

A Stockout in Cupertino: Will Substitution Lead to Salvation?

Prepared by

Dr. Kirthi Kalyanam

Kirthi Kalyanam is the J.C. Penney Research Professor, Director of Internet Retailing, and Director of E-Business at the Leavey School of Business, Santa Clara University. This case was prepared for the purposes of classroom discussion only. It is not meant to imply effective or ineffective handling of a business situation or serve as an endorsement. This case should not be reproduced in any form without written permission from the author. For permission email kkalyanam@scu.edu. © Kirthi Kalyanam.

Robert Honda the manager of a Discmart store (a discount retailer similar to Kmart and Walmart) in Cupertino (CA) was surveying the Sunday morning activity at his store. Shoppers were bustling around with carts, some with children in tow. In the front side of the store a steady stream of shoppers were heading through the checkout counters. Almost all the cash registers that he could see from his vantage point were open and active. The line in front of register # 7 was longer than the other lines but other than that things seemed to be going quite smoothly.

The intercom beeped and interrupted his thoughts. A delivery truck had just arrived at the rear of the store. The driver wanted to know which loading dock to use to unload merchandise. Robert decided to inspect the available space before directing the driver to a specific loading dock. As he passed the cash registers on his way to the rear of the store, Robert noticed that the line at register # 7 had gotten a little bit longer. The light over the register was flashing indicating that the customer service

associate (CSA)¹ had requested assistance. As he passed by the register he could not but help overhearing the exchange between what seemed to be a somewhat irate customer and the CSA. The customer was demanding that another item should be substituted for an item that was on sale, but currently out of stock and the CSA was explaining the store policy to the customer. Normally, during a busy time like this, Robert would have tried to help the CSA resolve the situation, but he knew that the truck driver was waiting to unload merchandise that was needed right away on the floor. Hence he quickly walked to the rear of the store.

After assigning the truck to a docking bay for unloading Robert headed back towards the front of the store. On the way back, he ducked into the break room to get a coke and noticed that Sally Johnson, the CSA who was at register # 7 was on a break. Sally had been on the Discmart team for about a year and was considered a very capable employee who always kept the store's interests at heart.

¹ At Discmart all front line personnel who interacted with customers are called customer service associates.

Robert: Hi Sally, I noticed that you had quite a line in front of your register earlier today.

Sally: Hi Robert. Yes, I had a very irate customer and it took us a while to resolve the issue.

Robert: Oh really! What was he irate about?

Sally: We are out of stock on the 100-oz Tide Liquid Detergent that was advertised in our flyer and was on sale at 20% off. I offered the customer a raincheck, or the same size at the same discount on another brand, but the customer kept insisting that he wanted us to substitute a 200-oz size container of Tide Liquid Detergent at the same discount. Apparently Joe Chang (the assistant manager) had told the customer that we would substitute the 200-oz size.

Robert: Did you point out to the customer that our sale prices are valid only while supplies last?

Sally: I did mention this to the customer, but he thought it was strange that we ran out of stock on the morning of the first day of the sale.

Robert: Well, I guess you should have gone ahead and given him what he wanted.

Sally: As you know our Point of Sale systems allow me to make adjustments only on designated items. Since the 200-oz sizes were not designated as substitutes, I had to request a supervisor to help me.

Robert: I am glad that you got it resolved.

Sally: Well the customer got tired of waiting for the supervisor who was busy helping another customer and decided to take a rain check instead. He seemed quite dissatisfied with the whole episode and mentioned that we should stop running these TV ads claiming that we are always in stock and that we guarantee satisfaction.

Robert: I do hate it when they run these ad campaigns and we have to take the heat on the floor, trying to figure out what those cowboys in marketing promised the customer.

Sally: Well, my break is nearly over. I have to get back.

Robert pondered the encounter that Sally had with the customer. He wondered whether to discuss this issue with Joe

Chang. He remembered talking to Joe about inventory policies a couple of days ago. Joe had indicated that their current inventory levels were fairly high and that any further increases would be hard to justify from a financial perspective. He mentioned some market research that had surveyed a random sample of customers who had redeemed rain checks. The results of the survey indicated that customers by and large were satisfied with Discmart's rain check procedures. Based on this finding Joe had argued that current inventory levels supplemented with a rain check policy would keep customers satisfied.