

Business Marketing part

Case Lunch B.V. (40 points)

“I’m curious whether they can really do what they promise”, Mr. Henk, manager of several lunchrooms at a major Dutch university, thought after a telephone conversation with Mr. Jansen from Lunch B.V. Mr. Henk’s job had become tougher the last couple of years. The university was undergoing a major process of renovation and rebuilding, including a temporary dislocation of staff to smaller buildings. The large, permanent lunchrooms went quite well – as usual. Problematic were the smaller, temporary lunchrooms: Mr. Henk didn’t make a lot of profit there – on the one hand because these lunchrooms served only a limited number of students and staff members, on the other hand because the planning of the right quantities didn’t always work out – he had numerous complaints of staff members saying that the food they wanted was gone by 12h15. Some staff members told him that if they would lunch after 12h15, they would immediately go to the nearby lunchroom of the MEHA instead of going to the university lunchroom. Mr. Henk was a bit worried about this development.

Mr. Henk had several companies he ordered different parts of the assortment from, and Lunch B.V. was one of them. Lunch B.V. was specialized in solutions for the food market and offered the usual range of food for lunchrooms, but combined that with an efficient system of food storage and replenishment – the “food manager XL”. They made use of specialized software and a cash register that was connected to the software, allowing an efficient and automatic reordering of food and beverages, meaning that a customer automatically ordered the whole assortment for the lunchroom from Lunch B.V. Mr. Jansen from Lunch B.V. could offer the food manager XL at 750€ per year for the software (including training), and 600€ per year for specialized equipment, like the cash register (prices are for one lunchroom). The contract would run over 2 years, but could be transferred to another location without difficulties in case the temporary lunchroom would move again. The price level for food, beverages and the rest of the assortment at Lunch B.V. was comparable to that of other companies, yet Mr. Henk had heard rumors about possible price increases.

Mr. Henk started calculating. As an example, he used one lunchroom about which he was especially worried. This lunchroom was open 300 days a year, from 11h30 until 14h00. There was one employee working in this lunchroom from 11h00 until 14h30, for a hourly wage of 12.50 €. Implementing the system would mean that the employee would spend about 30 minutes a day less on reordering items. However, since the employee managed to do the reordering of items during the opening times of the lunchroom and needed 30 minutes before and after closing for the preparation of food and cleaning, Mr. Henk doubted that he could reduce working hours of that employee. From his own visits to the MEHA lunchroom he knew that on average, each day, 8 people went to the MEHA lunchroom instead of going to the university lunchroom. Of these 8 people, 3 people would go to the MEHA anyway – because they wanted some variety or needed to do some additional shopping. The rest went to the MEHA because they feared that they would not get the food and drinks they wanted at the university lunchroom. These were

without exception good customers who spend, on average, 4.00 € for a lunch at the university lunchroom (these people did not bring their own lunch, as many Dutch people do). Average profit margins were around 25%.

“Well, let’s see whether the investment could pay off for this lunchroom”, Mr. Henk thought to himself.

Q1: Build a customer value model for the food manager XL. Please use word equations to illustrate your calculations and clarify the assumptions you are making. (20 points)

Please note: In your exam, you have to elaborate on what you are doing in somewhat more detail!!! Especially say WHY you made certain decisions!

Value (food manager XL) = number of customers “saved” a day * profit per customer * opening days/year = $5 * (0.25 * 4) * 300 = 1500 \text{ €}$

Price difference = software fee + cash register = $750 + 600 = 1350$

Value = 150 €/year

Value overview:

Value elements: Extra revenue: 1500 €

Value placeholder:

- + Employee saves 30 mins/day. Work time cannot be reduced, but employee can spend that time on other activities
- Risk of price increases

Price elements: 1350 €

Value in use: 150 €/year

Q2: Should Mr. Henk purchase food manager XL? Please give reasons for your recommendation! (5 points)

- Yes/no both fine
- YES:
 - Positive value in use
 - Employees will be more satisfied with facilities
- NO:
 - Risk of price increases
 - Value in use of 150€ is not much and can be offset by price increases.
 - Mr. Henk is locked in

Q3: What is the buying class of Mr. Henk's decision according to the Buygrid-framework? Which phases has Mr. Henk completed so far? (5 points)

- New task: This system has not been used so far
- Mr. Henk has already defined the problem and determined the need (phases 1 & 2), he probably did not formulate a distinct product specification (phase 3), but he knows what he wants the product to do for him. He's now in phase 4/5 (supplier search/request for proposals)

Q4: Mr. Jansen of Lunch B.V. revealed to a close business contact that they did, in fact, not make profit on the food manager XL. Service and training were quite expensive, he estimated actual costs to lie 250€ above the 750€ they charged. What kind of pricing scheme does Lunch B.V. employ? Do you think that will pay off on the long-term? (5 points)

- In principal: Complementary product pricing, they sell the system below cost price and earn money on the extra revenue on food and beverages because of the lock-in of the customers.
- Will probably pay off on the long-term because it increases customer loyalty.
- But: customers can also be afraid for the lock-in; this might be a reason not to purchase the system.

Q5: How could Mr. Jansen further develop the offerings of Lunch B.V. to offer solutions for the food market? Please come up with a possible concept. Would this be attractive for Mr. Henk? (5 points)

- Room for student's creativity!
- For instance:
- Go even further away from selling "bread and butter" to performance contracting
- For instance offer Mr. Henk to completely operate the lunchroom for him.
- Mr. Henk would then greatly reduce his risk, but also loose a possibility to make profits (depending on the contract)
- Also, question whether Lunch B.V. runs the lunchroom in the way Mr. Henk wants it (opening hours)
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Literature Questions (10 points)

Q1: Parkhe (1993) does not find a significant relation between payoff structure and the performance of a strategic alliance. Can you explain this result? (10 points)

- Relationship can be more complex, i.e. moderated by other things, like reputation (can be captured in the measure of “shadow of the future”).
- Measure of payoff: He calls it “overly simplistic”, but for managers, it might be quite complicated to complete the questionnaire.

Please note:

- *In your exam, you have to elaborate on this in somewhat more detail, use full sentences etc.*

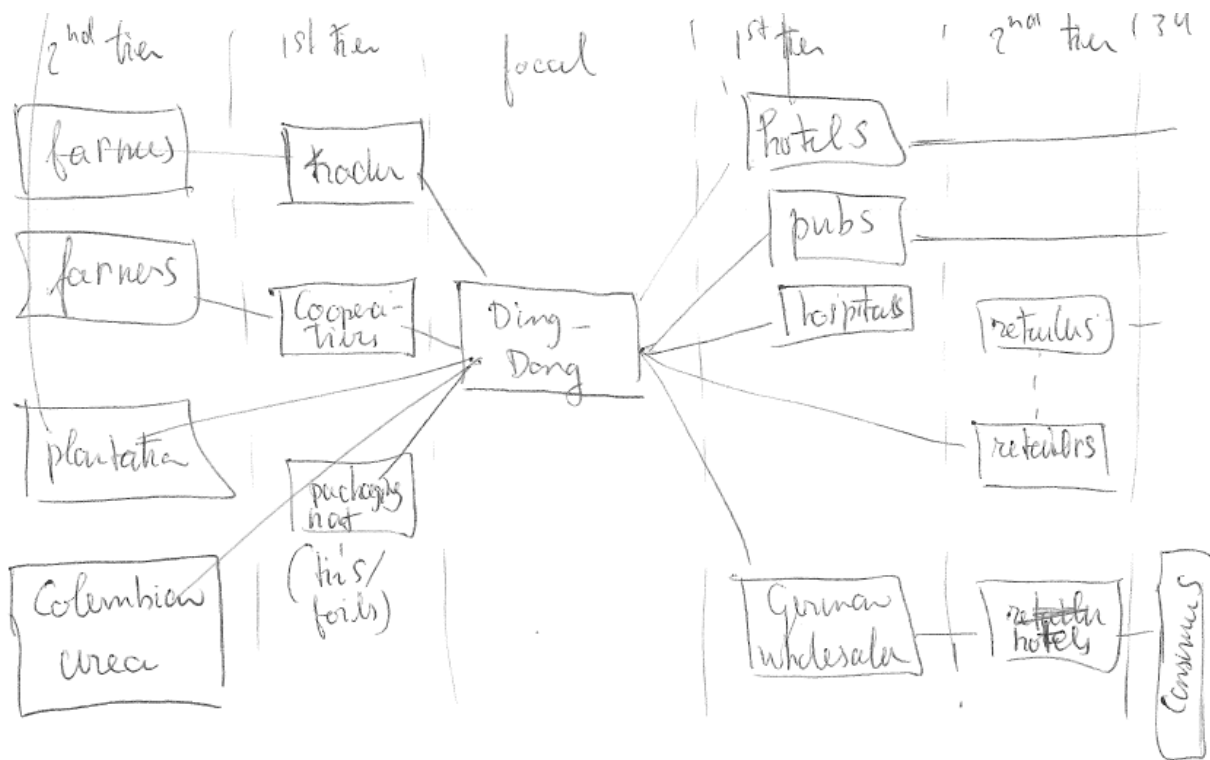
Supply Chain Management part

B: Case: Ding-Dong (30 points)

The company Ding-Dong is one of the small coffee roasters in the Netherlands, which mainly operates in the regional market for wholesale customers: hotels, institutions, hospitals, pubs etc.. However, the company also produces a blend for retailers, and recently it has started to export to Germany, where a wholesaler distributes the Ding-Dong products to local hotels. The production process consists of several steps. Coffee beans are purchased in the coffee producing countries, sometimes from large plantations or cooperative planters directly or from traders. For the specific blend for the retailer coffee is purchased in a specific region in Columbia. Here, coffee is purchased based on a long-term contract that assures the availability for Ding-Dong. It typically takes much effort to obtain the right quality coffee beans in sufficient quantities. Often, beans will be stored for some period in the country or region of origin, before they are shipped to the Netherlands and put into inventory in the raw material warehouse. Usually, the inventory is sufficient for 4-5 months of production. The supply of coffee is very important for Ding-Dong. Other suppliers provide packaging materials as tins, foils, plastic and paper to pack the coffee. Tins can be used for all products and differ only in size. A specific wrapping or foil covering a tin makes a product specific. In other words, only then a product is made specific as a certain brand. Usually some stock of all these raw materials is in the factory covering several weeks to several months of usage, depending on the type of raw material.

The actual production process starts with mixing different types of raw coffee beans for different types and different qualities of coffee for the customers. For standard Ding-Dong products the stock level of those products in the finished stock warehouse will determine when and how much of a product will be mixed in this stage. For other products, such as the specific brand and for the export market, production is only started if either a retailer or the German wholesaler has placed an order. After mixing the beans are roasted in small quantities: for each type of coffee the temperature and duration of roasting can vary considerably. This step should be monitored very well, because roasting determines to a great extent the quality and actual taste of the coffee. After roasting, the coffee is stored for some time and a quality inspection is performed. The last two steps of the process are grinding the coffee and packaging in large tins of 5, 10 or 25 kilos for the wholesale customers and in a ¼ kilo package for the special brand for the retail market. As indicated there are some customer specific types of wrapping and such products are only produced if those customers have ordered that product. In general, the coffee will be packed in the different sizes tin and be wrapped with the common Ding-Dong brand name. These products will be used to maintain sufficient stock in the finished products warehouse. After packaging, the final products are stored into the warehouse of finished goods either to wait until transportation to the customer takes place or to wait for a customer order.

Q1a: Draw the supply chain of Ding-Dong using rectangles for the companies in it. Indicate customers and suppliers at different tiers if you think these are present. (5 points)



Q1b: In the case description different storage points are mentioned. List these storage points and indicate if this storage point is a Decoupling Point. For each Decoupling Point make clear why it is located as it is, referring explicitly to the factors mentioned in the lecture (5 points)

- Storage point in Germany - DP for wholesaler
- Storage point finished goods - DP
- Storage point of coffee beans + packaging materials - DP
- Storage point after roasting - not totally clear (can be DP)
- Storage in country of origin - no DP

Relate to figure mentioned in the lecture:

- 1) Finished goods: speed of delivery + reliability
- 2) Raw material stock: specificity of demand, risk of obsolescence, maybe irregular demand

Q2a: In the lectures and in the paper by Lambert and Cooper (2000) three elements of a supply chain network structure are mentioned: horizontal and vertical structure and horizontal position. Shortly explain each of these (6 points).

Horizontal Structure: Number of tiers across the chain

Vertical Structure: Number of suppliers/customers represented within each tier

Horizontal Position: Nearer supply, nearer the customer (demand)

Q2b: Indicate for the case of Ding-Dong what the horizontal structure, vertical structure and horizontal position are. (6 points)

Horizontal Structure: # tiers = 5

Vertical structure: # suppliers = not too much (appr. 10 – 20)

customers = rather high, although regional (> 100?)

Horizontal Position: in the middle, but rather close to the origin (supply chain is not that long)

Q3: Ding-Dong has been growing over the last years and it needs more storage space to store finished products. Building a new warehouse is possible but very costly. At the moment much space is occupied by the inventory of tins. (3 points)

Would it be a good plan to have this inventory managed by the supplier? Discuss possible advantages and disadvantages.

Advantage: less inventory, less work for Ding-Dong

Disadvantage: need to share information. Information on final demand might not be easy to get for Ding-Dong.

Q4: Ding-Dong has been a relatively small company that was small enough to be able to react to all kind of customer requirements regarding speed of delivery, type of packaging etc. Over the last years more customers have specific wishes regarding the type of packaging and more and more hotels and pubs require both delivery from stock and a customized packaging or their own name on the tin of coffee. So far Ding-Dong has been reluctant to honor such requests and aimed to deliver their own brand to most of its customers, only a few have customer specific packages. So far, fast delivery from stock is only possible for standard products, while customized packaging requires more time. However, the marketing manager is sure that it would be an advantage if Ding-Dong would be able to realize fast delivery for customized products with the same delivery speed as their own brand products. The production manager fears that this would result in enormous inventories of many different products and/or a large amount of set-ups in the packaging stage of the production. Both options would increase costs considerably.

Using the material from the lectures and the knowledge of the papers (such as Pagh and Cooper, 1998) please advise the two managers what would be the best option.

What type of strategy would be possible to be both fast in delivery and flexible with regards to packaging? Elaborate your idea and clearly relate your answer to the material of the course (5 points).

Make to order + postponement.

** Core issue would be if making a package customized can be further postponed. E.g., by storing products as not specific and labeling them after an order arrives (→ not more inventory, but labeling needs to be done for an order)*

** Activities shifting: Could a third party be hired to do this?*

C: Supply Chain Integration (10 points)

Q1: Supply chain integration literature suggests that more integration always results in better management of the chain. However, even if that is true, reality seems lagging behind that normative ideal. Storey et al. (2006) “Supply chain management: theory, practice and future challenges” derive from their research three main reasons that form barriers to integration along the whole chain. List these three reasons and shortly explain each of these reasons. (5 points)

- *Transparency of information and knowledge: POS data and CPFR.*
- *Supply chain behavior: more dyadic, normal functional structures remain intact, power is a factor, in general organizational procedures and structures are not adapted to make full integration possible*
- *Performance measurement: mainly stress and encourage behavior within a department or single organization without promoting supply chain wide behavior and rewarding such behavior.*
- *See pages 766-767 of the paper*

Q2: Fisher (1997) states in his paper “What is the right Supply Chain for your product”, that different types of product might need different types of supply chain strategies. Describe the two types of products distinguished by Fisher and describe the consequences for the management and the design of the supply chain. (5 points)

- › *Innovative product*
 - *short PLC, high contribution margin, high stock out rate, unpredictable demand*
 - *Focus on market-responsiveness process*
 - *Have **buffer** in the supply chain!*
 - *Select suppliers based on speed, flexibility and lead time*
 - *Focus on lowering mediation costs!*
- › *Functional product*
 - *long PLC, low contribution margin, low stock out rate, predictable demand*
 - *Focus on physically efficient process*
 - *Minimize inventory throughout the chain*
 - *Select suppliers for low cost and quality*
 - *Market mediation easy, focus on physical costs*

		Nature of Demand	
		FUNCTIONAL PRODUCTS	INNOVATIVE PRODUCTS
		Predictable	Unpredictable
		Few changes	Many changes
		Low variety	High variety
		Price stable	Price markdowns
		Long lead-time	Short lead time
		Low margin	High margin
Supply chain objectives	EFFICIENT	Match	Mismatch
	RESPONSIVE	Mismatch	Match