

Today's retail supply chains are deploying Replenishment Optimisation solutions for future growth

With so few opportunities for growth in the current global economic climate, retailers are seeking ways to reduce capital expenditure, costs and inefficiencies while striving to give consumers what they want. This is putting more pressure on supply chains everywhere. Mark Croxton, UK Managing Director of Retail Software specialist Aldata, believes that replenishment optimisation holds the key.

Many retailers are facing high levels of inventory, more discriminating customers, and in many cases, a limited ability to respond quickly to changes in supply and demand. As a consequence, they are increasingly looking to new processes and technologies to improve performance today, in readiness for growth when the upturn arrives.

This scenario is confirmed in a recent study by Cap Gemini, "Global Supply Chain Planning Study 2009", where the top three Supply Chain challenges cited were:

- Limited ability to respond quickly to changes in supply and demand
- High levels of inventory and adjustments
- Limited ability to perform consensus forecasting

One solution on everyone's lips is Replenishment Optimisation. In fact, within the same Cap Gemini study, the top two biggest improvement opportunities in Supply Chain Planning were forecasting and demand planning (52%) and inventory and replenishment planning and optimisation (38%).

What is replenishment optimisation?

Typically, managers maximise the profitability of their supply chain through the application of processes and tools to ensure optimal operation. This includes the optimal placement of inventory in the supply chain, which in today's climate means minimizing operating costs (including transportation and distribution costs).

The classic approach has been to try to forecast future inventory demand as accurately as possible, by applying statistical trending and "best fit" techniques based on this historic demand and predicted future events. Then, using this forecast demand, managers create a supply chain plan to distribute products to meet this forecast demand at lowest cost (or highest profitability).

A new breed of supply chain optimisation solutions has now emerged, which are capable of forecasting at a much more granular level, at the store level (for example, per article, per customer, per day). They calculate the most desirable inventory level per article for each individual store for their customers.

Applying these automatic replenishment solutions enables retailers to strike a balance between demand and supply, to have the least possible amount invested in inventory while still being able to meet changing customer demands.

How do retailers benefit from replenishment optimisation?

By optimising their replenishment systems, many of today's retailers are reducing capital expenditure, cutting costs and inefficiencies, and giving consumers what they want. What's more, by relying on a modular software system, these companies can be sure of rapid returns on their investment. They can integrate their existing warehouse systems easily, and transition to a system that integrates the entire supply chain at any time in the future.

Replenishment provides clear visibility into total network inventory flows, connects stores, warehouses and DC inventory management, and optimises the complete retail supply chain. Trusting to point of sale (EPOS) data, companies can place computer-generated orders directly to warehouses or suppliers automatically, and manage parameters at headquarters or in individual stores.

Through the use of consistent and accurate master data, companies can ensure reliable, shared information that supports planning decisions. They can also use the data to drive third party applications and for merchandising functions such as assortment, pricing, and planning promotions.

As a result, successful retailers know what to order, how much to order, when to order for every location, and how to promote it in store. And since their orders are placed automatically, they avoid unnecessary out-of-stock situations.

By synchronising Distribution Centre (DC) and store level inventory needs managers can balance service level goals across multiple channels of demand. This yields important benefits:

- It helps to identify buying opportunities, and makes it easier to collaborate with external suppliers and internal warehouse operations. Buyers can buy for profit, by identifying deals that accommodate supplier deal changes and recommend purchases that take advantage of them.
- It improves delivery management with intelligent load building. Managers can build supplier delivery loads that factor in future demand forecasts and ensure that an equal time supply of each product is available.
- It accurately forecasts demand and enables rapid response in warehouse replenishment by generating suggested orders that are service level driven by managers, based on forecasts that include seasonal peaks in demand, and designed to exploit investment purchase opportunities.
- It reduces the profit-shrinking effect of slow-moving products by categorising them for special replenishment approaches.
- It enables rapid redistribution of products caused by inventory imbalances.

For retailers seeking maximum efficiency and lower margins, replenishment optimisation delivers one over-riding advantage. It enables them to hold the minimum amount of stock whilst also ensuring products are always available when the customer is ready to buy them. By establishing inventory control based on real demand, retailers can drive significant savings in the form of reduced out-of-stocks and optimal inventory levels.

Results are impressive. In a paper written for AMR Research, Alexi Sarnevitz reports that *“Retailers that have implemented advanced replenishment technology have seen their out-of-stocks slashed in half and their aggregate inventory levels reduced by 20%.”*

(Sarnevitz, Alexi, “Advanced Retail Replenishment: Automating Demand-Driven Inventory Planning.”)
AMR Research

Three success stories

Right-sizing stock levels

For Groupe Casino, operating more than 9,000 outlets including hypermarkets, supermarkets, restaurants, convenience stores and discount outlets spread across 15 countries, right-sizing its stock levels proved a complex process. The company needed to be able to centrally manage purchasing, store-level product management and warehousing.

By streamlining the flow of merchandise, Casino has automated its warehouse and store replenishment, reduced exceptions and errors, and improved visibility into inventory. On the grocery side of the business, food stocks have been reduced by 20 percent over a 2-year period, significantly improving product quality and freshness and driving significant savings to the bottom line.

Overcoming seasonality issues

For Smart & Final, a \$2 billion US grocery and food service chain, the challenge was even greater. Heavy seasonality makes it tough to predict the sales of individual items. But by automating the replenishment of its more predictable items, in conjunction with computer assisted ordering (CAO), the company has significantly reduced the amount of base turn inventory it carries to satisfy store-level service demands whilst also cutting its warehouse stock by nearly a fifth.

Now, through the continuing use of CAO, the company efficiently performs store-level ordering and replenishment, allowing each store to achieve revenue targets.

Turning response to customer demand into a key differentiator

Another large European retailer had an equally complex challenge on its hands. With close to 40,000 items, delivered by hundreds of suppliers through hundreds of stores, the retailer realized they would need to make significant changes to automate replenishment without sacrificing a customer-centric approach at the store and shelf level.



The retailer implemented a replenishment strategy which resulted in huge savings in logistics costs, linked automated replenishment of the 40,000 items to a space optimization solution, and implemented a cost-effective way to generate timely plans tailored to customer needs.

As a result, this retailer knows that whatever it invests, whatever its strategy, it can always execute on that strategy at the store and shelf level in future.

In conclusion, with so few opportunities for growth in the current global economic climate, companies are set to continue driving out costs to maintain profits. The challenge is on for supply chains to make cuts in their operating costs. Replenishment optimisation solutions deliver significant savings to the bottom line.

In addition, replenishment systems help companies operate “lean and green.” In the Cap Gemini “Global Supply Chain Planning Study 2009”, 34% of managers put “sustainability” near the top of their agenda of business drivers.

Replenishment optimisation delivers a strong business case for sustainable behaviour. From minimizing transportation costs and reducing waste to increasing staff productivity and optimizing warehouse picks, replenishment optimisation systems help companies run their businesses at maximum efficiency.

About Aldata

Aldata dedicates 100% of its business to retail and wholesale business improvement. It provides customers with modern, flexible and integrated software solutions specifically designed to increase productivity, performance and profitability. With over 24,000 successful installations across 52 countries, from convenience store to hypermarket, 480+ live warehouses and customers with 5 to 5,000 outlets, Aldata consistently delivers the goods for retail and wholesale business improvement. More information is at www.aldata-solution.com