# North west case

Business

North West Company B Introduction The North West Company is a leading retailer of food and everyday needs to rural and urban neighborhoods across Canada, Alaska, the South Pacific islands and the Caribbean. In early 2003, North West had negotiated a master franchiser agreement with Giant Tiger Stores Limited (Giant Tiger) with the objective of opening stores west of Winnipeg. In contrast with North West’s “” push”” system of product replenishment, Giant Tiger had developed a successful “” pull”” system that gave individual store managers tremendous leeway in ordering decisions.

Inspired by Giant Tiger’s example of a “ pull” system in action, North West management was considering giving store managers more control over their inventory ordering by moving to a “ pull” merchandise replenishment strategy — also known as localization. Currently, North West employed a “ push” strategy in which category managers at North West’s Winnipeg headquarters analyzed trends, placed orders and allocated products to stores.

Typically, category managers worked with store managers to review the previous year’s lineup, orders and actual sales.

Using historical averages and the next year’s forecast growth rate, category managers estimated demand for products at a company level. Category managers met frequently with suppliers to review the product lineup for the upcoming year, which often differed from year to year. The shift towards localization promised to tap into the local knowledge that resided with store managers, allowing them to better tailor product quantities to preferences in their communities.

Under localization, product assortment decisions, which had been previously made at the category manager's level at Winnipeg headquarters, would become the responsibility of North West's 147 store managers.

Costs and Benefits Localization seemed like a great way to enable store managers to take advantage of their knowledge of the community in which they lived. Store managers would become the local market experts, determining which stock-keeping units (SKUs) to carry and in what quantities, and incentive lans would be changed to reflect these new responsibilities. For example, a greater percentage of a store manager's pay would become variable, linked to the store's operating margin. A store manager could decide to expand the store's fresh food assortment, the store's toys and gifts section could be tailored to meet different festive periods, or double the standard allotment of oak furniture and closets could be ordered if a new road works project was expected to pump additional funds into the community in the coming months.

On the cost side, North West would need to invest less than $10 million to develop a computer-based Advanced Ordering System (the appropriate computer hardware and software) to support the " open-to-buy" (OTB) process. The OTB process would spur store managers to clear out aging inventory in order to free up dollars to purchase new inventory.

The upside potential of localization may include higher sales and reduced inventory levels as merchandise is tailored for each community.

Currently, the North West Company has not been able to increase their inventory turns over 2. 2 times. They expect that with localization, they could achieve inventory turns in the 3. 0 or 3. 5 range.

Risks However, there are risks involved. Current supply chain processes will have to change. North West will have to invest in information systems and technology. There will be 147 different store managers making decisions on the quantity of product shipped to store.

Store managers, even if they are given the same set of information, might make different decisions, based on his or her preferences, experiences and biases.

For store managers to operate effectively, they'll have to be trained and coached. Localization is a large project with organization- wide impacts. Implementation Plan Although the North West may face logistics and human resources issues in attempting to adopt this new system. I would recommend the firm implement the localization strategy. Because the outcome of higher sales and reduced nventory levels will create much more benefits than the invested cost.

For the implementation plan, the North West needs to identify where localization makes sense for the company. In my opinion, they should first implement localization for only the stock-keeping units (SKUs). With the " pull" strategy, store managers would become the local market experts, determining which stock-keeping units (SKUs) to carry and in what quantities. The key-limiting factor for store managers was their " open-to-buy" (OTB) dollars.

With the OTB process, the store managers could clear out aging inventory in order to free up dollars to purchase new inventory. Also, I recommend choosing some locations with big population and large demand, then the inventory of SKUs could update faster.

North West could get the profits of the SKUs very quickly and compare the results with the current supply chain model of direct distribution. If the implementation of SKUs works well, then they can consider implement localization for more product categories.