



## MIT SCALE RESEARCH REPORT

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**Research Report: ZLC-2006-10**  
**Fading Boundaries between Efficient and Responsive Supply Chains**  
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## Fading Boundaries between Efficient and Responsive Supply Chains

Nancy Richards

### EXECUTIVE SUMMARY

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Wal-Mart Inc. has been facing the problem of not being able to reap optimal profits from its high-margin apparel sector. Customers who regularly shop at Wal-Mart for their groceries and other home needs turn to competitors like Target, The Gap and The Limited when it comes to buying clothing.

In the past year, Wal-Mart has been continually making efforts to reach out to higher-end customers in a bid to increase its revenues in the apparel sector. However, constant innovation and cutting-edge strategies from rivals like Target and purely apparel-driven chains has taken some of the wind away from Wal-Mart's sails.

The problems impacting the apparel section can be grouped under the following heads:

- **Unappealing product assortment:** Customers repeatedly say that while Target specializes in “cheap chic” in spite of being a discounter, whereas Wal-Mart has a long way to go to appeal to higher-income customer groups. Some customers may purchase innerwear, branded national labels at that, should they have a necessity.
- **Wal-Mart's Business Model:** The retailer that prides itself on everyday low prices has to make a trade-off when it comes to having higher-value goods in its premises. Also, its low-cost operating model encourages buying more on the basis of large volume discount deals rather than consideration for current trends. Purchasing most products from a distant production site, to avail of low costs, also negatively impacts the nimbleness of the retail giant in responding to trends quickly.
- **The Nature of the Buying Organization:** Most Wal-Mart employees have started out as hourly workers in the company and have risen through the ranks to reach senior management positions. In such a scenario, it is less frequent that buyers with in-depth knowledge of fashion trends and avid trend-spotters would be the ones working toward or calling the final shot in purchasing deals.

This paper benchmarks Wal-Mart against some of its competitors to verify what would be the best way for Wal-Mart to boost its apparel sales. With the use of anecdotal evidence, financial comparisons and strategic assessment, we recommend the following steps for Wal-Mart to take:

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- **Choice of a Clear Competitive Position:** By aiming to be all things to all customers, Wal-Mart only ends up losing out. The retailer must be able to carve a niche for itself, and aim to satisfy all needs of a certain group of target customers.
- **Shift in Sourcing Practices:** By allocating production of time sensitive items to firms with North America, and price sensitive production to firms in Latin America and the Caribbean Basin, Wal-Mart can reduce the time taken between placing an order and receiving the item in stores. Such gains will clearly overshadow the margins lost because of sacrificing production posts in Far East countries like China.
- **Change in Apparel Management Hierarchy:** Each store must have a stable management team in place for apparel and store employees who are familiar with visual merchandising, reordering and markdown techniques. These teams could then work closely with a regional apparel distribution center to serve the regional needs and preferences of their customers better.
- **Differences in Regional Preferences:** Wal-Mart must give each store a slightly greater degree of autonomy, at least in its apparel sectors. Store apparel managers must be able to order or cancel some items depending on their personal judgment of the season's sales. To correspond, central buying organizations must always have professionals educated in fashion and able to spot trends and interpret runway looks for the masses.

Wal-Mart is also plagued by less than stellar public image that may impede even the best apparel supply chains the company could set up. With the negative publicity that it gets on almost a daily basis, its mass discounter stance does not sit well with the very customer base it is now trying to woo.