# Better product replenishment, increased profit!

Rapid, concrete benefits from logistics development – how does that sound to you?

When talking about increasing the efficiency of supply chains, the discussion often tends to focus on topics such as collaboration between companies, utilization of new technologies such as RFID, or other advanced concepts with fancy names.

However, almost always, the profitability of a company can be improved by carrying out the basic tasks of logistics – demand forecasting, inventory management, setting of order cycles and order quantities - more systematically, more accurately, and in a more automated fashion. A key point is that efforts to improve a company's own product replenishment typically yield concrete benefits quickly – often much faster than in far-reaching development projects involving several parties or new technology!

## Does this concern me?

The more SKU's a company needs to handle, the bigger the benefits made available by developing the product replenishment process. Typically, if a company carries a couple of thousand products or more, significant benefits can be attained. In addition, if there are several warehouses or stores to manage, the attainable benefits increase even further. In our experience, nearly all companies in the retail and wholesale sectors can benefit greatly from developing their product replenishment processes. The same goes for companies that manage spare parts.

Companies with the biggest development opportunities in product replenishment are characterised by these features:

- A significant amount of capital, which could be invested more lucratively, is tied up in stock.
- The service level is lower than desired (or unknown), leading to lost sales, poor customer satisfaction, or even a loss of customers.
- The total costs of the product replenishment process are significant and need to be lowered (or unknown).
- Replenishment ordering or buying is done by more than one person.



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## What benefits can I get?



For companies that need to manage a large number of SKU's, one of the most efficient ways of improving the accuracy and efficiency of product replenishment is to acquire a replenishment system. When thousands, or millions even, of different products need to be managed, manual ordering inevitably requires a lot of time and resources or the results are going to be poor.

An efficient replenishment system offers three types of benefits:

1) Reduced process costs.

2) Lower stock levels and improved inventory turnover.

3) Higher service levels.

As the replenishment system monitors the replenishment need automatically, ceaselessly and tirelessly, human errors, such as forgetting to place an order, are eliminated. In addition, a good replenishment system takes into consideration forecasted changes in demand and adjusts the replenishment orders accordingly. This increases the service level, which leads to increased sales and improved customer satisfaction.

Efficient replenishment management also includes that products are classified and different types of products are assigned different roles. This means that the service level target can be set higher for the products that are most important for customers and that the customers purchase most frequently. Classifications based on sales frequency, profit margin, or the value of sales enable a company to optimally manage its inventory investment, i.e. in a way that provides the best long-term profitability.

Inventory turnover is improved as 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 accurately evaluate the safety stock need of each SKU. 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 for a great number of items is typically enlarged. 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 the predictability of demand, delivery lead time, and delivery accuracy of each item into consideration. The more accurate inventory management offered by a good replenishment system, thus, makes it possible to increase both service levels and inventory turnover, simultaneously.

Furthermore, a good replenishment system will increase the cost effectiveness of the replenishment process. By letting the system take care of stock level monitoring and routine replenishment orders, significant savings in the people resources needed for product replenishment can be attained. In addition, time is freed up for more challenging tasks, such as assortment planning, supplier negotiations, sales support, and exception management. The effectiveness of exception management can also be improved through system support. A good replenishment system is able to identify relevant exceptions - such as anticipated product



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shortages, late deliveries, or seasonal products with excessive stock – faster than any human. In addition, the system can, in some cases, respond to the exceptions automatically.

## What kind of system do I need?

Different companies have different supply chains and different cost structures. It is, therefore, essential that the replenishment system can be adapted to support the specific features of each supply chain – and that the systems supplier understands the special features of its customer's business.

However, to ensure quick and significant results, an efficient replenishment system must include some essential functionality:

- The system must support automatic demand forecasting at the SKU level and be able to automatically take into account periodic or seasonal variations as well as trends and changes in demand.
- The system must be able to calculate efficient safety stock levels on 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 will, in many cases, bring significant additional savings.
- The option to combine total automation of routine orders with the use of order suggestions for more valuable items, as well as automatic exception management, makes the product replenishment process more efficient and reduces the resources needed to operate it.

## From idea to action

In sum, this article suggests the following:

- A company's profit can be increased significantly through more efficient product replenishment.
- Improving product replenishment is one of the fastest ways to attain increased supply chain efficiency.
- This is not rocket science: A good replenishment system is able to evaluate the replenishment need faster, more accurately, and in a more cost-efficient way than your average purchasing team.

## 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: **mikko.karkkainen@relex.fi / +358 (0)50 596 2322**. An hour's meeting is enough to go through your company's current situation and to define the first steps!



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