

More profitable pharmacies through automatic stock replenishment!

All over Europe, the once very tightly regulated pharmacy market is opening up to competition. To survive in this increasingly competitive business environment, companies in the pharmacy business need to be able to meet the multi-faceted goals of maintaining excellent shelf availability, providing an attractive offering of products, services, and marketing activities, and, at the same time, keeping an intense focus on profitability. In order to achieve these goals, reliable forecasts and efficient stock replenishment are needed to ensure that the right product is available in the right quantity at the right pharmacy in such a way that the service level is optimized, ordering and handling costs are minimized, and capital tie-up is kept down.

Since even the smallest pharmacies offer an assortment of thousands of items, it is, in practice, impossible to handle stock replenishment manually in an efficient and accurate way. Through automatic forecasting and stock replenishment, the time needed by pharmacy staff to place orders can be radically reduced and, simultaneously, the shelf availability and stock turnover improved in the pharmacies.

Successful automation of pharmacies' stock replenishment is a challenge:

- Stock replenishment at the pharmacies must be carried out smoothly and automatically for very different types of items (prescription medicines, non-prescription medicines and trade goods) with varying values, volumes, margins, and availability goals.
- Stock replenishment logic must be able to handle both promotional demand and seasonal variations in demand.
- Stock replenishment logic must take into consideration official regulations, such as rules for cost compensation for medicines and their impact on sales and demand.

The right stock replenishment solution makes it possible to tackle these challenges and significantly improve profitability! In the following, we will present the RELEX stock replenishment solution and explain why it is the optimal answer to the needs of pharmacies.

Self-corrective stock replenishment

Pharmacies offer a large assortment of prescription medicines, non-prescription medicines and trade goods. The items differ in profitability, sales volumes and demand patterns. In addition, sales may be different at different pharmacies depending on, among other things, demographic factors and the local competitive situation.

In order to attain a combination of high shelf availability, high stock turnover and a high degree of automation, the stock replenishment system must be able to adapt replenishment orders according to the shelf availability target and the demand pattern of each item at each individual pharmacy.

Under the hood of the RELEX stock replenishment solution, there are stock replenishment models for both high-volume items and low-volume items. In addition, the system can factor in shelf presentation needs and control replenishment in such a way that shelves look attractive. The RELEX stock replenishment solution also offers numerous different forecasting models to handle, for example, seasonal variation or trends in demand.

In spite of its advanced functionality, the RELEX stock replenishment solution does not require the user to be an expert on statistical models or stock control theory. Through automatic optimization, the system itself ensures that it updates the forecasting models if demand for an item or a pharmacy changes and keeps safety stock at a level that minimizes the stock level but still ensures the targeted shelf availability.

The complex calculations and optimizations happen in the background, and the system user, apart from a cursory review of order proposals, in general only needs to deal with various types of exceptions, such as late deliveries or suspected errors in the pharmacies' inventory records. This means that the system is easy to use and enables a very high degree of automation, even though it offers the most advanced features in the market.

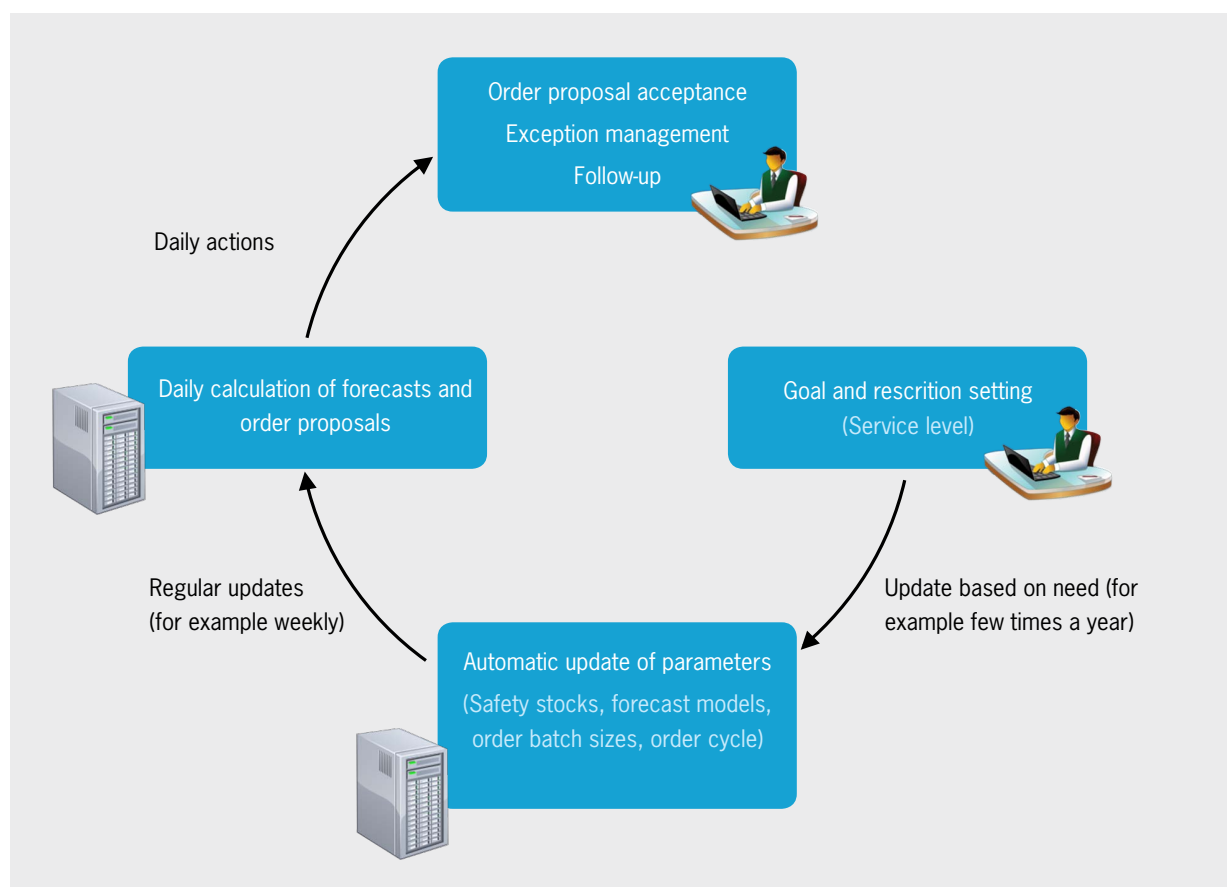


Figure 1. The RELEX stock replenishment solution enables a high degree of automation.

Automatic handling of assortment changes

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Pharmacies generally stock thousands of different items. The total offering of goods in the industry is even greater, and an increasing focus on over-the-counter and trade goods will further expand the pharmacies' offering in the future. This means that actors in the pharmacy business must become better at assortment management. Assortment decisions are pivotal to profitability, as the different items have very different margins. Companies in the pharmacy business must also be able to handle assortment changes quickly and efficiently in order to be able to react to, for examples, changes in regulations regarding cost compensation for certain medicines. For pharmacy replenishment to be efficient, the stock replenishment system must be able to handle new products, product replacements, and promotional and seasonal products automatically.

The RELEX stock replenishment solution handles product replacements automatically. For new and discontinued articles, automatic rules can be defined for how the system should build up stock at the beginning of a product's life cycle, update the forecast based on actual sales until enough historical data has been accumulated to be able to apply statistical forecast models, and finally to clear out stock when products are phased out. The rules only need to be defined once; after that they can be applied to all corresponding situations as they arise. This makes for a higher degree of automation than any other stock replenishment system has been able to deliver!

For promotional and seasonal products, it is often relevant to first allocate a certain initial amount of stock to all the pharmacies in order to achieve an attractive shelf presentation. After that, it is important to handle stock replenishment according to the actual local sales pattern in each pharmacy. At the end of a promotion or a season, you often want to minimize the risk of residual stock (if the articles have already been purchased and there is no demand for them after the season or promotion), and this is best handled by allocating the remaining items to the pharmacies that are most likely to be able to sell them. The RELEX stock replenishment system supports this type of push-pull-push replenishment control. At the beginning of the season or the promotion, the same initial stock can be allocated to all pharmacies, or allocation can be based on, for example, pharmacy categories or the pharmacies' historical sales volumes for the product group in question. At the end of the season or the promotion, the remaining stock is allocated according to the pharmacies' forecasted orders, which take into consideration the forecasted demand for each pharmacy and the pharmacies' current stock levels.

The RELEX stock replenishment solution also supports assortment management by offering all the relevant information on sales, product margins, logistical costs and stock levels needed for assortment decisions on a pharmacy, regional, chain or total company level. Follow-up can be done, for example, at the product, segment or product group level or by combining different product attributes and metrics in order to flexibly create groups of articles (e.g. "skin cream", "for children", "minimum value of weekly chain level sales XX Euros"). In addition, the system automatically identifies exceptions, such as unprofitable products or dead stock (articles that have not sold in XX number of days or that have a very high stock coverage). The RELEX stock replenishment solution also provides excellent support for the follow-up and planning of promotions, by presenting the effects of promotions at, for example, item and product group levels and by enabling the user to review data on similar promotions or promotions for similar items as a basis for planning.

More efficient process, but also more efficient organization

In addition to enabling a very high degree of automation in replenishment ordering and maintaining of replenishment parameters, the RELEX stock replenishment solution also enables a high degree of efficiency in a pharmacy chain's organization.

RELEX stock replenishment makes it possible to control item supply in accordance with overarching goals (such as shelf availability and shelf presentation targets set by type of product and type of pharmacy), which the system then automatically applies on a pharmacy level, taking into consideration local conditions. This means that pharmacy chains can use the system very efficiently to centralize control of pharmacy replenishment.

A small, efficient stock replenishment team can handle the maintenance of replenishment goals and control parameters for an entire chain consisting of tens or hundreds of pharmacies. It is considerably easier to raise the level of competence of a small, centralized team than to train hundreds of employees at the pharmacies. Centralized control also enables better control of and faster changes in the flow of goods.

At the same time, the role of the pharmacies can be reduced to reviewing order proposals (for valuable items), ordering of non-stocked items and maintaining inventory records. This frees up time for customer service and reduces the need for pharmacy staff competence in logistics.

The stock replenishment solution also improves the cooperation between assortment management, marketing, and logistics, by offering the data needed by all these functions in one system.

Rapid implementation

RELEX's basic philosophy is that IT simple, not rocket science. This is reflected in the fact that our stock replenishment solution can be quickly and easily integrated with any ERP System (such as SAP, Microsoft Dynamics AX, or Movex). Typically, system integration can be completed in a couple of weeks. Since implementation is fast, we are also prepared to allow our customers to run live pilots in order to test their processes prior to full-scale implementation.

The RELEX stock replenishment solution is specially developed for stock replenishment in environments involving a great number of items and/or many warehouses or stores. High performance is, therefore, a matter of course and has been taken into consideration in the technical design of the system. Producing forecasts and order proposals for hundreds of thousands of articles on a daily basis is everyday fare for us.

The next step

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Companies in the pharmacy industry can improve their profitability by investing in automatic stock replenishment. Results that can be achieved by investing in a good stock replenishment system include:

- Reduced operational costs
- Higher stock turnover
- Improved shelf availability and reduced residual stock after promotions and seasons
- More efficient handling of assortment changes, such as new products and product replacements
- Better assortment and promotion decisions

In addition to accurate stock replenishment, the RELEX replenishment solution also offers the highest degree of automation in the market and the fastest implementation projects!

We understand that stock replenishment is a critical process for our retail customers and we are, therefore, committed to minimizing our customers' risks. We achieve this by offering the option to run system pilots prior to an investment decision and through our extensive knowledge of the industry!

Contact our expert on the pharmacy sector, Development Director Johanna Småros (johanna.smaros@relex.fi / +358 40 543 1142) and learn more about how RELEX can help your company to achieve improved profitability!