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Direct Store Delivery Is A Deal With The Devil

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"When retailers allow a supplier to do direct store deliveries to their stores, they have made a deal with the Devil." So says Randy Fields, the CEO of the Park City Group, and the former Chairman of Mrs. Fields Cookies. As a former retail executive himself, and now a provider of technology solutions for retailers - Repositrak is a Park City Group company - he knows the industry well. And he is not afraid to talk bluntly, and entertainingly, about the supply chain issues plaguing bricks and mortar retail.

In Mr. Fields view, retailers face a Catch 22. "Consumer tastes are evolving quickly. Retailers are attempting to match products to tastes by adding stock keeping units (SKUs). One well-known retailer had 40 SKUs for mustard a few years ago, now they have 200. Retailers are just following consumer demands. There are all sorts of social attributes that can drive consumer buying preferences. Is the product organic? Non-GMO? Can it be certified that no slave labor was used? Were dangerous pesticides used? Were animals treated humanely? "You put all those attributes together and they drive SKU counts nuts."

As SKU counts go up, out of stocks as measured at the shelf level, will go up. When you have more SKUs, and the same amount of retail space in an aisle, plus natural variations in demand, there is less shelf level safety stock to meet natural variations in demand. In Mr. Fields' words, "the shelf holding power of each SKU is declining."

Further, Mr. Fields avers, “retailers think an out of stock is a lost sale. It is NOT. It is a lost customer! Brand loyalty is 500% stronger than retailer loyalty.” If a customer goes into a store and the product they seek is not there, 55% part of the time they will go to a competitive store. Only 11% of the time do they choose a competing brand. “A customer can go to anybody to get the product. But if you drive them out of the store with an out of stock, you may never see them again.”

Amazon is part of the problem for traditional retailers. “24% of the time an Amazon shopper tried to buy the product first at a physical retailer before ordering with Amazon.” As Amazon drives to next or same day deliveries, the threat to traditional retailers will increase.

So, what is the dilemma? The harder retailers chase consumers by adding products, the more out of stocks they will drive, which drivers declining consumer loyalty.

And why would any of this be the fault of direct store delivery (DSD) suppliers? DSD is a distribution strategy where goods travel directly from the supplier to the retail store, instead of moving through the retailer’s warehouses. The theory is that this improves the retailer’s bottom line by reducing the labor associated with replenishment. DSD is becoming ever more prevalent according to Mr. Fields.

But retailers’ and suppliers’ goals are not fully aligned. Because loyalty is much stronger for the product than the retail brand, if an out of stock does occur, the retailer is far more likely to pay a price than the retailer. Further, there are physical constraints for the DSD provider. Only so much product will fit on the truck. The truck is stopping at many stores from competing retailers in a day. If a retailer’s deliveries occur late in the day, they are far more apt to be shorted than their competitors.

“It is not the natural inclination of the supplier to drive high on shelf performance. An incremental unit of sale does not have the same profit as incremental waste. The bias is to underserve rather than overserve.” In short, the DSD provider is optimizing their route plan to improve their profitability, not any single retail customer.

But, retailers themselves must take part of the blame. Retailers have very poor inventory accuracy. Inventory accuracy varies by category of product. Things like how frequently the product turns and how often it is promoted can affect the accuracy. “The worst is in dairy,” Mr. Fields explained. For example, the yogurt section, there are a huge number of SKUs. Inventory accuracy can be off by 40-50 percent. In frozen, it might be as low as 20% wrong.”

But inventory accuracy is of secondary importance to knowing the on-shelf availability of a product. You can have inventory in the back room of the store, but if it is not on the shelf, that can lead to a lost customer. Retailers can “confuse in-stock with on-shelf.” When that happens, a “blame game” between the DSD supplier and the retailer can ensue.

Further, the new store robots being used for real-time, on-shelf product data are helpful, but still have problems. The robots only go down an aisle every few hours. Out of stocks and unsatisfied customers can occur during the interim.

Repositrak uses store level point of sale, perpetual inventory, and shrinkage data to predict when goods are not on the shelf. Reports show lost sales per week based on out of stocks. This data is provided to both the DSD suppliers and the retailers to incent better performance.

I pointed out, that if DSD suppliers and retailers’ incentives remain misaligned, the logical solution was to bring replenishment back in house. Logically, a store should have one or two employees whose job was to make sure product stays on the shelf. These employees could get the out of stock alerts, check to see if the slot was indeed empty, and then replenish. “Eventually, that is where things will go,” Mr. Fields said. “But replenishing from a retailer’s warehouse can be “worse than the DSD side. Sadly, warehouses optimize to make themselves look better, not to improve shelf-level performance. KPIs are at the warehouse level.”

Retailers are facing some tough choices. But Mr. Fields believes that better data can be used to help improve performance.

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