

LI bean inc

Business, Management



CASE STUDY, MANAGEMENT: L. L BEAN INC. CASE STUDY L. L Bean Company is an American privately owned mail-order retail and online business based at Freeport, Maine in the U. S. The company was incepted in 1912 by Leon Leonwood Bean after operating from a one single room shop in his brother's basement in Freeport, Maine. Initially the company sold a single product, Maine hunting shoes, which were a combination of lightweight leather uppers and rubber bottoms. Leon sold the shoes to hunters by preparing a descriptive four page mail-order circular (Schleifer, 1993, p. 2). Leon died in 1967 and his grandson succeeded him as the company president. However, by the time of his death, the company had grown immensely with annual sales averaging about \$4. 75 million and the number of employees standing at 200 (Schleifer, 1993, p. 2). The grandson expanded and modernized the business while sticking to his grandfather's rule, " Sell good merchandise at a reasonable profit, treat your customers like humans beings, and they'll always come back for more" and by 1991, the company was a leading catalogue manufacturer and retailer in outdoor sporting field (Schleifer, 1993, p. 2). Currently, the company has diversified into selling outdoor recreation equipment and clothing.

L. L Bean opted not to expand its retail operations and instead stuck with the only retail store they had opened at Freeport. Leon Gorman explained this decision saying the catalog business and retail business were different and both required different types of management styles (Schleifer, 1993, p. 2). However, a Consumer Report survey ranked L. L. Bean as the most customer satisfying ' mail-order' company in the U. S. among its major competitors such as Eddie Bauer, Talbot's, Land's End and Orvis. In addition, the

company's product line was classified as hierarchical and whose highest level of aggregation is occupied by Merchandise Groups such as men's and women's apparel, footwear and accessories, camping equipment among many others (Schleifer, 1993, p. 2). Below each Group is Demand centers such as sweaters, pants, skirts, jackets among many others. The hierarchy continued with Item sequences followed by individual items distinguished by color, which formed the basis of forecasting and purchases to replenish stock (Schleifer, 1993, p. 3).

The problem of inventory management is a bone of contention, in this case. The problem of making forecasts for each individual item stocked by the company has been the main challenge facing the company because it's hard to match demand and supply for items required by customers since unlike departmental stores, mail order businesses' demand are generated by consumers demanding given items either by a phone or mail. For instance, Mark Fasold, the inventory management president argues " The bad news is, you learn what a lousy job you're doing trying to match demand with supply" (Schleifer, 1993, p. 1). The other problem facing the company is determining when to make inventory replenishments. For example, in 1991, completed fall catalogs were supplied to customers around August 1 but has demand increased, inventory managers gave vendors additional commitments, handled backorders, sculled replenishments (Schleifer, 1993, p. 4). In addition, the cost placing orders and understocking that result to lost sales also poses a challenge to the company. For example, annual expenses of lost sales averaged \$11 million while those of stocking wrong inventory averaged \$10 million in 1993 (Schleifer, 1993, p. 1).

There are various factors that affect demand for goods and service in any economy. However, for this particular case, some of the notable factors that have been identified to affect the demand for L. L Bean include forecast errors, weather, competition and the economy (Schleifer, 1993, p. 1). For this reason, some of the assumptions that should be made for this particular case include; lieu of basing forecasts on catalogs supplied to customers, the company should consider weather changes and seasonality in making replenishments for items such as sweaters, cardigans among many others. Based on historical records and trends, the company should assume demand and is regular and make sufficient inventory orders to avoid costs associated with running out of stock when demand is high.

The company should determine various solutions to reduce losses arising from inventory management. The first solution is to analyze each step of the inventory chain based on past turnover and sales pattern. The inventory chain begins with raw goods to goods in progress and finally finished goods. The company should also conduct regular inventory revisions to help assess trends and manage the risks of holding too little or too much of stock. The company should also always check goods against delivery receipts when receiving purchases from suppliers.

References

Schleifer, Arthur. L. L. Bean, Inc. Item Forecasting and Inventory Management. Boston, Massachusetts: Harvard Business School, (1993): 1-5.