RetailWire

Growing demand for local products leads to out-of-stocks

DISCUSSION

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CATEGORY MANAGEMENT LOCAL SOURCING LOCALIZATION

PREDICTIVE ANALYTICS SHELF MANAGEMENT TRADE PARTNERS

May 22, 2019

by Guest contributor

Randy Fields, Chairman and CEO, Park City Group

Through a special arrangement, presented here for discussion is a summary of a current article from the bi-monthly e-zine, *CPGmatters*.

Inventories have ballooned nearly three-fold over the last two decades as localization has been embraced to protect market share and profitability. Yet, localization just might hasten the death of certain banners unless steps are taken to control the additional expense and lost sales that will almost certainly result from expanding SKU counts, increasing direct store deliveries (DSD) and a higher number of out-of-stock items in stores.

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"The question isn't out-of-stocks, it's sourcing and inventory control."

Paco Underhill
CEO of Envirosell Inc., Speaker, NY Times Best-Selling Author

"Though the supply chain is long and complex, the shopper really only cares about one thing: on-shelf availability."

Susan Viamari
Vice President, Thought Leadership, IRI

"Trying to shoehorn in more breadth with less depth and then saying the solution lies in the supply chain is a dangerous bet."

With shelf space largely unchanged, the number of units on hand for each SKU — which represents the safety stock for that SKU — will need to be reduced, inevitably increasing out-of-stocks.

With local suppliers typically using DSD rather than warehouse delivery for these new SKUs, retailers face forecasting challenges, inventory complexity and additional expenses for check-ins at the store.

However, a few steps can enable retailers to continue localizing store inventories and avoid out-of-stocks, lost sales and operating expenses that can flow from SKU proliferation. These include:

- **Improving visibility for the DSD Supplier:** When DSD suppliers gain visibility of sales and inventory trends at the SKU/store level, they can modify orders and deliveries to reduce out-of-stocks. This can be done dynamically each day, even at the route level.
- **Automating ordering:** Many suppliers aren't equipped to forecast accurately, even if they have access to the critical data they need. Thus, the next step is to automate their ordering processes with tools designed to optimize forecast accuracy.
- **Converting suppliers to scan-based trading:** Scan-based Trading (SBT), a process whereby suppliers maintain ownership of inventory until items are scanned at the retailer's point of sale, is more attractive than ever. When suppliers convert to SBT, retailers get immediate balance sheet relief from their inventory carrying costs. Just as importantly, suppliers now have all the incentive they need to manage inventories for maximum return and sales performance.

The key for trading partners is to coordinate their supply and demand chains more than ever before.

- Growing Demand for Local Products Impacts Inventory for Suppliers – *CPGmatters*

DISCUSSION QUESTIONS: What suggestions would you have for avoiding the negatives of SKU proliferation that tend to occur with increased localization? Do you have specific tips for managing inventories and expenses when sourcing from local and smaller suppliers?

Please practice The RetailWire Golden Rule when submitting your comments.

8 Comments on "Growing demand for local products leads to out-of-stocks"

Jeff Sward
Founding Partner,
Merchandising Metrics

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Bob Amster
Principal, Retail Technology Group

4 hours 42 minutes ago

Does anyone remember CPFR? Computer forecasting and replenishment software can manage the increased number of SKUs without a problem so volume is not the issue. The issue is the ability of the local suppliers to process shared sales data so that they can plan their production and replenishment. Additionally there is this resource called the store manager who sees the activity and talks to the local supplier. That input is invaluable.

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Ron Margulis
Managing Director, RAM Communications

4 hours 10 minutes ago

Just to confirm, the acronym CPFR stands for Collaborative Planning, Forecasting and Replenishment. I wrote a book about it with one of my mentors, Joe Andraski, about 25 years ago. The base lessons from CPFR are still being used today but are called things like Unified Commerce and Supply Chain Optimization.

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Bob Amster
Principal, Retail Technology Group

3 hours 59 minutes ago

Yep. That's the acronym! It can be used with the local suppliers electronically or by homing pigeon.

BrainTrust

Jeff Sward
Founding Partner, Merchandising Metrics

4 hours 42 minutes ago

Space is finite. Capacity is finite. Given those parameters, deciding on breadth and depth of the assortments shouldn't be that difficult. But a quick tour of the mall will demonstrate that even before "localization" comes into the equation, different retailers have different skill levels in how they populate space. Some are meticulous (AEO). And a much longer list subscribe to a "more is more" mantra. And the (lack of) story telling in those stores reflect that undisciplined approach. My definition of "localization" would be "instead of" rather than "in addition to." This particular localized customer choice is going to be offered instead of a more nationalized style. This localized customer choice will appeal to more customers more often in this region than the national style. It's a better use of space in this location. Trying to

shoehorn in more breadth with less depth and then saying the solution lies in the supply chain is a dangerous bet.

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Susan Viamari
Vice President, Thought Leadership,
IRI

4 hours 32 minutes ago

Though the supply chain is long and complex, the shopper really only cares about one thing: on-shelf availability. Is the product there when the shopper wants to buy it? There are a lot of moving parts all along the supply chain. The only way to ensure optimal on-shelf availability is for retailers and suppliers to work together — from start to finish. By sharing one view of the supply chain, winning retailers and suppliers are developing shared goals, shared strategies, shared measures of success (and failure). Technology has evolved to simplify the collaboration process, allowing collaborating partners the ability to better forecast demand and adjust on-the-fly when circumstances change to minimize out-of-stock and overstock situations. The cost of these collaboration programs is far outweighed by the benefits. The shopper doesn't care about collaboration — as long as the product is on the shelf. But it is collaboration that will truly win the day.

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Paco Underhill
CEO of Envirosell Inc., Speaker, NY
Times Best-Selling Author

4 hours 16 minutes ago

Both the food and the adult beverage markets are facing a local vs. global problem. The below-the-radar growth of farmers markets (where the range of local products is expanding – beer/wine/cider/whiskey and meats, not just fruit and vegetables) is teaching consumers they have choices. Climate change experts are also predicting that California will in 10 years not be able to produce the greens to feed the nation as the state has for decades. Where are we going to get our greens in the winter? The question isn't out-of-stocks, it's sourcing and inventory control.

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Andrew Blatherwick
Chairman Emeritus, Relex Solutions

3 hours 35 minutes ago

There is absolutely no reason for localization to drive higher out-of-stocks at the store level. The ability to forecast accurately all items at store/SKU level enable

retailers to control their inventory, make intelligent replenishment decisions taking into account the cost and timescale of the supply chain whether direct store delivery or through central warehousing.

Any retailer wanting to increase their localization should also look at store-specific planograms that take into account the supply chain to ensure sufficient space is allocated to the items dependent on sales and other constraints.

Localization is a very successful strategy for retailers to counter online competition and become more successful and relevant to their local markets, but you do not need to compromise efficiency to make this to happen. Many retailers in the U.K. and Europe are managing this very efficiently and without any detriment to their availability, stock holding or profitability.

Guest

Scott Norris
Channel Development Manager

2 hours 34 minutes ago

Scan-based-trading aka “Consignment Inventory” only works in very high volume situations where the manufacturer has literally hands-on control in the storefront (such as a Coca-Cola line driver) and truly collaborative marketing planning with the retailer. Our experience as a small-to-midsize manufacturer in the several retail channels is that the retailer’s forecasting and inventory-management function is, if anything, less rigorous than for inventory they own themselves, since it’s “someone else’s problem” that sell-through did not match their own forecast, high or low. We don’t have control or even consultation over pricing, promotion, or placement — yet we still own the inventory.

Strategies like this only encourage SMEs to work harder on developing direct-to-consumer efforts.