Instock Troubleshooting – Improving Your Forecast Accuracy and Inventory Optimization

Inventory management is important to the availability of working capital, maintaining consumer satisfaction, optimizing inventory turnover, and ensuring good margins on sales. However, Aberdeen Research found that 70% of retailers rate themselves average or below average on their inventory management processes.* You have to ask yourself: why, in any economy, would you let yourself miss out on sales opportunities? Instock snafus inconvenience consumers and can push the most loyal consumer to buy "the next best thing" if they can't find what they need. And who knows where that can lead? Perhaps a new brand loyalty that doesn't include your brand. Overstocks stagnating in supplier or retailer distribution centers strain supplier and retailer budgets already feeling the pressures of the recession. And, ultimately, instock troubles mean less cash on hand — critical to overall business health during the recession.

So, as we addressed in the last Insight Series, you first need to achieve transparency — identifying root causes of instock problems. What's next? Building a flexible and responsive supply chain via the coordinated efforts of your retail team. After all, what can you accomplish if you don't integrate retailer sales forecasts, marketing, production planning and supply chain distribution components? If your production teams don't have visibility to accurate demand forecasts that tell them how much to produce, where that product needs to be, and when it needs to be there — it should not be a surprise when service levels don't meet expectations. If a retailer decides to run special promotions, but the sales team doesn't communicate a need for increased production and delivery in advance — your promotion will fall flat due to out of stocks.

Utilize demand information to improve your forecasting and that of your retailer. Look at trends over time — not just demand data from last week — to identify how many units you need, when you need it and where you need it. That means evaluating SKU-level, regional and store-level data to get a real feel for consumer-driven replenishment. You optimize inventory by knowing just how much product you need and where to hold the inventory across your, and your retailer's, network based on regional preferences and store-level data.

Some of the most common root causes of instock problems, are as follows:

Retailer Order-Driven:

• *Out of stocks during promotions*
This instock mistake is one of the most common, is the biggest in terms of lost sales opportunities, is the most visible to the consumer and has the most impact. Think of the customers who go to the retailer in response to a promotion and can't find the item. Very costly mistake.

• *Inaccurate base forecasts*
Is the general forecast too low? It may be that forecasts have not yet adjusted to a recent change in demand. Delayed reactions to increases or decreases in SKU distribution can cause inventory misallocations that take months to correct. Examine retailer forecasts by comparing recent POS trends to future forecasts. Configure variance thresholds that will highlight exceptions and bring focus to items that need it.

• *Seasonal out of stocks or overstocks*
Do retailer forecasts reflect accurate spikes in seasonal profiles? Proactively view seasonal forecasts over time against historical sales, and provide reports to your retailer that clearly demonstrate forecast adjustment opportunities that will prevent seasonal out of stocks.

• *Product allocation*
Are retailers ordering enough units for each store and allocating them to the correct distribution centers? Review inventory on hand and demand trends across regions to better understand regional and store-level consumer-driven behavior that you can then demonstrate to your retailer.

• Too much safety stock. Despite the costs associated with holding inventory and changing SKU-level metrics that

LumiData Corporate Offices
12 S. 6th St. I Suite 710 I Minneapolis, MN 55402
203 SE 22nd St. I Suite 5 I Bentonville, AR 72712

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indicate certain items just aren't moving as fast during the recession, a tendency to have too much safety stock on hand still exists. The result? Higher inventory transfer costs of transporting slow moving, overstocked goods from one location to another. Regional, store-level and SKU-level data can provide clear indicators of where each product is moving and where safety stock is indeed needed.

• *Phantom inventory*
Tracking store level on hand and sales data will help you identify those stores that are consistently underperforming when it comes to getting inventory out of the back and onto the shelf.

Supplier Shipment-Driven:

• *Not translating the retailer forecast accurately into production*
Are you producing enough to support retailer orders? Are you communicating forecast data to your production facility and supply chain management? Retail teams need to pay attention to production time lines to ensure enough product is getting to the right place on time — and then they need to share that data across the team so everyone can act in accord.

• *Poor communication across the team on promotional bumps*
Promotional forecasts are useless if you do not communicate forecasted spikes in demand based on seasonal or promotional bumps to your production facility, supply chain and distribution centers. Timing is everything — give production and distribution the time they need to adjust in advance.

• *Poorly communicating changes in distribution or facing increases*
Again, communication is key. Are you passing on vital demand information concerning new or deleted items to be certain production is ramped up or scaled down as needed? If you note consistent instock shortfalls following a decision to increase facings at a store or across the chain, then it's time to review whether these demand changes are being shared with production and distribution in a timely manner.

• *Poorly coordinated product allocation*
Reviewing demand data grouped by distribution center over time can bring to the fore which distribution centers struggle to deliver. Once you've determined where the problem exists, it's time to determine why it exists. Are enough units being manufactured? Are they being sent to the correct distribution center? Are the correct products being sent? When are they arriving there? Most importantly, are products being shipped to distribution centers based on consumer-driven demand information that indicates regional or store-level differentiators?

Create true retailer partnerships

Granted, when you first start taking your demand intelligence reports to your retailer, you may be greeted with some trepidation. Stick with it — illustrating insights on a weekly basis will eventually get through to them. Beyond improving sales for both you and your retailer, ultimately by improving forecast accuracy and optimizing inventory you can develop a true partnership with your retailer. The end result? Consumers getting what they want, when they want it. That builds brand and retailer loyalty.

** Inventory Optimization: Retail Strategies for Eliminating Stock-Outs and Over-Stocks.*