

OPTIMISING STOCK FOR OMNI-CHANNEL RETAIL

Five key areas retailers need to address to optimise stock levels, in the age of omni-channel retailing.

Contents

- 1 Introduction 03
- 2 Omni-channel stock challenges 04
- 3 Good omni-channel stock 06
- 4 Omni-channel stock optimisation framework 08
- 5 Examples of omni-channel stock optimisation 09
- About Javelin Group 11



INTRODUCTION

Constantly shifting demand patterns create omni-channel stock management challenges.

The level and quality of stock is a strong indicator of the health of a retailer; it reflects how well the business teams work together, both internally and with the supply base. Balancing stock availability with stock investment has always been the core struggle, but omni-channel retailing has added further layers of complexity now that customers can buy at any time and have purchases delivered anywhere. As a result, the constantly shifting demand patterns make planning, forecasting and stock control much more challenging.

This disconnect of demand and supply is also driving up costs due to the variety of fulfilment options available (e.g. reserve and collect, pay and collect, ship from store) and the related infrastructure and new processes (e.g. warehousing, logistics, delivery, store staff training). Omni-channel retailing means demand you cannot predict and costs you cannot see, and potentially more stock in the wrong locations with higher costs to re-balance. The ability to optimise omni-channel stock is therefore fundamental to any retailer's profitability and, since it involves a broad range of stakeholders, will be a highly visible initiative.

This white paper examines the challenges that omni-channel retailing has created for stock control and explores the five key areas that a retailer needs to address to optimise stock levels.



OMNI-CHANNEL STOCK CHALLENGES 2

Omni-channel retail is a new business model; processes and data structures need to change.

The omni-channel customer journey leads to more channels, formats and fulfilment routes, which means more range, more stock locations and more stock investment.

Retailers need to create a new operating model to manage this, which includes the following strategies:

- Range - What is the core range? What is the extended range? Which items will be shipped direct from suppliers?
- Channel - Which channels will we operate in? Which new formats are needed?
- Sourcing - Will growth come from own brand, concessions, consignment?
- Supply chain - Do we need a hub and spoke set up?
- Applications - What new applications are required e.g. forecasting?
- Business intelligence - What new KPIs are to be defined? Which analytic tools?

This new business model is resulting in many processes being updated, from category management, planning and forecasting, sourcing and supplier management, store format development, space management, to pricing and promotions. As a consequence, the traditional data model and structure, and data management processes, need to be revised to include more flexible hierarchies and attributes.

In many cases the business model, processes and data structure are a mix of the old and new, and any approach to inventory optimisation should adopt a pragmatic perspective in order to deliver benefits quickly.



Omni-channel stock touches many functions

Omni-channel stock is the result of many strategies, policies, analyses and actions by a number of functions across the business. This requires a level of communication and collaboration that has historically proved difficult e.g. marketing creates promotional activities without merchandising being fully informed, supply chain finds capacities are being exceeded because merchandising has not communicated phased intake, finance struggles to reconcile the budget with latest trading re-forecasts. Whereas before these so-called “healthy tensions” were almost encouraged, in the omni-channel era these result in lower margins and unhappy customers. What is needed instead is a “healthy regard” for other functions built into the pragmatic assessment.



GOOD OMNI-CHANNEL STOCK

Ten signs of excellence.

1. Clear buying, pricing and omni-channel stock policies

- Buy little and often, EDLP, markdown as you go, peripheral sizes in hubs stores and online

2. Omni-channel demand aggregation, inventory scenario and cost modelling

- Demand profiles that account for channels, formats, customers, and product types, cost to serve visibility

3. SKU rationalisation, including sourcing shifts

- 360 degree of sku performance and characteristics, incorporation of customer loyalty, move high price/slow selling/substitutable lines to direct ship

4. Right forecasting methods for product demand profiles and store clusters

- Attribute forecasting and accounting for slow/irregular lines vs seasonal lines vs core/NOS lines

5. Marketing, merchandising, supply chain, finance and ecommerce alignment and collaboration

- Integrated planning and forecasting process, cross-functional communication

6. Supply chain “agility” to react to sales trends

- Pre-booking production, making production decisions as late as possible, pre-positioning raw materials close to production

7. One central stock pool with virtual stockholding by channel, hub and spoke stock locations

- Virtual stock ring-fencing, small store range extension without additional stock

8. Precision stock placement, hold back facilities at distribution centre and dynamic replenishment

- Self-adjusting channel/sku forecast, pre-defined business rules for scarce stock

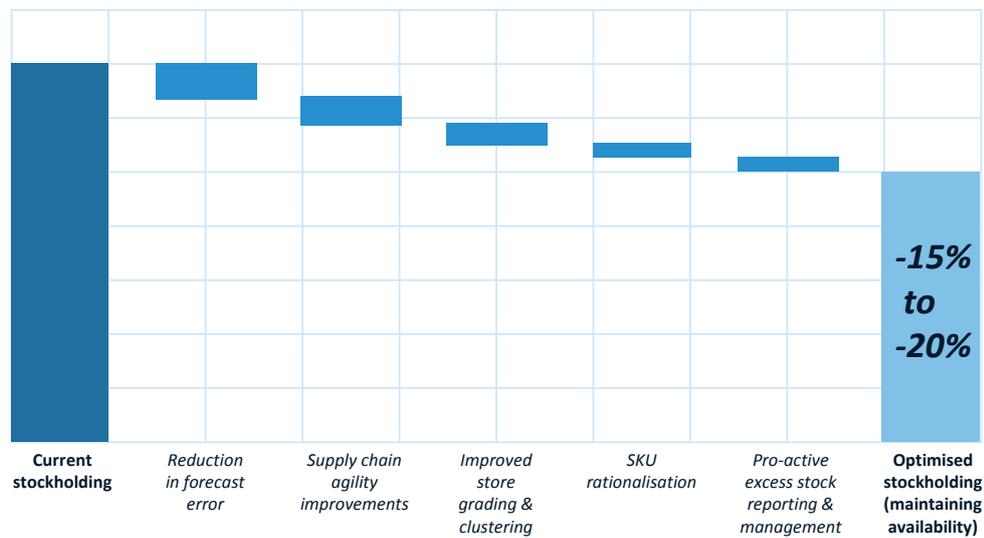
9. Stock quality tracking; “right sizing” and stock re-balancing

- Stock quality metrics and reporting, excess stock identification and ownership

10. Product lifecycle optimisation and decision-support - assortment, price, markdowns

- Real world rules-based inputs combined with big data analysis

Stock optimisation opportunity



OMNI-CHANNEL STOCK OPTIMISATION FRAMEWORK

4

There are five key areas that form a pragmatic assessment framework for delivering omni-channel stock optimisation.

1. Strategy alignment

Stakeholder engagement is necessary to confirm major challenges, current constraints and appetite for change, and ensure alignment on key omni-channel directions impacting stock.

2. Stock performance benchmarking and root cause analysis

Engagement with the operational teams to highlight stock issues, and performance analysis versus industry benchmarks to identify the root causes.

3. Stock modelling/optimisation opportunity

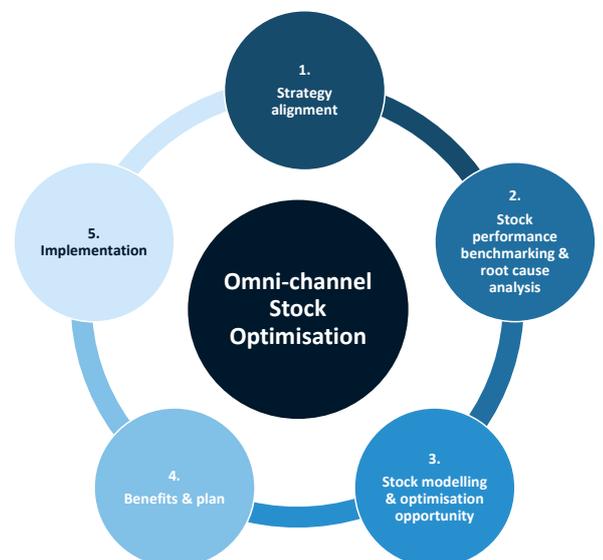
Modelling of the potential business value to be delivered by addressing the omni-channel stock optimisation root causes.

4. Benefits and plan

Development of an omni-channel stock optimisation execution plan based on addressing root causes in priority order, accounting for ease of implementation, dependencies etc. Assessment and agreement on how this will be best delivered, the internal and external resource requirements, and the cost and speed of delivery.

5. Implementation

Delivering benefits quickly through proof-of-concepts and trialling.



EXAMPLES OF OMNI-CHANNEL STOCK OPTIMISATION

5

General merchandise retailer (forecast accuracy)

- A general merchandise retailer identified poor forecast accuracy as a key driver of excess stocks
- A forecasting improvement project showed how grouping products by similar demand patterns (e.g. fast, slow, lumpy, seasonal) meant that appropriate forecast methodologies and stock strategies could be applied at the right level, rather than the previous one-size-fits-all method
- **BENEFITS** Improved forecast accuracy, stock/working capital reduction, markdown reduction, and standardised forecasting processes across teams

Luxury brand (stock reduction)

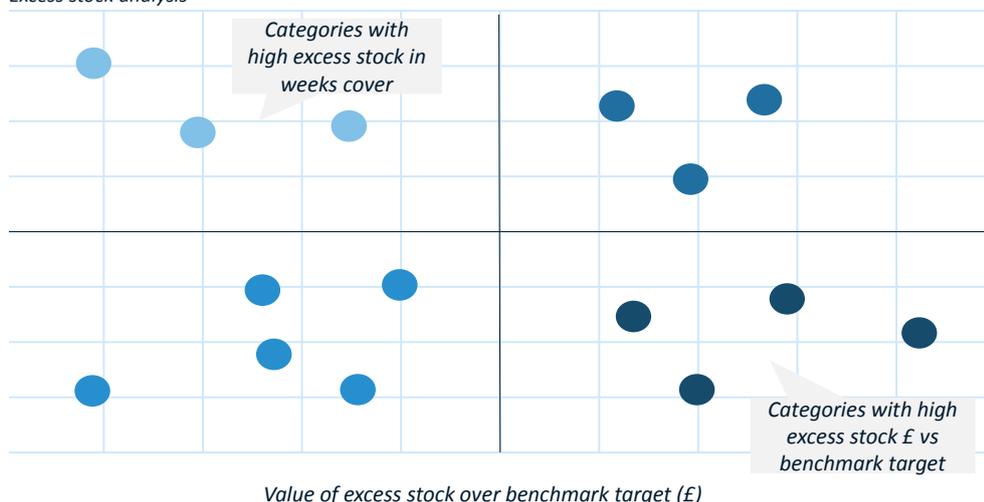
- A luxury brand was carrying inventory days significantly in excess of the five-year plan, with limited ability to reduce stock levels via offline or online promotional activity
- A number of root causes were identified and addressed including product proliferation due to design team changes, lack of consistent carryover definition and policies, a lack of store profiling and localised ranging, and fledgling omni-channel operations
- **BENEFITS** Stock/working capital reduction, and range rationalisation



Specialist sports retailer (stock reduction)

- The management team was concerned that peak stock levels were too high, particularly given recent investment in auto-replenishment of branded lines; many examples of overstocking were uncovered in visits to stores and distribution centres
- Improvements implemented included a change in the store ranging and grading strategy to reduce “always in stock” lines in smaller stores, the introduction of a branch merchandiser role to focus on store profiling and capacity/space management, more rigorous range reviews to edit the “long tail”, clearer ownership of slow sellers and omni-channel clearance activities
- **BENEFITS Stock/working capital reduction, and range rationalisation**

Excess stock analysis



Fashion accessory brand (communication and collaboration)

- Stock levels at a fashion accessories brand supplier were growing at a much higher rate than sales, yet service levels varied across channels
- One of the main root causes was identified as poor communication and collaboration between the channel teams - design, production, retail, wholesale, international, ecommerce - where product knowledge and forecasts were not being shared in advance of order placement, and where ownership of the resulting excess stocks was not clearly defined. This was addressed primarily by re-thinking the seasonal milestone meetings and associated inputs/outputs.
- **BENEFITS Stock/working capital reduction, and improved service levels in all channels**

ABOUT JAVELIN GROUP

Javelin Group, part of Accenture Strategy, provides strategy consulting and digital transformation services to the world's leading retailers and consumer brands.

From offices in London and Paris, our 250 specialists help retail and brand leaders across Europe, North America, the Middle East, China and Australia improve their competitiveness by anticipating and responding to the rapid changes in customer shopping habits and retail technologies. We support clients with their strategies, operations, technologies, locations and analytics, with a particular focus on digital and omni-channel retail.

The Javelin Group Operations practice is a dedicated team of retail specialists with many years of experience in the strategic transformation of retail supply chains and selling operations (across all channels), with deep experience in all of the key functional areas (retail and ecommerce buying, merchandising, supply chain, logistics, retail store operations and contact centre). We have advised more than 80 retailers including all of the 10 largest UK retailers, as well as many brands and B2Bs in all product categories on their strategic retail operational change.

Contact us

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