

Demand Driven Replenishment in the Consumer Products Industry

Using downstream data to reduce out-of-stocks and improve supply chain and retail store execution

By Richard Essigs, Director of Business Solutions for Consumer Products Industry

Background/Business Problem

Let's start with a historical viewpoint. Research indicates that shelf level out-of-stock rates have averaged 8% for the past 10 years for regular turn products and in the 15-20% range for promotional items. Even with the advances in supply chain management, the evolution of category management, and the initiatives of Efficient Consumer Response (ECR), the Consumer Products (CP) industry has yet to broadly gain improvements in shelf level out-of-stocks. Despite increased rigor and focus on retail store execution, the situation cannot improve until root cause issues, such as inaccurate demand forecasts and broken distribution center to store replenishment processes, are addressed.

Understanding the Root Causes

There is a broad agreement between CP and Retail industries that the issue of shelf level out-of-stocks is pervasive and has negative implications -- the potential loss in sales, shopper antagonism and decline in marketshare for both the Retailer and the CP manufacturer. Notable barriers that inhibit the ability to improve shelf-level conditions include:

- Limited visibility to timely store-level and SKU-level conditions to drive store forecasting and ordering
- Inability to analyze and synthesize point of sale data, inventory data, syndicated data, and new unstructured data sources to drive manufacturing and replenishment
- Complexity of achieving business process change across a multitude of touch points and stakeholders from source to shelf

A New Approach: Leveraging downstream data to measurably reduce shelf level out-of-stocks

Recent IBM research indicates that CP manufacturers view retailer-specific shopper insights development and consumer insights data management/analytics as two of the top five capabilities required to improve revenue growth and profitability. Fortunately the industry is enjoying an explosion in the availability of shopper, consumer, and customer data — from retail systems' point-of-sale (POS) data to "loyalty card" programs, syndicated data and even unstructured blogs, reviews and virtual worlds. The leading practice and opportunity for the CP industry is therefore the integration of downstream data with traditional order and shipment data to develop actionable, demand-driven insights around true retailer store conditions.

Easier said than done? Recent technology advancements are facilitating the collection, ongoing management and analysis of data:

- The emergence of common definitions and standards governing point of sale or panel data across markets, categories and between individual retailers is improving the use and sharing of data.
- Adoption of Web 2.0 technologies allows for integration and harmonization of data from multiple sources
- Processing power required for data-intensive applications has become more widespread allowing for larger amounts of data and increasingly sophisticated calculations at lower costs
- Pervasive, high-speed and secure connectivity enables real-time exchange of information between trading partners



Successfully Challenging the Status Quo

Data is only one piece of the puzzle. CP manufacturers will need to rethink their business processes, organization and systems to effectively leverage downstream data. Leading organizations will use downstream data collaboratively across its functional units rather than requiring each functional unit to develop policies for, manage the acquisition of and perform the transformation of raw downstream data into usable information.

So while CP and Retail have been collaborating for some time on forecasting, ordering, promotion execution and new product introductions, both trading partners must operate from a common view of actual and predicted out-of-stock conditions. This will allow for fact-based analysis of the root cause issues and prioritization of the actions required to improve availability on the shelf and profitability. To 'sense and respond' requires not only workflow changes, but also organizational and cultural change to ensure a systematic and proactive approach to the problem--at the shelf, in the backroom or in the distribution center.

Visible

Achieve visibility to know the shelf level out-of-stock situation at the sku level and store level.

Addressable

Identify the root cause of shelf level out-of-stocks at the sku level for individual stores within key Retailers.

Actionable

Identify specific actions which addresses out-of-stock situations in a way that achieves sustained improvement.

Fast forward to 2017: will 8% out-of-stocks still be the norm or will the industry embrace downstream data to drive growth and profitability?

To learn more about how leading CP manufacturers are leveraging downstream data to collaborate with retail trading partners and realize sustainable reductions in out-of-stocks, please visit

ibm.com/consumerproducts.



Richard Essigs

Richard Essigs is the Director of Business Solutions for the CP industry at IBM. He currently leads a global team of consultants, product managers and solution architects dedicated to developing and implementing a portfolio of CP specific solutions which leverage the breadth of IBM's products and services. He brings over fifteen years of industry experience from customer business development, channel and customer marketing roles, and consulting engagements with leading CP industry clients. He can be reached at essigs@us.ibm.com.

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Somers, NY 10589
U.S.A.

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