place general course information as well as a folder for each class session with slide decks and other information related to that class session.

GRADING

Grades are based one-third each on class participation, individual write-ups of the discussion questions for designated class sessions and a course paper.

Class Participation

The development of speaking and listening skills is given a high priority in this course. The classroom should be considered a laboratory in which you can test your ability to present your analyses and recommendations clearly, to convince your peers of the correctness of your approach to complex problems, and to illustrate your ability to achieve the desired results through the implementation of that approach. Some of the criteria that we will use to judge effective class participation include:

- Is there a willingness to participate? (We especially encourage you to ask "dumb questions" if an idea or technique is not clear.)

- Are comments based on insightful analysis of the case data?

- Are the points made relevant to the current discussion and linked to the comments of others?

I grade class participation each day after class based on the extent to which comments reflect preparation, analysis, and thoughtfulness. Although this process is subjective, it is highly reliable, as your grade is based on many class sessions. We will also take attendance in some of the class sessions and include this as a component in the class participation grade.

Individual write-ups of class discussion questions

Classes 2-8, 10, and 12 are eligible for an individual hand in write-up. For class 12 the assignment is a quantitative inventory buying exercise for which you should submit a write-up and any relevant excel files answering the questions in the course outline. The other classes are case discussions for which you should submit a 2-3 page write up of the discussion questions. **You should submit three write-ups for the class. There is no way to "catch up" if you miss the opportunity to complete these assignments.** If you wish to submit more than the required write-ups, we'll count your best three write-ups towards your grade.

Write-ups should be submitted through the course website (in the "Assignments" section of Canvas) **by 7:00am on the day of the class** in which the case or subject is to be discussed (no late submissions accepted). The 3-page limit will be enforced. The font should have a standard size (10 points or more) and the text can be single-lined.

Individual assignments are given grades of 1, 2, 3 or 4. You will not receive detailed and specific feedback on these individual assignments. However, we will post on the course website a general memo for each hand-in outlining the elements of an excellent answer and indicating generally how write-ups were graded. You can discuss the cases with classmates as much as you would like, but the write up should be your own work.

Here are some considerations when you are preparing your write-ups:

- Use information from the case text and exhibits.

- In some of the cases there may have been recent developments that can give us hints about whether certain decisions were sound or not. It's ok to reference those, but you cannot build your analysis exclusively on a future that, at the time of the case, was still unwritten.

- It is fine to complement your analysis with your own experience, but that should not be at the expense of key ideas of the case.

Course paper

A paper of about **3,000 words of text** and some exhibits is due at the end of the course. Please submit your paper as a Microsoft Word document and include a word count of the text of the paper (do not include exhibits, footnotes or end notes in the word count) when you submit your paper. Papers can be done in teams of 2 or 3 students, although the length guidelines would be proportionately greater for team papers, **4,500 and 6,000 words of text** respectively for 2 and 3-person teams. Teams can span the 10:15 and 1:45 sections of the course.

The paper can delve more deeply into any issue within the realm of the course (such as particular aspects of assortment planning, store execution, inventory management, the evolution of Omni-channel, etc.) or compare two retailers that complete head to head in the same product segment.

If you elect to compare two competing retailers, I'd recommend the following steps.

- Choose two competing retailers and visit their websites.

- Ideally, both retailer should be publicly traded or else it will be harder to get information.

- Compare their stock performance over the last few years.

- Scan their financial reports and gather information on as many of the metrics discussed in class as you can. Here are the most important ones.

  - Sales growth = % increase in sales year to year
    - Comp store sales increase = % increase in sales at stores open at least one year
    - New store openings
    - Acquisitions
  - Productivity measures
    - Return on Assets (ROA) = Operating profit/total assets
    - Gross margin % = Gross profit/sales as a percent
    - Inventory turns = COGS/Inventory valued at cost
    - Gross margin return on inventory (GMROI) = gross profit/inventory valued at cost
  - Sales per square foot = total store sales/total store square footage
  - SG&A %
  - Asset turns = Sales/total assets

  Identify major differences between the two retailers on these metrics and try to explain these differences based on your observations of the retailers operating

4

practices. You may not be able to get information on all of these, but compare the two retailers on as many metrics as you can.

- Browse each company's web site, read articles about them and scan their annual reports.

- Visit one or more stores of each retailer, as long as you can do so safely during COVID. One of the great advantages of studying retail supply chains is that many aspects of a retailer's supply chain are on public display in their stores. Here are some suggested issues on which to compare the two retailers.

    - Product: Number of SKUs and average amount of inventory in each SKU. (You will only be able to approximate the number of SKUs in the store e.g. do an exact count for a small section of the store and extrapolate from there or compare two departments of the two stores.) Which retailer has the broader selection in each category? Which has the deeper inventory? How do prices compare?

    - Store associates: Talk to store associates (you need to decide whether to play 'mystery shopper' or to identify yourselves as Wharton students doing a project – each has advantages) and gauge their level of motivation, knowledge and friendliness. Learn what you can about incentives. Ask the store people what they do to drive sales. I find asking broad questions like 'What are you struggling with' can be highly fruitful.

    - Customers: Observe customers and their shopping behavior.

    - Execution: How frequently can you not find what you are looking for? Ask store people how frequently they stock out of hot products and what they do about it. Conversely, how frequently do they worry about excess inventory and what do they do about that. How frequently do they receive deliveries? What responsibility do they have for ordering?

    - Store design: Square footage, is there a back room, signage, etc. Pictures and diagrams are a useful way to convey this information in your final report.

    Please view these as suggestions and feel free to explore whatever issues you think interesting.

- Conclusions. Which of the two retailers do you believe is more successful and what explains their success i.e. what are they doing differently than the other retailer? Could this be copied? What advice would you give to the laggard?

PLEASE SUBMIT A ONE PAGE PAPER PROPOSAL BY 3PM NOVMBER 10. I will respond with comments. The final paper is **DUE BY 9AM DECEMBER 15.**

The paper proposal and paper should be submitted over the course website, in the "Assignments" section. If you are a team of 2 or 3, submit **ONLY ONE** proposal and paper for the team, and this can be submitted by any team member for the team.

In writing your paper, be sure to respect the Wharton and Penn rules on plagiarism; see Penn's Code of Academic Integrity http://www.upenn.edu/academicintegrity/index.html and proper citation and paraphrasing to avoid plagiarism http://www.upenn.edu/academicintegrity/ai_paraphrasing.html.

A solid paper summarizes uncritically information from a reasonable number of articles on a topic. A great paper poses an interesting question and answers it using both course materials and articles. An important feature of a great paper is that it includes the author(s)' point of view on the subject of the paper.

COURSE SCHEDULE

Date	Class	Topic or case	Guest(s)
25 Oct	1	Course Overview; Retail Lifecycle	
27 Oct	2*	Home Depot and Interconnected Retail	**John Deaton,** Executive Vice President – Supply Chain & Product Development, The Home Depot
1 Nov	3*	Knowledge Sharing at REMA 1000	**Tore Høylie,** Chief Human Resources Officer, and **Øyvind Stenland**, Store Owner, REMA 1000
3 Nov	4*	Zara	
8 Nov	5*	Walmart Inc. Takes on Amazon.com	**Olena Wilson**, Vice President of Automation and Continuous Improvement, ShipMonk, until recently, Senior Manager of Fulfillment Engineering, Walmart eCommerce
10 Nov	6*	Reinventing Best Buy **One-page paper proposal due, one submission per team**	**John Thompson**, Former SVP and GM Best Buy.com
15 Nov	7*	Store Level Execution at Wawa	**Jim Morey**, Executive VP and Chief Marketing Officer, **Andrew Baill**, Manager of Enterprise Productivity, Wawa Inc.
17 Nov	8*	Amazon.com	**Scott Lescher**, Director, Amazon Linehaul
29 Nov	9	Store Execution	
1 Dec	10*	McDonald's Corporation: Launching McCafe	**Robert Marshall,** former Vice President, U.S. Operations, McDonald's Corporation
6 Dec	11	Assortment optimization	
8 Dec	12*	Forecasting and inventory optimization; course wrap up	
15 Dec		FINAL PAPER DUE BY 9am. If you are in a team, please submit only one copy of the paper for the team.	

* **Candidate for individual write-up**

DETAILED DESCRIPTION OF COURSE SESSIONS

Class 1
25 October

Course overview; Retail Lifecycle

This class will provide an overview of the course and then consider how retailers need to adapt their strategy as they go through a lifecycle from high growth to maturity and more moderate growth. Successful retailers can grow quickly in their early years simply by opening new stores. But what happens when they run out of geography for new stores and growth inevitably slows? Are they doomed to a slow death or is there a strategy that would allow them to prosper with modest top line growth?

To answer this question, I'll report findings from 37 publicly traded retailers that were continuously active during 1993-2014. Their top line growth in the first five years of this period averaged 14.1%, but declined to 4.8% in the last 5 years. Most of these retailers saw their bottom line decline even faster. In pursuit of top line growth, they continued opening new stores to the point where they diluted solid financial performance and significantly underperformed the S&P total market return. But some of these retailers have outperformed the S&P, achieving an average return of 21.9% over 2011-15. To understand how they did it, we interviewed senior execs at these performance stars and examined publicly available data. In this class I will describe the elements of their successful strategy.

Readings:

M. L. Fisher, A. Raman and A. McClelland, "Rocket Science Retailing is Almost Here – Are You Ready?" *Harvard Business Review,* July/August 2000. (Available via Study.Net)

Introduction Chapter, M. L. Fisher and A. Raman, <u>The New Science of Retailing</u>

Marshall Vishal, Vishal Gaur, Herb Kleinberger, "Curing the Addiction to Growth," *Harvard Business Review*, Jan/Feb 2017. (Available via Study.Net)

Class 2
27 October

Store execution; links between operations and finance; omni-channel

Retailers across the board face a rapidly changing environment with the growing acceptance of on-line retailing that empowers customers by providing greater price transparency and more options. Marketing channels and communication touch points continue to shift. The Home Depot case considers how to confront the challenges of operating in an interconnected world, how best to leverage Home Depot's brick-and-mortar success in the new environment, while continuing to build and sustain lasting emotional connections with customers.

Case: Home Depot and Interconnected Retail (Available via Study.Net)

Guest: John Deaton, Executive Vice President – Supply Chain & Product Development, The Home Depot

Other material: Excel file Home Depot vs. Lowe's (on course website)

Questions:

(1) How did Home Depot deliver high levels of service to consumers before 2000 (pre-Bob Nardelli era)?

(2) Why were the founders replaced?

(3) Was Bob Nardelli a success? Why or why not? Please review the Excel file Home Depot vs. Lowe's on the course website. Did Nardelli deliver strong financial performance during his tenure? How did it compare to Lowe's?

(4) Was Frank Blake a success? Why or why not?

(5) Carol Tomé comments in the case: "Of course we talk about Lowe's as a competitor but the competitor we are really petrified of is Amazon. We are constantly thinking about what will be our points of differentiation." Why is Home Depot 'petrified' of Amazon? What are their 'points of differentiation'?

(6) What should The Home Depot do to maximize interconnected retail? How would you use the information in Exhibit 17?

Class 3
1 November

Knowledge Sharing at REMA 100

REMA 1000 (REMA) is a Norwegian discount grocery chain founded in 1948, operating in Norway and Denmark. In 2016, in an effort to facilitate communication across its decentralized operations, REMA Norway introduced Facebook's enterprise social network (ESN) Workplace to the entire workforce of 11,500 at its 600 locally owned and operated franchises. A year after the launch, Chief Human Resources Officer Tore Høylie is asked to deliver an assessment of Workplace to the company's leadership group. Many signs are positive: Nearly 90% of employees have activated their Workplace accounts, which they use to communicate with far-flung colleagues and share best practices. For the first time, headquarters can send messages directly to frontline workers. However, the platform has some drawbacks. Some franchisees complain that it is overloaded with irrelevant information and is difficult to navigate. Høylie has to decide whether to try to improve the way employees interact with Workplace or to abandon it. The case also describes REMA's strategy, competitive positioning, and retail franchising model.

Case: Knowledge Sharing at REMA 100 (Available via Study.Net)

Guests: Tore Høylie, Chief Human Resources Officer and Øyvind Stenland, Store Owner, REMA 1000

Questions:

(1) What is REMA 1000's strategy?

(2) What are the advantages and disadvantages of the REMA franchise model?

(3) What are the pros and cons of implementing Workplace at REMA 1000?

(4) What can Høylie do to ensure employees make the best use of Workplace?

Class 4
3 November

Supply chain flexibility; omnichannel

Fashion retailer Zara experienced significant growth over the period from 1975 to 2010. The case reviews the history of the Inditex Group and its expansion of both brand concepts and number of stores. In this class we'll seek to understand the Zara business model and then consider some specific challenges faced by Zara related to global expansion.

Case: Zara: An Integrated Store and Online Model (A) (Available via Study.Net)

Readings:

Chapter 4 Flexible Supply Chains, M. L. Fisher and A. Raman, *The New Science of Retailing*.

Bell, David R., Santiago Gallino, and Antonio Moreno. "How to Win in an Omnichannel World." *MIT Sloan Management Review*, 2014. Vol. 56, No. 1, pp 45-53. (Available via Study.Net)

Clayton M. Christensen, Michael E. Raynor, and Rory McDonald. "What Is Disruptive Innovation?," *Harvard Business Review,* December 2015. (Available via Study.Net)

On-line Reading:

https://startuptalky.com/shein-success-story/

Questions:

(1) Using the information in the file GM vs turns vs SG&A on Canvas, compare Inditex to publicly traded apparel retailers on gross margin and inventory turns. What explains the differences?

(2) Key elements of the Zara model: how have they achieved such spectacular success?

(3) Have you experienced Zara's integrated online model as a customer? If so, what are your thoughts regarding Zara's integrated model? What aspects does Zara perform well and what are some areas that are potentially lacking?

(4) What are the relative merits of filling on-line orders from stores vs. from an on-line DCs? How would you decide which store to fulfill from?

(5) What advantages does RFID bring to Zara? Are there synergies with their online integration effort? Why do you think Zara was very advanced in RFID but slow in pursuing online?

(6) Should Zara be worried about SHEIN and if so, how should they respond to this competitive threat?

(7) Should Zara replicate the integrated store and online DC model in other markets? Why or why not?

Class 5
8 November

Growing on-line at a store retailer

The great battle emerging in retailing is Walmart vs Amazon. In this class we'll look at the Walmart side of that battle. Then in class 9 we'll consider the Amazon perspective. Interestingly, each combatant is evolving towards an integrated mix of stores and e-commerce, so a natural question is how to use both channels in a coordinated way to serve consumers better. This is a theme we considered in class 2 and will pursue further in class 14 when we look at The Home Depot interconnected retail strategy.

You may find it interesting to note that the case protagonist Marc Lore took time out from being a serial entrepreneur to complete the first year of the Wharton MBA program, and is now on leave from that program.

Case: Walmart Inc. Takes on Amazon.com (Available via Study.Net)

Guest: Olena Wilson, Vice President of Automation and Continuous Improvement, ShipMonk, until recently, Senior Manager of Fulfillment Engineering, Walmart eCommerce

Video

Watch this interview with Marc Lore

https://www.youtube.com/watch?v=S4f6Fg78Jx4

Questions:

(1) What are the relative strengths of Walmart and Amazon as they seek to develop an integrated store/online offer to consumers? Include in your comparison breath of assortment, price, delivery speed and fulfillment cost.

(2) Based on the case and the video, what are the key elements of Marc Lore's strategy for growing Walmart.com and integrating Walmart.com with Walmart's stores? Does his strategy make sense for Walmart? What will be his biggest challenges?

(3) Walmart has made a number of acquisitions, including Jet.com. What do you think their goals are in those acquisitions and how can they achieve them?

(4) The case tells us Walmart's e-commerce sales in 2017 reached $16 billion. Interestingly, Whole Foods sales in 2017, the year Amazon bought them, also reached $16 billion, so Walmart and Amazon are starting from exactly opposite ends of a store/e-commerce mix. Walmart CEO Doug McMillon has asked "Will it be easier for an e-commerce company to build out a massive store network and create a customer service culture at scale? Or are we better able to add digital and supply chain capabilities and leverage our existing stores?" How would you answer this question? Should Walmart and Amazon eventually end up with the same mix of stores and on-line sales?

(5) Other than each other, who should the CEO's of Walmart and Amazon fear?

Class 6
10 November

Multi-channel retailing; turnaround strategy

This case provides an opportunity to examine a turnaround strategy at the leading consumer-electronics retailer in the United States as it confronts Amazon's disruptive online retail model. Best Buy's new CEO Hubert Joly's solution is "multi-channel" retailing, integrating online with traditional stores to provide consumers with the best of both worlds. The question is whether the extra costs of this model are covered by superior sales performance.

Case: Reinventing Best Buy (Available via Study.Net)

Guest: John Thompson, Former SVP and GM Best Buy.com

Reading:

Suzanne Kapner, "Should Retailers Split E-Commerce From Stores? A High-Level Debate," *Wall Street Journal* 29 December 2021 (Available via Study.Net)

Questions:

(1) What did Joly see as Best Buy's key strengths and weaknesses? Do you agree with his initial diagnosis?

(2) What did Joly do to turn things around? What numbers got better under Joly and why?

(3) What prevented Best Buy from doing all of this pre-Joly?

(4) The case refers to comparable sales 35 times. Why so much emphasis on comparable sales?

(5) Who do you agree with and why in the debate between Metrick and Joly described in the Wall Street Journal article that is the reading for this class?

Class 7
15 November

Store execution: The role of the store manager

Excellent supply chain plans are often blunted by mediocre execution at the store level. This case will let us see what goes on in a retail store, what are the execution challenges and how to overcome them, and how a retailer can best harness the brain power of their store associates.

Case: Store Level Execution at Wawa (Available on course website)

Guests: Jim Morey, Executive VP and Chief Marketing Officer, Wawa Inc.
Andrew Baill, Manager of Enterprise Productivity, Wawa Inc.

Questions:

(1) Imagine you are a Wawa store manager. What are your goals and how would you achieve them?

(2) Compare and contrast the styles of the three store managers described in the case. Is one style the best? If so, how would you encourage others to follow the best managers approach?

(3) What harm is done by the store execution failures described in the case? What would you do to reduce these problems, either as a store manager or VP of Store Operations for Wawa?

Class 8
17 November

Amazon

This class will allow us to understand in depth the world's largest and most famous e-tailer. The case focuses on the supply chain strategy of Amazon.com Inc. Set in early 2018, it provides a detailed description of the company's supply chain network and capabilities. One change since 2018 is that the Prime Now brand has been shut down but the ultra-fast deliver capabilities Amazon developed are now used by both Amazon Fresh and delivery from Whole Foods. The majority of the purchase mix was grocery for Prime Now and there is a non-consumables selection in Amazon Fresh Online.

Our sources are the case, readings, and videos below. Feel free to augment with any additional information you find on these initiatives.

We will be joined by Scott Lescher, Director of Amazon Linehaul Operations. Scott will participate in the discussion during the first half of the class, and then provide additional information on Amazon's growing transportation services and answer questions.

Case: Amazon.com: Supply Chain Management (Available via Study.Net)

Guest: Scott Lescher, Director, Amazon Transportation Services, Amazon.com, Inc.

Readings:

"Will Amazon Go Capture the Holy Grail of Retail?", Knowledge@Wharton, 14 November 2017. (available on course website).

Video sources or news clips (apologies for any ads you need to wait through)

Video of an Amazon Plane Being Loaded that showcases Amazon Transportation Systems
https://www.youtube.com/watch?v=bYt9I2Znrik

CNBC Report on Amazon Transportation and Delivery Services
https://www.youtube.com/watch?v=yaSrubpNTCY

Article On the Initial Launch of the Relay App Use for Amazon's Trucking Marketplace:
https://www.cnbc.com/2017/11/16/amazon-quietly-launched-an-app-called-relay-to-go-after-truck-drivers.html

Amazon's electric delivery vehicles from Rivian roll out across the U.S:
https://www.aboutamazon.com/news/transportation/amazons-electric-delivery-vehicles-from-rivian-roll-out-across-the-u-s

Questions:

(1) What is Amazon's core competency? Are they a retailer, a logistics company, or a technology company?

(2) Review Amazon's supply chain. How is Amazon's supply chain different from that of traditional brick-and-mortar retailers? What's easier for them and what's harder vs. traditional brick-and-mortar retailers?

(3) What are the key advantages to the structure of Amazon's supply chain and the company's management of its supply chain operations? What are the disadvantages/challenges? Support your analysis with data from the case.

(4) Over time Amazon has insourced more and more of it's supply chain operations. Is their supply chain too vertically integrated?

(5) Why does Amazon allow third-party sellers to distribute products through its site?

Class 9
29 November

Store execution

In this class I'll present results from projects conducted with several colleagues and retailers to understand what store level operating policies drive outstanding store execution, customer satisfaction and financial performance. These projects have sought to address questions such as the following.

(1) What can a retailer do to improve sales and customer satisfaction? Which of these potential action steps have the biggest impact?

(2) How to set store staffing levels to trade off the positive impact on revenue against payroll cost.

(3) How to increase store associate knowledge? Do more knowledgeable store associates increase sales?

(4) How can methods from manufacturing, such as the lean production system, be applied to a retail store.

Reading:

Chapter 6 Store-Level Execution, M. L. Fisher and A. Raman, The New Science of Retailing

James Surwiecki, "How Hiring Makes Uniqlo a Successful Retailer," *The New Yorker*, 26 March 2012 (available on course website).

M. Fisher, S. Gallino and S. Netessine, "Retailers Are Squandering Their Most Potent Weapons," *Harvard Business Review*, Jan-Feb 2018. (Available via Study.Net)

Marshall Fisher, "To you it's a store; to me it's a factory," *ECR Journal International Commerce Review*, Vol. 4, No. 2, Winter 2004 (Available on course website)

Noam Scheiber, "A Find at Gap: Steady Hours Can Help Workers, and Profits," *New York Times, 28 March 2018.* (Available on course website)

Class 10
1 December

Store Execution: the role of store design

An important aspect of store execution is how the store is designed and this case will let us explore that issue in a context where it is arguably the most complex, a fast food restaurant, which combines all the traditional retail processes with the 'manufacturing' processes associated with a restaurant.

Simplicity was a key feature of McDonald's original menu – hamburger, cheeseburger, fries and a few drink choices, a total of 9 items. Yet despite this simple menu, McDonald's grew quickly through geographic expansion, because of the appeal of their fast service, low prices and tasty food. When rapid growth finally slowed in the early 1990's, new menu items were added to sustain continued growth. As a result, by 2007, the average McDonald's restaurant had more than 100 items on their menu. As menu complexity grew, it became harder and harder to deliver on the 'fast' component of 'fast food.' McDonald's solution was a new production process, called 'Made for You' in which they cooked components such as hamburger patties and chicken to inventory, and then assembled sandwiches and other menu items to order. Now they are contemplating the introduction of a new product and face important process design choices on how to deliver on this new process.

Case: McDonald's Corporation: Launching McCafe (Available on course website)

Guest: Robert Marshall**,** former Vice President, U.S. Operation, McDonald's Corporation

Questions:

(1) How did McDonald's grow revenue from $75 million in 1960 to $19 billion in 1999?

(2) What are the advantages and risks/potential problems of McCafe for customers, franchisees and McDonald's corporation? If you were Bob Marshall, responsible for implementing McCafe, what concerns would you have?

(3) Which of the alternative new product processes for McCafe should McDonald's adopt? Would you offer at Drive Thru and where would you locate the McCafe Station?

(4) The McDonald's Innovation Lab represents a substantial investment in R&D. Should other retailers spend more on R&D? McDonald's focus is on store processes. What else might other retailers seek to learn about through R&D?

Class 11
6 December

Assortment optimization

This class will consider tools and techniques retailers use for deciding what assortment of products to carry in each store at each point in time.

Readings:

M. L. Fisher and R. Vaidyanathan, "What Products Should You Stock?" *Harvard Business Review, November 2012.* (Available via Study.Net)

Chapter 2 Assortment Planning, M. L. Fisher and A. Raman, *The New Science of Retailing*

Class 12
8 December

Product Life Cycle Planning Forecasting and inventory optimization

Retail products have a life cycle that can be divided into three stages: new product launch, mid-life replenishment and end of life exit, dominated by price markdowns to clear remaining inventory. In this class we'll present techniques for forecasting, setting inventory and pricing at each stage in a product's life.

If you are doing the written hand-in exercise for this class, please access the file Life Cycle Planning Exercise Instructions and the Excel file *Catalog Data.xls* from the folder for this class on the course web site.

Reading:

Chapter 3 Product Life Cycle Planning, M. L. Fisher and A. Raman, *The New Science of Retailing*.