Case Notes

# Chapter 16: Inventory Control Models

## When Your Customers Steer You Wrong: Wal-Mart’s Project Impact Disaster

## Case Summary

*This case describes how Wal-Mart responded to customer complaints of cluttered stores by removing 15% of inventory from their stores to create a sleeker feel of the shopping environment only to find their sales dropped severely, losing nearly $2 billion.*

Case Analysis *This case illustrates the impacts of inventory management and control strategy on a firm’s bottom line. It relates inventory management practices, in particular, ordering and stocking products, to a firm’s profitability. Wal-Mart launched “Project Impact” in 2008 across their U.S. locations with remodeled stores that carried 15% less inventory as a response to customer complaints of cluttered stores. However, their inventory reduction strategy backfired as customers stopped spending money at the stores. Wal-Mart restocked their stores to pre-remodel level in 2011 after losing nearly $2 billion.*

## Sample Answers to Case Questions

1. What does the public’s reaction to Wal-Mart’s Project Impact suggest about expectations for discount stores?

The public’s reaction to Wal-Mart’s Project Impact suggests that the expectation for discount stores is about selling thousands of items at low costs. Customers, especially bargain hunters, also expect to see shelves full of items from wall to wall.

2. What are the inventory control implications for making drastic changes like Wal-Mart undertook?

Wal-Mart’s Project Impact has many inventory control implications. Not only does inventory control play a key role in determining such operational aspects as inventory costs, inventory level, inventory replenishment policy, it also affects customers’ shopping experience in that customers want to see wall to wall shelves full of items for bargain hunting.

3. React to the following statement: “Crowded and cluttered stores send a signal to shoppers that there are bargains to be had. Cluttering store floor space and increasing the height of shelves attracts bargain hunters.” Do you agree with this perspective? Why or why not?

I agree that bargain hunters are attracted to crowded and cluttered stores because these shoppers prefer finding deeply discounted items on their own. The effort involved in discovering such items among thousands of items in the store gives them a sense of thrill, surprise, and satisfaction that they spent their money wisely on these purchases. A clean and sleek store will negative such effort and emotion.

4. Discuss how a similar, cluttered approach would be perceived by shoppers at a higher-end department store like Nordstrom’s.

A cluttered higher-end department store like Nordstrom’s will not be perceived positively by its customers as shoppers of a higher-end department store are less price sensitive and more interested in finding what they want with minimum browsing and comparisons. They are also more inclined to impulse buying as they are less budget constrained.