MKT 310 Supply Chain Selection Project

Up until about the last year or so you may not have heard of Vizio, but it has been one of the fastest growing manufacturers of flat panel TVs in a field crowded with giants such as Sony, Samsung and Panasonic. Headquartered in California, the company has grown rapidly to over $2 billion in annual sales from selling just one thing; a line of flat panel LCD televisions while unlike most of its rivals not actually manufacturing any products. During 2003, they released their first TV, the P4, which was a 46” Plasma EDTV. Since 2005, sales have went up five-fold.

How it got there, and the supply chain strategy it’s using, is interesting. Founder and

CEO William Wang is a native of Taiwan who worked in the computer monitor industry. He has used direct financial links with suppliers of often hard to source components to, at least for now, give the company some competitive advantage.

According to a story in the Wall Street Journal, as Vizio first penetrated the US retail market through a deal with Costco, it soon found itself facing both supply and capital constraints. Wang made a deal with Taiwanese contract manufacturer AmTran Technology that infused capital into the firm and, ultimately, gave AmTran 23% of Vizio. “The arrangement gets Vizio preferential treatment. AmTran sometimes swallows shipping costs and pushes component suppliers to ensure Vizio's products are high quality and on time,” the Wall Street Journal reports. “AmTran now gets about 80% of its revenue from Vizio. In turn, Vizio sources as many as 85% of its TVs from AmTran.” Wang says the relationship fosters true collaboration, versus the “big squeeze” most high tech manufacturers place on suppliers.

The relationship, and the company’s total focus only on R&D, with no in-house manufacturing, for now have enabled it to substantially undercut its rivals’ prices at the store. Most of the larger players build many key components in-house, including the all-important LCD and plasma display panels. In a market known for product shortages, for now the strategy seems to be working for Vizio. The strategy is obviously high risk, especially for AmTran. If Vizio falters in the market, it will take a severe hit to its bottom line. But interestingly, AmTran also does final assembly for others in the industry and believes its overall buying power across customers will enable it to keep receiving adequate supplies for LCD panels.

# Legal constraints

Some absolute confinement is involved between the company of AmTran and Vizio because they have a legal agreement to order their parts from AmTran. It could create a problem if they wanted out of this agreement. A location clause between other retailers in the given region might also have some effect in the distribution of the product. It is important to take into account the time burden that would be happening simply to not break any laws. The rule of reason in the legality of business operations is to take a broad inquiry into the nature and effect of the policy before any significant decision is made. Therefore much time is taken to consider making decisions before any rash decisions are made.

# Buyer Behavior

Given the dynamics in consumer behavior Vizio's target market segment for its initial launch was limited to an older age group around 35+, who are affluent, college educated with significant disposable income. LCD TV's sold by Vizio weren't particularly known for superior image quality or build quality, but rather for affordability and value for the money. Since then

Vizio has broadened its target market by establishing a good name for itself. Vizio is commonly known as the TV where you get the most bang for your buck. In this scenario the target market is much lower ranging from 22-30 year olds, possibly straight out of college

 Vizio’s products for consumer behavior would be classified as shopping products. This is because consumers purchase and consume TV’s on a less frequent schedule compared to a convenience product like gum. Consumers are willing to spend more time locating these products since they are relatively more expensive than convenience products and because a TV may possess additional psychological benefits for the purchaser, such as raising their perceived status level within their social group. Given that consumers are purchasing a TV less frequently especially one that is as big as a 55” TV and are willing to shop to locate these products, the target market is much smaller than that of convenience goods. This product is not overly special however, to be considered a specialty product. A 55” TV while not sought after by everyone is demanded enough to be considered a shopping product. The product is readily available enough to be considered a shopping product.

# Market Coverage

Vizio will look to use selective coverage since they are deliberately seeking to limit the locations in which TV’s are sold. The logic of this strategy is tied to the size and nature of the product’s target market. Since this product has more selective coverage appeal to smaller, more focused target markets it makes since to limit the places where the TV’s can be found, compared to the size of target markets for mass marketed products. Thus, because the market size is smaller, the number of locations needed to support the distribution of the product is fewer. In choosing this method there will be minimal channel conflict, since each channel is selling in its own, there is a very little chance of them bumping into each other. There will also be an ease of channel performance management. It is easy to monitor the performance and sales activities of individual sales channels when each of them is assigned to a discrete market. This is the ideal method for this product because consumers are more likely to shop around before making a purchasing decision.

# Channel structure

Since the product is relatively straightforward and the features are fairly well understood, indirect marketing is the logical choice. For clarity, the indirect model can support complex products but it requires very experienced resellers along with a well-staffed infrastructure, in Vizio’s organization, to augment the indirect sales force, which it has. The product is compelling and gets the attention of the indirect sales force, and Vizio’s cost structure is set up so that it allows itself adequate “margin sharing.” This is much cheaper and easier for Vizio then to sell to a warehouse, rather than set up their own retail outlets to sell their product. Vizio uses retail stores to get its products to its consumers quickly and effectively. These retailers will be appointed by the Vizio to cover the area of Isabella and Midland counties.

The ideal distributor will be a well-known and trusted name, with many small customers and where the level of sales service required is high. The spread of customers is difficult and expensive to reach with a directly employed sales force who are more suited to dealing with a limited number of large buyers. Distributors generally aim to win business on sales rather than technical service so getting the right product placement will be key. Their stock of products means customers can have instant delivery. If for some reason the product is out of stock the customer should be able to in-store order it for pick-up.

Vizio also uses some level of Direct marketing through the use of there website. Direct distribution has become more common as e-commerce has taken off. Consumers can buy products directly from Vizio through their website. This allows for Vizio to make more margin on their product since the prices on their website are pretty consistent with that of other retailers selling their product.

For this Category I choose the distributor of Target. While many Target stores share a fairly common big-box store layout, the company has been flexible with its designs. Target operates unique stores across the country in urban locations or within malls. Target Corporation competes directly against other discount retailers, mainly Walmart and Kmart. Since its founding, it has intended to differentiate its stores from its competitors by offering what it believes is more upscale, trend-forward merchandise at lower costs, rather than the traditional concept of focusing on low-priced goods. As a result, Target stores tend to attract younger and more educated and affluent customers than Walmart, among other competitors. Which helps to attract to target market of 22-30 year olds. The median Target shopper is 41 years old, the youngest of all major discount retailers that Target competes directly against. The median household income of Target's customer base is roughly $63,000 US$. Roughly 76% of Target customers are female, and more than 45% have children at home. About 80% have attended college and 48% have completed college. 97% of American consumers recognize the Target Bullseye logo. Target stores are designed to be more attractive than large box-department stores by having wider aisles, drop ceilings, a more attractive presentation of merchandise and generally cleaner fixtures and store personnel. This retailer can be the perfect size for the desired location and works well with the intended market.

# Ownership

The type of ownership that Vizio operates is corporate. Since Vizio is a privately owned company it has the power to withhold financial information that public companies have to share.

As an owner of a privately held company, Vizio has complete authority over operational decisions and they don’t have to worry about shareholder expectations and interference. In addition, privately held companies are not vulnerable to hostile takeovers. Owners of privately held companies cannot have their company sold out from underneath them. Since Vizio is administered they can negotiate directly with retailers such as target to get the best deal and figure out profit sharing with the company. They do not however, have as much power as a bigger company such as Nike who can push around the retailers. Vizio is not as highly sought after and if they try to play to much hardball they may be losing out on a lot of revenue. Vizio is a private for profit corporation that has minimal say when it comes to product placement in the market place, however is big enough to be one of the biggest TV suppliers in the United States.

# Supply Chain Constraints

When thinking about a product there is always going to be some constraints in getting the end product to the consumer. When talking about the price of shipping something as large as a 55” tv it can be rather difficult to keep the price down based off size and weight. Cost of raw materials from over seas and prices from the manufacturer both things that have to be considered carefully when trying to pick the right transportation company since Vizio does not own its own freight they have to look to outsource it elsewhere. Freight companies are companies that specialize in the moving of freight, or cargo, from one place to another. These companies are divided into several variant sections. In addition to freight some of the more raw materials for Vizio’s supply chain come from over seas. TV’s in general are also fragile; this means that when transporting the item extra caution needs to be taken to insure that the TV does not break before it gets to the end consumer. To help with this the company spends more money on initial packaging to hopefully save on potential return costs in the end. In addition to all these things it is important to note that TV’s and technology in general is an ever-changing industry and what is the hot thing today may be obsolete in a month. Therefore the time it takes the product to be put in production to the time it is readily available for the customer needs to be fast.

# Logistics Process

When getting the end product to the people of Midland and Isabella counties, Vizio’s logistics process set in place will be used to distribute to this area as well. The logistics management takes into consideration every facility that has an impact on cost. It plays an important role in making the product conform to customer requirements. Also it involves efficient integration of suppliers, manufacturers, warehouses and stores and encompasses the firms’ activities at many levels, from the strategic level through the tactical to the operational level. To do this Vizio most be cost conscientious and although they are known as an American company most of it manufacturing is out sourced to Taiwan. The process of shipping the goods to the U.S is done by sea and then driven by freight to one of their warehouses. From the warehouses the company is able to keep a sizeable inventory and then transport those products, also by freight to its retailers in this case Target. In addition, they keep some TV’s in stock for direct shipment to consumers. Vizio's strategy to enter the retail channel with Target to launch its range of LCD-TV's was the right choice given the enormous power that USA retailers enjoy. The low-price strategy and lack of brand name were factors that played in favor of Target. At Target, Vizio relied extensively on prospective buyers to pick its LCD-TV's without any assistance from retail floor personnel in influencing and steering the customers during the sales process. The strategy made sense given Vizio low brand awareness. At traditional retailers Vizio would stand no chance competing against big brand names with marketing muscle and promotions aimed at influencing consumer-buying process.

1. The plant distribution will be located in Columbus Ohio. There is already a distribution located in this city therefore it is an easy choice. Vizio’s distribution center is a principal part, the order-processing element, of the entire order fulfillment process. These centers are thought of as being demand driven. There is not too much stock kept in store eating up costs because the warehouse could receive an order where the product is needed elsewhere.
2. Vizio would use a postponement time delivery form to try and save the company from potential stock outs. Product value and time are the most important variables that influence the postponement strategy. Regarding to supply chain strategy there are three major determinants affect it, such as product, market demand and manufacturing and logistics. This Postponement strategy followed the customization part of the "Just-in-Time” production methods. It will be deferred to when to collect more information about the needs and uncertain demand has been reduction in the minimum time to be customized, thus reducing the finished products inventory, forecast earlier, reducing the demand variability and risk diversification. . From the green logistics point of view, though the strategy has a negative effect on the CO2 emissions, it can reduce the transport flows in outbound areas and mitigate the environmental impact of transport. The main drawback of the strategy is the higher cost of custom design and universal parts inventory. However, in this instance where demand is not a constant overall costs should be less
3. Vizio offers a “limited” one year parts and labor warranty as long as the product was purchased new from an authorized Vizio reseller. The repair and replacement of the TV will be at the sole discretion of Vizio. Any shipping cost will be at the customer’s expense. According to their warranty information, they offer in home service for TVs 30 inches and above for problems that can be repaired on site. The determination for performing on-site repair is dependent upon the manufacturing defect and is at Vizio’s sole option and discretion. Repairs may be made with new or recertified (i.e. used) parts. The Vizio TVs are serviced through a third party, unless they must be shipped back to the Vizio service center in Irvine, CA. From our past experience and reports, most manufacturer defects with TVs must be serviced in a service center and cannot be repaired on site. Thus, the customer will be responsible for safe transit of the TV to Vizio’s service center in California ad back. To receive service you will need to call the number and speak to technical support. They will determine how the product should be serviced. Some issues you may need to take pictures of the problem to be emailed to engineers. For sets 30 inches and larger they do offer in home service. However, if the technician deems the problem not to be repairable onsite, you will have to ship the unit to be repaired. This is at the sole discretion of the technician. Vizio does offer a TV extended warranty at varying cost, depending on the size and it can be extended up to five years from the purchase date. However, this may be better purchased through a 3rd party extended warranty company at a deep discount.

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