





CompUSA: Leveraging Just-in-Time Inventory Management while Increasing Economies of Scale

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CompUSA: Leveraging Just-in-Time Inventory Management while Increasing Economies of Scale

" Doug Brown, CompUSA's senior director of logistics, says that the flow-through approach and transportation improvements have yielded a competitive advantage in shorter transit times. He talked with Chain Store Age about transportation processes and rethinking the CompUSA supply chain." (Gentry)

CompUSA for years has successfully competed in the personal computer retail sector by being able to quickly move low shelf-life technology products to consumer markets nationally and has recently started to enhance its competitive advantage by leveraging economies of scale through a variety of shipping partners. It would be unfair to characterize CompUSA as a just-in-time operation similar to personal computer and software distributors like Ingram-Micro and Tech Data. CompUSA is more accurately a hybrid between a traditional retail computer store and a just-in-time reseller given that they are able to sell shelf space within it s stores to variety of technology vendors. By doing so they minimize the risk of loading up an inventory of technology related products that run the risk of depreciating very fast or becoming obsolete altogether.

"Kohl's Corp. execs may also have lost their Midas touch: Distracted by a big expansion into California, they have misjudged inventories and relaxed once-tight control of existing operations." (Bernier)

One of the keys to CompUSA's longstanding success in this sector is the ability to research industry consumer trends for a variety of products so as to best determine future capacity cushions for a variety of IT related products as well as a series of protection, training, and maintenance plans that they are able to offer through their established brick-and-mortar retail presences. Revenue sharing agreements among vendors are structured in such a way that there is enough incentive for CompUSA to push a product but also enough protection from the risk of acquiring an overflow of discounted low-margin inventory.

The company masterfully has built an online retail component to their business that seamlessly integrates with their dated existing retail DOS based inventory management system. They can ensure availability of products by either shipping them directly to customers or by transferring them among different retail stores. The online component also enables them to track product searches and click-through rates giving them an extra window into consumer shopping behavior. In essence, they have achieved the technological sophistication of an aggressive high cash burn rate startup competitor while maintaining the financial solvency of a seasoned frugal industry leader.

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"What the company really does, McKenna says, is help customers outsource their transportation operations. That way, says McKenna, a 40-year veteran of the trucking and transportation business, "[customers] don't have the cost of the people or the facility. We're moving a cost off their books. Then they stay in their core competencies." (Quinn)

Recently CompUSA has started a process whereby they will get their vendors to outsource to them their shipping responsibilities so that they can act as a shipping aggregator and negotiate lower volume driven shipping terms with national carriers. These increasing returns based on economies of scale would dramatically improve the company's profitability which is severely strained by paper-thin product margins. The proposed plan would slightly transform CompUSA's business model from a primarily retail to a hybrid technology solutions provider a la CDW. In recent years companies like the latter have taken away market share from retail companies like CompUSA as well as corporate technology resellers like Stream formerly know as Corporate Software due to the economies of scale derived through volume driven shipping.

"Our stores have very limited dock areas, so it's important to minimize the number of carriers attempting to bump the dock. All store deliveries have to be made before noon because in the afternoon hours, the docks are used for outbound shipments, either transfers of merchandise to other stores, product returns to vendors or shipments to customers. FedEx handles 75% of the shipments from our cross-docks to our stores, and it consistently delivers to every store within a two-hour window before noon. Knowing when the deliveries will arrive also helps our stores schedule labor. There isn't warehouse space in the stores so the product has to be received and immediately taken to the retail floor. Another advantage is that FedEx can provide next-day delivery from our cross-docks to 93% of our stores, which reduces transit time and creates a competitive advantage for us." (Gentry)

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