How to:
Overcome 5 Key Barriers to Inventory Optimization

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The Partnering Group
Introduction

Never before have accurate inventory planning and management of inventory been more critical than in today’s super-competitive, customer-driven market. Yet, despite decades of effort, the twin problems of overstocks and out of stocks haven’t gotten much better. The generally accepted estimate that 8% of all products are out of stocks in the U.S. has held steady since the 1970s. i From the consumers’ perspective that means one out of every thirteen products will not be there when they want them. For items in top demand, the OOS percentage can be many times higher. ii

“Out of stocks and overstocks make up the double-edged sword that cuts into profits, leaving lost sales, spoilage, added costs, slower turns and frustrated customers behind. To stop the bleeding, grocers are going to have to become exponentially smarter and more aggressive in how they analyze demand and supply at the most detailed level of their business, every single day.”

– Kevin Krygier, Market6®

While perfect inventory management is an impossible goal, continuously optimized inventory management is achievable now with the disciplined application of best practices and utilization of advanced data management tools.

Let’s look at five key barriers companies face as they pursue better inventory management and some recommendations on how they can get there sooner
Retailers and Suppliers: Traditionally Misaligned Goals

Here's the core problem: As long as suppliers and grocers have different incentives in terms of how they drive the supply chain and what they get rewarded on, their efforts to improve KPIs around inventory management are going to fall short. Suppliers, after all, get paid on how much product they land in the warehouse, while grocers care about how much they sell to consumers. Of course incentives drive behavior, which means misaligned goals in the grocery supply chain lead to misaligned behavior. In this case that means the grocers and their suppliers are more like a “push me – pull me” than a coordinated team striving to deliver exactly the right product to each store in time to meet customer demand. Take for example the results of a 2012 supply chain survey by The Boston Group and GMA in which retailers cited out of stocks and inventory reductions as their top two reasons for collaborating with suppliers, whereas suppliers cited cost savings and sales lift.

To correct the misalignment of goals and behaviors, retailers and suppliers need to start talking about the mutual benefits of inventory optimization. If both want to see sales increases, cost savings and inventory reductions, then they have to start sharing daily information about sales and stock levels with each other. Greater demand transparency drives suppliers and retailers to invest in each other’s revenue goals. Successful collaborations build trust and generate mutually beneficial inventory strategies. Such strategies enable faster reactions to shifts in customer demand and enable more accurate order planning. In the aisle, where it really counts, it means more customers will find their product when they reach for it. To get the process rolling, retailers need to implement a data management platform that makes secure sharing of sales data with supplier-partners possible.

A Collaborative Supply Chain Plan Is Not Enough!

More retailers now see collaborative planning as a key component for optimizing inventory; yet many still function as if sales will just follow “as planned” once a shared strategy is set in motion. If that approach were anywhere near reality, out of stocks and overstocks would not still be such persistent pain points. Truth is, making a plan is only half the job. Ultimately success or failure depends on how a retailer can monitor daily sales against planned sales – day by day during execution. If that's not “on your screen” every day, then unexpected and emerging inventory issues can’t get communicated to supply partners fast enough to have an impact.

Unfortunately most retailers lack the analytic information systems to competitively monitor planning, execution and sales. In fact they cite data and technology issues as far and away the number one barrier to successful collaboration with suppliers. Having managers and analysts chained to their screens poring over monthly or weekly sales reports simply won’t keep you with the front runners anymore. Inventory optimization requires anytime/anywhere access to daily sales data...data provided in a unified format throughout the enterprise...data that can be securely shared with suppliers. Without this capability, your response to demand becomes delayed, opportunities to prevent OOS and overstock events are lost, and an inability to carry out detailed analysis of results undermines the future efforts of collaborative planning.

Today, purpose-built solutions exist to provide retailers with a single, enterprise-wide view of historical and daily sales activity that facilitates collaborative planning and enables rapid corrective action when unexpected events arise. Inventory optimization requires this highly detailed daily view of sales activity, and with built-in advanced analytics, many potential problems can be identified before they degrade sales and impact customer satisfaction.
Optimizing Inventory Requires In-Store Process Discipline

Accurate inventory measurement is still well below desired levels throughout the industry. The cause is largely the same as it has always been: a lack of in-store process discipline. While no data management system can fully fit this problem, it can certainly bring greater transparency and accountability to the measurement process. The right data management platform shines a brighter light on inventory throughout the supply chain...from shelves to back rooms to DCs to warehouses. Errors, oversights and inattention become more visible on an everyday basis, which means you can react faster and employees become more focused on adhering to process guidelines. Increased stock visibility means greater accountability in processing inventory, and that has an immediate impact.

*With the proper data management platform and analytics in place, critical insights about backroom inventory, deviations from forecasts, potential stock issues, promotional event problems and numerous other warning signs can be automatically generated and made visible throughout the enterprise. When combined with meaningful changes in work process discipline, actionable insights will in fact be acted upon as accountability for execution becomes more transparent.*

Optimization Demands Uniform Measurement Standards

Before retailers can realize the potential gains from collaborative planning with suppliers, they must break down the disparate information silos within their own enterprises. Many retail operations are still held back by the inability of their various departments and business functions to communicate and plan with a uniform set of metrics. Each participant at each level in the enterprise needs to be speaking the same language to coordinate the data-driven strategies required to approach inventory optimization. Once this data integration is established at the retailer level, sharing information with suppliers to more accurately plan stock levels becomes much less complicated. Supplier and retailer are able to communicate inventory conditions and targets using a single set of metrics that successfully connects all participants in the supply chain. A single, unified view of sales facilitates more accurate delivery of daily forecasts, driving the right assortments into the right stores. It enables sales teams to generate joint business plans that revolve around clearly defined, mutually understood measures for inventory targets. The clarity it generates between supplier and retailer can also impact many other functions – such as on-time delivery, cycle times and optimized case packs – to improve turns and reduce distribution costs.

*Establishing these uniform metrics is perhaps the most foundational element in the pursuit of inventory optimization. The clarity it generates between supplier and retailer impacts many inventory functions, such as on-time delivery, cycle times and optimized case packs, improving turns and reducing distribution costs. The analytics and data management technologies to accomplish this are accessible now and designed to simplify, not complicate, the process of superior inventory control.*
Technology Alone Cannot Optimize Your Inventory

“Technology is the great enabling engine of our time. It’s fueled by data and facilitates the visibility of previously impossible insights, but it is people and work-process policies that ultimately convert those insights into action.”

– Andy Buteux, The Partnering Group

Too many companies harbor the illusion that technology alone can automatically eliminate their inventory problems. Unfortunately, there is no “holy grail” (remember RFID?). Implementing data management and analytic systems to improve inventory visibility is definitely part of the solution, but improvement to inventory management can be effected immediately by developing in-store work processes constructed around a uniform view of integrated data and enterprise-wide performance metrics.

Disciplined, consistent adherence to in-store work processes aligned with advanced data management and analytics will bring forth the high-value, actionable insights needed to optimize inventories.

What’s Your Next Step?

Market6® is all about optimizing your retail operations. Our applications are specifically designed to allow retailers and their CPG partners to optimize inventory management, category management, supply chain management and promotions management. Each of our applications comes with built-in predictive analytics such as consumer demand forecasting, out-of-stock predictions and promotional effectiveness, as well as basic reporting, scorecarding, and exception-based reporting and alerts. Updated nightly, these advanced analytics provide forward-looking insights that allow retail operations to fine-tune and optimize end-to-end execution down to the store/item level every day. Our predictive analytics and optimization models are created automatically. We’ve taken the complexity out of the picture and neatly placed the number crunching behind the scenes so you can focus on managing operations and satisfying your customers.
About the authors

Kevin Krygier is Director of Product Solutions at Market6®, where he works collaboratively with grocers and the development organization to drive customer-focused product development plans. With thirty years of experience in retail grocery, with Giant Food of Maryland and Ahold USA, Kevin brings deep real-world knowledge of the complexity of the grocery supply chain and the value that analytics bring to improving inventory and product-availability KPIs.

Andy Buteux, a partner at The Partnering Group, focuses on the best practices of retail availability, supply chain optimization, customer logistics programs and manufacturer/retailer joint value creation. Andy consults regularly with manufacturers and retailers in the areas of strategy development, customization and differentiation, value chain optimization, distribution network design, joint business planning, and in-stock and reliability improvement.

ii http://theshelfedge.com/