Can information systems restore profitability to restoration hardware? essay samp...

1. Evaluate Restoration Hardware using the value chain and competitive forces models. How is the company responding to the forces that influence it?

Value chain model, popularized by Michael Porter in 1985, views companies as series of activities that add value to products or services. Main drive for such a system to emerge is highlighting the activities where competitive strategies of the company can best be applied. Model determines how information systems can improve operational efficiency and improve customer and supplier intimacy at every single stage.

Inbound/Outbound logistics are the two important primary stage activities at value chain model. Due to the IT infrastructure deficiencies, Restoration has variety of problems at inbound and outbound logistic activities. The very striking error, that Restoration is confronted, is working with an obsolete warehouse management system, although they have the chance to utilize new technology covered by their service agreement between NSB. This aged and low capability warehouse management system prevents the company to establish a healthy communication with its suppliers. Because Restoration needed to work with variety of suppliers, company even could not track their own inventory and keep it in line with the customer demand. On the other hand, it is not guaranteed that the desired product is present in the inventory of that specified supplier. This kind of arbitrary relations creates long delivery times and high costs for the company.

Lack of a well-established IT system makes the inventory tracking very difficult and unreliable; therefore, Restoration cannot control its inventory

turnover rates effectively when compared to competitors. Ineffectiveness of this costly inbound and outbound logistics stages increases with the variables comes into existence by working with foreign vendors.

Operations stage is another important primary activity at value chain model. Restoration was trying to working with a traditional way of conducting the operations. Producing furniture without an order-tracking system results in a fail of fulfilling the delivery times of customer orders. Actually, the company does not even have accurate records of its inventory. Thus, Restoration loose its customers or sell them ordinary products which are in low price campaign in stead of customized high quality productions. On the other hand, selling the good quality products does not always guarantee high profit. Because of not having enterprise wide knowledge management systems, Restoration was not able to make an accurate cost control and ends up with a very low gross profit margin compared to its competitors.

Sales and marketing stage is the last but not least primary activity at value chain model. Restoration has many successful applications valuing sales& marketing side of their business. Their business strategy of honoring the traditional American house decoration is a pure value adding approach which was successfully reflected on the stores and outlets of Restoration. Their fascinating store formation is supported by a user friendly website and eCatalog with product links. Restoration's success can be seen from their increasing internet orders up to 8000 percent. Despite their striking business strategy, highly inviting stores and website, company was trying to cope with the decreasing profit margins. Again the reason was the same; lack of a well-established enterprise-wide knowledge systems.

Restoration's old-fashioned way of in-store ordering with no automation which expects the customers to fill out an order paper and pay via an aged credit card system with physical signature makes it difficult to accumulate high amount of customer orders. During the ordering process, due to the lack of IT infrastructure, customers could not get the information about whether the fabric they desired or the furniture they plan to order is available at the inventory. Due to indefinite delivery times, Restoration loses its customers to the competitor or to the low cost ordinary products with low profit margin.

As far as the support activities of value chain are concerned, I am on the point of view that management side was not aware of the fact that world is becoming more " connected". They are still insisting on the older ways of doing business. Restoration's technology infrastructure should be re-established in order to catch the contemporary business trends and with increasing profit margins make their business sustainable. Right management decisions supported by technological infrastructure would enhance the procurement processes and enable create orders via the Information Technology infrastructure.

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In Porter's Competitive Forces Model, the strategic position of the firm and its strategies are determined not only by competition with its direct competitors, but also by four forces in the industry's environment: new market entrants, substitute products, customers and suppliers.

New market entrants haven't been a threat for the Restoration's business model because there are high barriers for a candidate competitor to enter such kind of a business. High amount of investment not only for production but creating a defined concept to business, designing a valuable brand etc makes it difficult for other parties to enter the business with a claim.

Substitute products have been another threat with low possibility of occurrence. Due to their unique way of design and wide-spread establishment of fascinating stores and the outlets, Restoration has had a very high brand value which cannot be replaced with a substitute very easily. Therefore substitutes or the competitors of the company have to create at least an equal level of brand value but at a different design concept and business strategy. Together with the new market entrants, substitute products were the strengths of restoration as far as the market dynamics are concerned.

Suppliers, on the other hand, were placed in the weakness part of Restoration's business dynamics. Necessity of working with variety of vendors up to 400 in number makes the company to focus on the supply chain management processes. Not having a warehouse tracking system linked to an ordering system, Restoration has been living hard times managing its inventory and performing an effective cost control.

Customers constitute a vital role for a retail company. Restoration has been very successful maintaining the attention of its target market and keeps their desire to purchase in a high level in order to utilize. However, if they could not manage the orderings and continue creating delivery

problems for the customers due to lack of a well-functioning IT infrastructure, they are going to be notorious for their overall customer satisfaction and lose their target market drastically as time passes.

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Consequently management realized the root cause of profit drains, therefore in 2006 Netezza and Quanisense applied a retail business intelligence solution for Restoration and made their IT infrastructure more up-to-date. However, it is obvious that, in such a rapidly changing world, response of Restoration to the forces influencing it, seems very slow and not in an analytical sense. It is maybe about the way they think; honoring the older trends...

2. What is Restoration Hardware's business strategy? How well do the company's information systems support that strategy?

Restoration Hardware is a major player in the industry by means of their business strategy which puts the company in a unique sector of the marketplace. Company mainly focused on merchandising original furniture and fixtures designed to match the form of older American houses. Restoration stores let the customers recall the images of the past and the products to be purchased are very difficult to find elsewhere including the stores of competitors. Due to the fact that top executives of the Restoration coming from the merchandising background, according to an analyst from ThinkEquity Partners, when one visit the stores it is strikingly clear that Restoration is very successful offering products that customers really desire to purchase. In short, as a business strategy, Restoration had maintained a

consistent vision intending on inspiring feelings of American tradition and nostalgia.

This kind of business strategy requires mass customization in production approach rather than mass production because; there are varieties of design combinations that can be applied to the products. Mass customization is the method of " effectively postponing the task of differentiating a product for a specific customer until the latest possible point in the supply network. (Chase, Jacobs &Aquilano 2006, p. 419). Mass customization, in simple terms, provides strategic advantage and economic value.

However, although the strategy of the company was advantageous, Restoration could not even make money form the business. Analysts pointed out the less visible aspects of Restoration's business; supply chain management and technology infrastructure. As far as the technology infrastructure of company is concerned, we encounter many problematic operations. The very first one that comes to mind is the obsolete warehouse management system. Restoration has a very aged inventory tracking system, which does not enable the company with keeping the inventory in line with customer demand. Besides due to the lack of order tracking system, Restoration was not able to fulfill the delivery times of the ordered products.

Ordering process, on the other hand, was another problematic issue because of lack of information system applications. Restoration expects the customers filling out an order paper without even knowing whether it was also in the inventory or not. All these broken links between the departments of Restoration results in the profit loss and makes them the follower among

the competitors in terms of financial digits. Therefore, management of the company initiated a " Repositioning Plan" in order to increase the profitability of the company but unfortunately management was not able to see the root cause of low profit functioning situation and did not include an IT infrastructure upgrade within the plan.

As far as the positive sides are concerned, customers could reach the product spectrum via a user-friendly designed website and an eCatalog with product order links and zooming options. This fascinating front stage of the company with attractive stores and high quality products does not enough for a company to be profitable due to lack of a well-functioning IT infrastructure.

4. What role does supply chain management play at Restoration Hardware?

Supply chain management is network of organizations, people, technology, activities, information and resources in moving a product from supplier to customer. Supply chain activities transform raw materials into a finished product which are in order to deliver to the end customer. As far as the role of the supply chain management at Restoration Hardware is concerned, likewise what happened in the technology infrastructure, it has a vital importance in profit ratios to increase. I am on the point of view that the root cause for such a malfunction which was told during the case to happen is lack of technology infrastructure which enable whole branches of the organization communicate easily and effectively. Due to absence of up-to-date IT systems, supply chain activities; one of the core operation linking raw

materials procurement to the delivery of the special orders to the customer, becomes very ineffective with many gaps in between.

For instance; Restoration works with plenty of vendors from a pool of over 400 and without having long term purchase contracts with them. Therefore, it is not guaranteed that the desired product is present in the inventory of that specified supplier and maybe they have to check their own suppliers to find the product or order it to be produce. This kind of lack of coordination in the supply chain management creates stretching of delivery times. Indeed, if Restoration is intolerant to time delay than needs to spend more money to get that exactly the same product at desired date.

As far as the inbound logistics, operations and sales activities are concerned, there are many problems related with the supply chain management. The obsolete inventory tracking system and the aged ordering system with no automation always resulted in profit drain. Therefore, a good established and well-functioning enterprise-wide knowledge management system increases the efficiency of vital supply chain management activities.

5. How can Restoration Hardware improve its information systems to solve its problems?

Restoration urgently needs an enterprise-wide knowledge management system which has the capability of controlling whole operations and providing flow of information for top executives rapidly. In order to make a successful installation of IT infrastructure, Restoration had better to make a Critical Success Factors (CSF) analysis before deciding on the intensity of improvement whether it will be automation or there will be need for some

other organizational change in terms of business process reengineering or maybe a paradigm shift. I suggest preferring the CSF rather than the Enterprise Analysis method because of the complex business processes especially in terms of supply chain management. Enterprise analysis provides plenty of information to decide on development, so both data gathering and decision making processes becomes very time consuming and difficult. After deciding on the intensity of the change that will be initiated, well-known and never-ending system development processes begins: analysis, design, programming, testing, conversion and maintenance.

According to the results maintained from the analysis above and because of being very expensive, subsystems constituting the whole enterprise-wide knowledge management system should be installed one by one beginning from the transaction processing Systems (TPS). As indicated by the Russell Hoss, a Roth Capital Partners analyst, supply chain management systems and the technology infrastructure results in a plenty of profit loss. Therefore, it is logical for Restoration to begin with TPS which will improve inventory tracking and solve the problems of supply chain management activities and as a consequence company lowers their costs remarkably.

After overcoming the beginning problems and making TPS a steady-functioning system, Management Information Systems (MIS) and Decision Support Systems (DSS) should be initiated respectively in order to accumulate and consolidate TPS information for management and use them for some decision making activities. Lastly, Restoration should initiate Executive Support Systems (ESS) to enable top executives tracking the real-time data flow indicating the performance of the company on variety of

branches such as; warehouse management, operations, inbound/outbound logistics, sales&marketing, finance etc.

By the helps of initiation of enterprise-wide knowledge management system, I am sure that, company will increase its profits by tracking the overall operations conducted and will enhance them before the problems turn into such big crisis. Successful initiation of such systems will enable the Restoration with catching contemporary business trends and with increasing profit margins, making their business sustainable.