

Demand Driven Replenishment (DDR)



There's nothing worse for a VP of sales than to create an attractive promotion or new product introduction only to see it fail when stock runs out at the retail level. Research shows that out-of-stocks occur at a rate of approximately 15 to 20% for promotional items and 8 to 10% for regular turn merchandise. For new product introductions, it's common for over 30% of stores not to cut-in the product on its launch date. These missed opportunities cause short-term loss of revenue and long-term erosion of brand equity, loyalty and potentially market share (see Figure 1).

Highlights

- **Identifies actual and predictive out-of-stock and overstock issues at the individual SKU/store location level**
 - **Enables automated out-of-stock and overstock root-cause analysis and provides actionable tasks and transactions prioritized by their impact on profitability**
 - **Helps increase sales by improving store operations and replenishment; order and shipment forecasts; promotion**
- **execution and effectiveness; and new product introductions**
 - **Leverages IBM's consumer products industry experience, supply chain management expertise, and technical solutions and skills**
 - **Delivered with offerings from leading independent software vendors like TrueDemand Software**

Equally disconcerting, out-of-stocks have not improved significantly over the years even though significant investments have been made in people, process and technology by both consumer packaged goods (CPG) companies and their retail trading partners. Why do out-of-stocks continue to plague the industry? Studies and client experience point to poor retail store execution and store inventory errors as the main causes of out-of-stocks at the shelf (see Figure 1). Notwithstanding the millions of dollars and countless man hours invested by CPG companies to

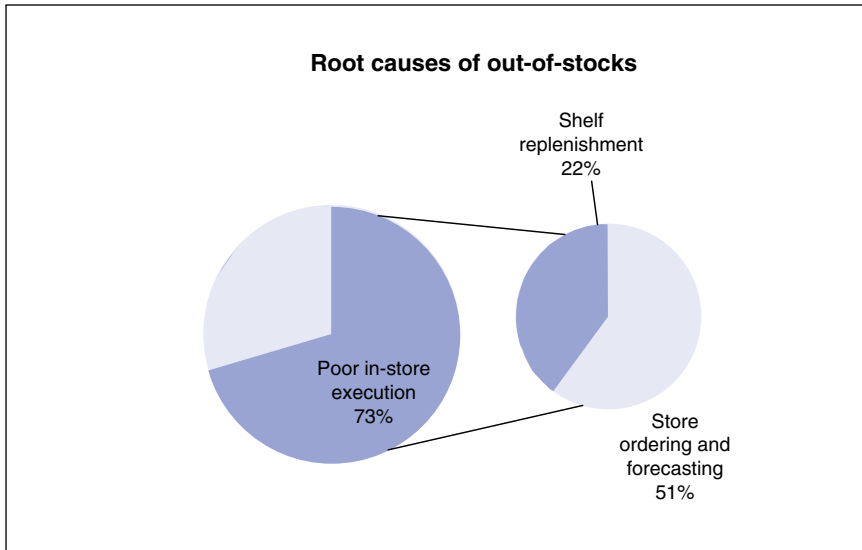


Figure 1. Root causes of out of stocks (Source: "Retail Out-of-Stocks: A Worldwide Examination of Extent, Causes and Consumer Responses"; IBM Analysis)

mitigate out-of-stock and overstock situations in the past, CPG company operations have been hampered by limited visibility into timely store-level data and a lack of holistic applications required to drive insight and action from that data to help improve store execution and store-level forecasting and replenishment.

Until now

More and more downstream data is being made available to CPG companies – whether in the form of demand fulfillment data (like retail point-of-sale [POS] and Radio Frequency Identification [RFID] inventory location and movement data) or demand insight data (like consumer demographic, syndicated and retail loyalty card data). Equally

as important, leading technology vendors are enabling CPG line-of-business executives with the applications necessary to understand and profitably react to this new stream of data. It is now possible for CPG companies to realize the benefits of true "sense-and-respond" operations.

The IBM Demand Driven Replenishment (DDR) offering can enable the deployment of demand-driven, sense-and-respond operations based on store/SKU-level visibility and insights.

IBM Demand Driven Replenishment

For many years, IBM's Continuous Replenishment Service (commonly referred to as CRP) has provided replenishment and vendor-managed inventory capabilities on a pay-as-you-go basis to leading CPG companies in North America and Europe. Over 60 of the largest CPG companies in North America use IBM CRP to gather, manage and execute against downstream retail data to support collaborative daily retail distribution center replenishment processes with over 100 retail trading partners. IBM CRP literally

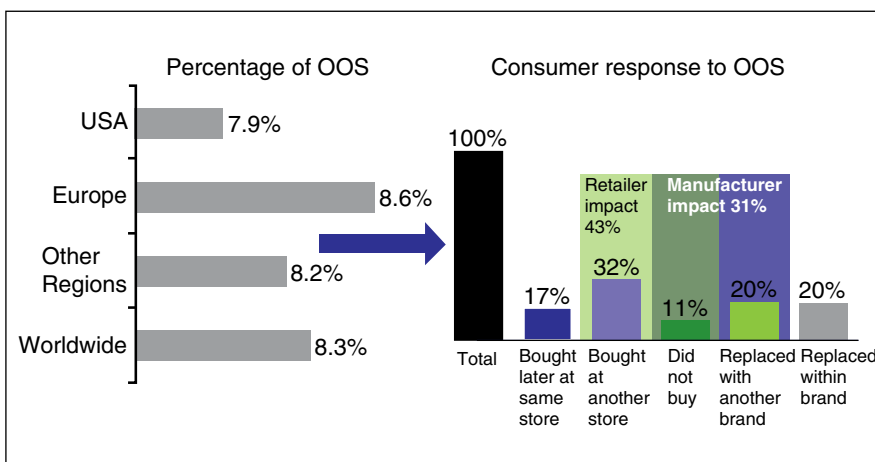


Figure 2. Poor on-shelf availability impacts sales and brand. The average net lost due to out-of-stock items is approximately 2.5%. (Source: "Retail Out-of-Stocks: A Worldwide Examination of Extent, Causes and Consumer Responses"; IBM Analysis)

“keeps the lights on” with respect to daily forecasting and replenishment processes for these CPG companies.

The IBM Demand Driven Replenishment (DDR) offering builds on the solid success of our industry-leading CRP service via the capabilities of proven IBM Independent Software Vendors (ISVs) like TrueDemand Software.



TrueDemand complements the retail distribution center-based focus of CRP by extending the reach of the CPG company from retail distribution center withdrawal-based operations

to retail store shelf-level insight and execution. Via TrueDemand, IBM DDR can enable the use of downstream demand data like POS to help identify and profitably correct supply chain and store execution problems at the store and SKU levels – not only as problems occur but proactively as well, before a problem occurs. (see Table 1). Moreover, IBM DDR includes the option to integrate a daily SKU-level store forecast from TrueDemand into IBM CRP so we can also realize not only improved store-level execution but also improved day-to-day CPG DC to retail DC replenishment.

The IBM DDR offering enables CPG companies to drive sales improvements of 5-10% by deploying demand-driven operations that can:

- *Identify current and predicted out-of-stock and overstock situations at the shelf level*
- *Provide automated, actionable recommendations prioritized by profitability impact to the actor best able to mitigate current and future supply chain execution issues – be they the CPG manufacturer, third-party merchandiser, or retailer*
- *Improve promotion execution and effectiveness*
- *Improve execution and effectiveness of new production introductions and rollovers*
- *Provide customer, supply chain and brand management teams visibility into inventory locations and coverage levels, movement and performance data at the individual store and SKU level, and true shelf in-stock levels in order to offer key strategic customers value-added services that drive brand and category growth*

Table 1: A partial listing of automatic problem identification and problem resolution recommendations enabled by IBM DDR via TrueDemand		
	<i>Example: Automatic Problem Identification</i>	<i>Example: Problem Resolution Recommendations</i>
CPG and Retail Distribution Center	<ul style="list-style-type: none"> - Must arrive-by-date - Fill rate - Overstock - Shorted orders - Forecast errors - Demand spikes 	<ul style="list-style-type: none"> - Forecast changes - Lead time - Service target - Safety stock - Replenishment changes
Retail Store	<ul style="list-style-type: none"> - Insufficient shelf space - Replenishment frequency - Inventory accuracy - Cut-in failure - Receipt delay - Overstock 	<ul style="list-style-type: none"> - Modular/shelf reset - Tailored allocations - Forecast changes - Facing adjustments - Order point changes - Inventory validation - Receipt checks - Display cut-in

Why IBM

IBM is the only company capable of deploying a demand-driven supply chain solution that enables both traditional vendor-managed inventory (VMI) processes (via our hosted



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Table 2: Examples of actionable intelligence powered by the IBM DDR offering via TrueDemand to improve promotion execution and effectiveness	
Pre-Promotion	<ul style="list-style-type: none"> - Optimize display /PDQ sizes based on expected sales lift per SKU/store - Improve compliance through sales and executive activities and timing - Allocate inventory by store based on previous promotion sell-through - Better estimate pre-promotion lift and store allocations - Prioritize stores by potential sales lift for stores that did not achieve promotional goals - "Must Arrive By Date" compliance tracking and recommended orders
In-Promotion	<ul style="list-style-type: none"> - Send cut-in failure alerts to merchandising and relevant store staff, prioritized by store-level planned sales lift to improve in-stock compliance - Optimize inventory allocation based on current SKU/store sell-through rates and days of sales - Improve replenishment/additional shipments of promotional product to maximize lift - Add additional displays for stores that sell-through faster than expected - Optimize price reductions and price compliance management with real-time sell-through and lift analysis against goals
Post-Promotion	<ul style="list-style-type: none"> - A retail store scorecard ranking best and worst performing stores and SKUs by promotion key performance indicators (KPIs) to help refine future promotions - Merchandiser task-compliance tracking based on store cut-in and sell-through rates - Optimize display, price and product store location on a SKU/store level

CRP service) as well as visibility and insight based on real-time shelf-level data (via IBM ISV partners like TrueDemand).

IBM has the consumer products industry experience, supply chain management expertise and technical skills to help implement shelf-based, demand-driven planning and replenishment solutions. We have more than 2,500 consumer product and retail professionals who are veterans of many successful process change and technology

implementation engagements worldwide. IBM has integrated 30 supply chains of its own into one, with savings of US\$20B over three years. We understand the challenges associated with building a consumer-driven supply chain, and we can help your company develop a roadmap that gets you there. We can also provide world-class hosted services to enable suppliers, manufacturers and brokers to deploy continuous replenishment and vendor-managed inventory processes to their retail customers at a very low total cost of ownership.

For more information, contact an IBM representative for an in-depth briefing.