

Optimise your replenishment; increase your profit!

Author: Mikko Kärkkäinen

Managing Director, D.Sc. (Tech.)
mikko.karkkainen@relexsolutions.com

In challenging times, when opportunities to increase your revenue become harder to find, there are still ways to improve your bottom line. By working with us to make fundamental improvements to their supply chain and logistics operations RELEX clients have made substantial savings, in some cases even amounting to several percent of their total turnover.

When executives talk about making their company's supply chain more efficient, they often focus on possibilities like collaboration between companies, the use of new technology such as RFID, or solutions that range from the faddish to the fanciful.

However a company's profitability can almost always be improved by getting the basics absolutely right. That means optimising your demand forecasting, inventory management and setting of order cycles and order quantities by making them more systematic, more accurate, and more automated

The key point is this: improving your own product replenishment system gets results fast – often much faster than wide-ranging development projects involving multiple parties or new technology!

What's this got to do with me?

The more SKUs a company needs to handle, the bigger the payoff from getting the product replenishment process right. Typically, if a company carries a couple of thousand products or more, the benefits become really significant. Moreover, if there are several warehouses or stores to manage, the benefits grow. We've found that almost every company, whether in retail, wholesale or spares supply, sees a return within months from optimising their product replenishment processes. Whether you handle groceries, building materials, toys, books, car parts, garden products or gifts, the same principles apply.

The companies that typically benefit most from getting an automated product replenishment system tailored to their business needs are generally those where:

- A significant amount of capital is tied up in stock. That's capital that could work harder for you if invested elsewhere.
- The service level is unacceptably low (or unmeasured), leading to lost sales, poor customer satisfaction and even lost customers.
- The total cost of product replenishment is significant and needs to be lower.
- Replenishment ordering or buying is done by several people.

What benefits can I get?

For companies that need to manage a large number of SKU's, one of the most effective ways of making product replenishment more accurate and efficient is to use a replenishment system tailored to the business's operations. When thousands, or even millions, of different products need to be managed, manual ordering inevitably consumes a lot of time and resources or the results, and the business, suffer.

An efficient replenishment system offers three broad benefits:

- 1) Reduced process costs.
- 2) Lower stock levels and improved inventory turnover.
- 3) Higher service levels.

An automated replenishment system never stops working. It constantly monitors stock, sales and demand. Human errors, such as forgetting to place an order, are eliminated.

There's more. A good replenishment system factors in forecasted changes in demand and adjusts the replenishment orders. It increases service levels, leads to increased sales and improves customer satisfaction.

Well calibrated replenishment systems classify products individually and assign them different attributes. This allows service level targets to be set higher for the products that customers consider most important and purchase most frequently. Using a system that recognises sales frequency, profit margin, or sales value allows a company to manage its inventory in a way that best ensures long term profitability.

Inventory turnover is improved; the replenishment system is able to manage safety stocks more accurately than any human buyer. If inventory management is done manually, it is impossible to evaluate the safety stock requirements of each SKU accurately. Instead, the items need to be managed as groups, using basic rules of thumb. Consequently, if the overall service level needs to be increased, the inventory buffer is typically enlarged for a wide range of items, many of which will be overstocked as a result. A competent replenishment system, on the other hand, will be able to calculate the safety stock level for each SKU separately and set the safety stock levels so that the service level target is met as efficiently as possible, taking into account the predictability of demand, delivery lead time, and delivery accuracy of each item. The greater degree of accuracy in inventory management offered by a good replenishment system makes it possible to increase service levels and inventory turnover, simultaneously.

That's not all. A good replenishment system will make the replenishment process more cost effective. Automating stock level monitoring and routine replenishment orders saves a huge amount of management time. Those managers can be reassigned more challenging tasks such as assortment planning, supplier negotiations, sales support, exception management and staff development.

Exception management can also be made more effective through system support. A good replenishment system is able to anticipate product shortages, late deliveries, seasonal products where there's a risk of excess stock and other exceptions faster than any human. The system can, in many cases, respond to the exceptions automatically, and in others flag them to managers.

What kind of system do I need?

Every company is different. Supply chains, cost structures, management style – companies are like people, they all have their unique personalities. Replenishment systems need to fit round the company rather than demand that the company fits around the system. They must be capable of being customised to support the specific features of each supply chain – and the systems supplier must understand the customer's business in all its complexity.

However, to ensure quick and meaningful results, an efficient replenishment system must include certain essential features:

- The system must support automatic demand forecasting at the SKU level and be able to take into account periodic or seasonal variations as well as trends and changes in demand automatically.
- The system must be able to calculate efficient safety stock levels at the SKU level, taking into account the predictability of demand, delivery lead times, and delivery accuracy.
- Cost-based optimization of order quantities and order cycles at the supplier or product level saves money.
- Combining automated routine orders with order suggestions for specific important items, as well as automatic exception management, makes the product replenishment process more efficient and reduces the resources needed to operate it.

You've got the idea – now do something about it!

The key points again:

- More efficient product replenishment = more profit.
- Improving product replenishment is one of the fastest ways to make your supply chain more efficient.
- This isn't rocket science: A good replenishment system is able to evaluate your replenishment needs faster, more accurately and more cost-effectively than even a well functioning purchasing team. Computers track numbers better than people – people understand people better than computers. Liberate your managers' time so they can bring out the best in your staff and to make your customers love you.

What next?

We at RELEX have long experience in helping companies to increase the efficiency of their product replenishment. With our solutions, our customers have been able to improve their service levels, increase stock turnover and make the replenishment process more efficient. If you would like to improve your company's profit, e-mail or call us tommi.ylinen@relexsolutions.co.uk / +44 7546 124031. An hour's meeting is enough to go through your company's current situation and to define the first steps!