Vendor Managed Inventory Solutions for the Grocery Industry
Overview

Vendor-managed inventory (VMI) is one of the most widely discussed partnering initiatives for improving supply-chain efficiency in the retail grocery industry. The practice was first tested by Wal-Mart and Procter & Gamble in the late 1980s. Since then, grocers have implemented a number of successful VMI initiatives with suppliers such as Frito Lay, Johnson & Johnson, Campbell Soup, pasta manufacturer Barilla, and many others.

In a VMI relationship, grocers transfer the financial responsibility for inventory management to suppliers. The supplier makes inventory-replenishment decisions for the grocer. The supplier monitors the grocer’s inventory levels and makes periodic re-supply decisions regarding order quantities and timing. Suppliers are typically obliged to meet in-stock targets. In exchange for taking on greater risk, suppliers may receive benefits from their retail partners, such as increased frequency of product promotions or exclusivity in a specific product category. However, these benefits are not automatic. Every VMI relationship is unique.

Many companies have resisted VMI initiatives primarily due to the absence of third-party data-verification technology. Accurate and timely visibility into product movement is needed for both parties to feel comfortable with VMI. Companies want to feel confident that they understand how much product is being sold so they can understand if the arrangement makes financial sense for everyone. Additionally, accurate product forecasting is required to insure that the supply chain is properly fueled. Influence factors such as holidays, weather, and special events come into play and must be taken into account during forecasting. Such forecasting can be done most effectively by using sophisticated software to monitor sales in real time and predict future consumer demand.

The reason that VMI is now starting to resurface is due in large part to advances in technology and analytics. Improved data capture, better forecasting capabilities, real-time inventory-management tools, item-level assortment planning, and faster replenishment are making VMI more effective. Suppliers have more accurate views into sales and demand, and can plan more appropriately. By eliminating many question marks, suppliers can move closer to just-in-time inventory management. This reduces the cost associated with sitting on product for an extended period of time.

The results of improved inventory management can be felt throughout the supply chain. Grocers and consumers can see better overall product coverage and product assortments. There are often improvements in the efficiency of distribution-center operations, such as reduced lead times, reduced shelf-life requirements (i.e., fresher product), and lower handling costs. And, suppliers can make better production-planning decisions.

There is good reason to believe that VMI is the wave of the future for the retail grocery world. Enabling technologies are making VMI for perishable products affordable for suppliers. Smart companies are increasing their investments in systems and practices that change the traditional supplier-retailer relationship to deliver fresher, more attractive perishable items to consumers. And as sighted by the above example, with proper execution of VMI come the benefits of deeper penetration into accounts for suppliers, reduced liability and increased profits for retailers, and higher customer satisfaction.

For example, we work with a grower and distributor of highly perishable produce. Shrink management is paramount to maintaining its position as category captain in a number of grocery stores. In analyzing product movement and accurately recorded shrink data, the supplier discovered that 30 percent of its items were doing less than 5 percent of sales, and the top four items were consistently out-of-stock. The supplier also learned that 55 percent of stores had shrink that exceeded 25 percent. Perhaps most surprising, the supplier also learned that the highest-volume store was losing money on the category.
The supplier was able to take steps to adjust ordering and promotion planning to correct these issues. The supplier has cut shrink down to 10 percent. Overall sales have increased 25 percent, and the supplier has increased its net contribution to the grocer’s profitability by 15 percentage points. Everyone wins. Consumers get the products they want. The grocery chain has increased sales and profitability, and has improved its competitive position. The grower has optimized its supply chain and strengthened its business relationship with the grocer.

The Issue

Demand predictability is quite complicated when dealing with perishable inventory. Accurate and timely information on a store-by-store basis is paramount to the supplier’s ability to maintain sufficient inventory without experiencing shrink (i.e., spoilage or waste) that could cripple profitability. However, the upside is that suppliers who are armed with the right information have an opportunity to manage their own inventories with far more accuracy than they are accustomed to receiving from overburdened retailer partners.

The delicate balancing act of managing proper perishable stock positions can only be achieved with highly accurate and action-oriented data analysis. The supplier must have access to product movement and item-level profitability on a weekly, daily, or even an hourly basis. And, the technology must have the ability to deliver these figures on a store-by-store basis so truly relevant data can be analyzed for the most accurate and efficient production and shipment levels.

The Opportunity

- Strengthen the Supplier/Retailer business partnership
- Deliver unparalleled visibility to the actual product movement, costs and profit opportunities
- Increase sales, decrease out-of-stock conditions and reduce shrink for both organizations
- Enhance micro-marketing
- Improve new product introduction tracking hour-by-hour and store-by-store
- Become the most trusted advisor and supplier
- Dramatically improve profitability for both the retailer and the supplier

The Solution – Supply Chain Profit Link

Supply Chain Profit Link enables suppliers to work with their retail partners on growing top-line sales, optimizing profits, minimizing stock outs and reducing shrink. The tool delivers views of Key Performance Indicators (KPI’s) from the corporate level down to stores, and from category to specific item levels. This allows supplier’s to collaborate with their retailers and help manage item profitability. Supply Chain Profit Link provides opportunities to customize assortment plans, promotions, and pricing strategies on a store-by-store basis. And, Supply Chain Profit Link surpasses panel and market data to convert the front-end into a demand forecasting tool. SCPL goes beyond standard warehouse service levels by measuring SKU movement from the shelf, not case movement to the back door.

Historically, suppliers and retailers have met quarterly for category management reviews that were long on PowerPoint slides and short on facts. By using Supply Chain Profit Link suppliers and retailers are able to add sales, out-of-stocks, and shrink facts to their quarterly reviews. The result is an improvement in the business relationship and the mutual profitability of the retailer and the supplier.
Supply Chain Profit Link:

- Delivers tools and services for suppliers and retailers to focus together on improving profitability
- Displays fully loaded costs and profitability including labor, shrink, packaging, allowances, etc.
- Develops a shared responsibility for increasing sales, profit, and in-stock conditions
- Facilitates shrink management and top line sales growth while improving freshness for the consumer
- Provides opportunities for collaborative promotion and pricing strategies
- Refines SKU rationalization and identifies opportunities for market customization and assortment planning
- Enables near real-time visibility of new product introduction movement and profitability
- Is more data-rich and actionable than Wal-Mart’s Retail Link

**Phase I**

**Sales & Shrink Analysis**
- ScoreTracker
- Sales / shrink analysis
- Store clusters
- Category analysis
- Item movement
- Out-of-stocks
- Assortment planning

**Phase II**

**Space Management Optimization**
- Optimize space allocations
- Optimize customer presentations
- Optimize return on inventory assets

**Phase III**

**Forecasting & Ordering**
- Demand Forecasting
- Computer-assisted ordering
- Order consolidation planning

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**Increasing Data Granularity & Frequency Requirements**

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**How Does It Work?**

- SCPL is a collaboration between the Supplier and the Retailer
- By providing an enterprise view of demand activity at the store/item/day level
- By developing forecasts and computer assisted orders for supporting supply chain and replenishment
- By benchmarking your performance to your category competitors
- By increasing profitability by reducing out of stocks and managing shrink
- By supporting collaborative planning activities with your retail customers
- By using our patented profit optimization methodology for cost management, increased sales opportunities and improved business practices
The Value Proposition

For the Supplier
- Gain retailer perspective of your item performance
- Active participation in planning and execution of category objectives
- Enhance visibility from the retailer
- Reduce or eliminate out-of-stocks
- Reduce the risk of retailer loss by increasing value-add information
- Use accurate and real information for planning, manufacturing and distribution

For the Retailer
- Improved sales by matching customer demand to product availability
- Significantly reduce shrink and its associated costs
- Obtain factual understanding of the true profitability of the supplier’s products
- Increased bandwidth – more resources helping to manage your business
- Leverage technology to improve operations and customer satisfaction

For Supplier and Retailer:
- Enables quick and easy access to data
- Provides ability to perform queries to obtain top-line and in-depth sales reports
- Can be implemented for many SKUs and in many retail locations for one fixed subscription cost
- Offers professional services to assist in improving performance for every SKU
- Benefits can be realized in thirty days or less
- Proven results have already been achieved

Visibility and Intelligence: A Match Made in Heaven

Assessing the Usability of Information

Since there have been computer systems in existence for a number of years, it is likely that there are a number of different applications in use in most retail operations today. The advent of new hardware technology has given rise to an accelerated software solution life-cycle simply because the industry has grown at such a rapid pace. The most difficult aspect to rapidly changing technology is that there isn’t a true usability test to determine when a solution needs to be overhauled or swapped out for something new. There a few elements that help determine whether you are at the point of needing to make some changes:

- Data Overloading – You’re collecting a ton of data, you have it in a number of places – the question to ask – what good is it doing you? Do you have programs upon programs that are analyzing the information? Do you have to go to a number of resources to find answers? Are you making decisions about today’s activities using mostly historical data? Nothing is less useful to an organization than being data rich while simultaneously being information poor.

- Market Data versus Store Scan Data – Traditional market share data has no relevance to retailer profit and loss. Store scan data is the key transactional detail that drives financial objectives and operational tactics. You can’t manage a category without managing the items in the category first.

- Not Timely – Is the data you are receiving timely? Does it help you to make decisions today based on yesterday’s results? Are you trying to correct problems that have occurred a few days or weeks ago with today’s activities?

- Not Actionable – You know the track record of sales for your product for the last 4 years – is it at a granularity level that will help you to make decisions about that product today? Have you
completed an in-depth analysis of the impact of business influences such as weather on the sales of your product? What does that mean if you can’t control the weather?

Leveraging Intelligence with Usable Information

One of the most frequent concerns is how to get value from this now highly visible information? It isn’t hard to gather more and more information, what is difficult is figuring out what value that information has for the organization and what you are going to do with it. Often a company believes they do not have the right information or the information that they may have is not useable or is suspect, or that the information is in another system or systems.

Decisions are often the by-product of an interpretation of selected data. This means that a company may unwittingly confirm its assumptions by reviewing or gathering the data that supports the decision. With a solution that gathers data associated with all the critical business elements – those that are a part of the key business indicators that should be reviewed on a timely basis – decision making becomes more relevant.

Timeliness also becomes a critical tool as the decisions are now made using supporting data and are not just decisions made on gut feel or “it’s how it used to be”.

Supply Chain Profit Link Also Delivers a Methodology: The Answer Is More than Technology

The answer to addressing the business needs of intelligent supply chain management lies not only in using technology to gather retail intelligence, it lies in the ability to use that retail intelligence to your best advantage. We focus on practical, executable operating initiatives as a result of our own retail expertise. Our customers can easily quantify the value they receive from the ongoing use of our technology.

The optimal answer to the problem is to link together operational consulting, supplier knowledge, and retailers to improve profitability. It may take the form of increased sales and decreased costs and reduced waste as in the fresh item management solution. It may even take the form of revised assortments, reductions or increases in SKUs. If the supplier/manufacturer finds that there may be a reduction in SKUs being offered, they might also find that it means more sales from their better performing SKUs. It is a matter of trust and belief that by using the information now available on a timely basis, the right decisions will be made and everyone will benefit.

Easy to Implement and Even Easier to Use

Supply Chain Profit Link is easier to implement and use than you might think. The program is completely non-evasive to the retailer and very easy to use for the supplier. Park City Group requires a few easily accessible files, a department organization chart and marketing calendar to start this amazing analytical process. Our services typically include weekly, monthly and quarterly calls or meetings with suppliers and category managers to help identify key opportunities and focus actions. Data is compiled almost immediately and visible results can be achieved in as little as 30-days.
Surprising Insights and Positive Results

Results from companies using Supply Chain Profit Link are very positive and continue to grow. In the first few weeks of deployment, supplier and retail customers are experiencing improvement in shrink, sales and net profits.

Some of the insights are surprising – who would anticipate that the greatest contribution to profit problems would be in a top performing store? Or that so many of the locations would have significant enough shrink to suggest that out-of-stocks were a substantial business impact? And what better way to really identify lost sales opportunities than to see out-of-stocks on popular items?

One retailer’s preliminary results using the Perishable Category Manager Sales & Shrink Analysis Tool are provided below:

- Highest volume store is losing money
- 55% of stores have shrink over 25%
- 10% of stores have very low shrink (out-of-stock conditions)
- 16 out of top volume 25 stores have shrink levels that are lower than what would optimize sales (out-of-stock conditions)
- 15% of stores are achieving proper levels of shrink to maximize sales and profits

Summary

Supply Chain Profit Link can significantly add value to the relationship between suppliers and retailers. In today’s competitive marketplace, where competition comes from every direction, you need to be able to offer your customers more – something that adds value and places you in the preferred vendor position.

Pricing and shelving incentives are good, but everyone does it – you need something unique – something with value - and that solution is intelligence and visibility. Placing yourself in the position of providing advice, supporting documentation, and real-time best practices, will position you head and shoulders above your competition. Supply Chain Profit Link can provide you with that competitive advantage.

Retailers need to take advantage of new technology that provides actionable information to manage their business. Suppliers need to step up and take control of their items and help manage their profitability at retail. What happens at the store level is the most important and underdeveloped element of supply chain management. Understanding the solutions necessary to deliver the right product at the right time are common objectives shared by retailers and suppliers and enable by Supply Chain Profit Link.
About Park City Group

Park City Group is a trusted business solutions and services provider that enable retailers and suppliers to work collaboratively as strategic partners to reduce out-of-stocks, shrink, inventory and labor while improving profits, efficiencies, and customer service. Our innovative solutions provide trading partners a common platform on which they can capture, manage, analyze and share critical data, bringing greater visibility throughout the supply chain, and giving them the power to make better and more informed decisions. For more information, go to www.parkcitygroup.com.