RTG Newsletter

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FROM THE PRINCIPAL'S OFFICE

The promise of a new dawn in inventory accuracy

In the ideal replenishment scenario, a new shipment of an item would be reaching the stores just before the time that the last unit is sold. Well, we all know that we don't live in the ideal world so the only question we can ask is how do we make the real world better.

At what price inventory accuracy?
However, before we answer the first question, each retailer must answer the question of how much it wants to spend on each incremental 1/4 percent of inventory accuracy between 95% and 100%. Experience tells us that it is far easier and less expensive to improve inventory accuracy from 85% to 95% (the "low-hanging fruit") than it is from 95% on up. In certain retail environments, where large quantities of an item are stocked and sold, a high percentage inventory accuracy may be less critical because there is likely to be sufficient quantity in-stock when the next shipment arrives, and the product is most likely less expensive in those environments.

In other environments, where the quantities stocked are smaller and the price points higher, each unit out-of-, or over-stock can represent a larger percentage of the total inventory for that item and can result in significant investment in inventory, or disgruntled customers and missed sales.

Jewelry cases, as an example, are counted once before store opening and once again at store close and reconciled to everything that was sold. Unfortunately, we can only afford to spend that much on labor for high-priced items like fine jewelry.

How do inventories become distorted?
There are at least nine reasons why inventories become distorted, and all of them should be addressed in order to bring that 95% accuracy to 98.5% or more.

1. Merchandise labeling – If the merchandise is identified incorrectly the transactions involving that merchandise will also be inaccurate.
2. Scanning procedure at the POS – We have all seen how a store associate will ring similarly appearing (albeit different) items, scanning one, and counting the rest as if they were all the same item.
3. Merchandise packing – Suppliers and distribution centers do make honest mistakes in packing merchandise, resulting in discrepant counts.
4. Merchandise receiving – Store receiving procedures can be such that the inaccuracies are introduced at the time of receipt of merchandise in to the store.
5. Merchandise transfers – If merchandise is not properly relieved from inventory as it is being transferred to another store, distribution center or supplier, further inaccuracies result.
6. Customer returns – Often, when customers return merchandise, the product identifier is no longer there or readable. Store associates do what they can to correctly identify the item but fail in many instances.
7. Damages – If damaged merchandise is not properly removed from inventory, inaccuracies are introduced.
8. Theft – Whether by customers or company employees, theft will introduce "inventory disappearance."
9. Inaccurate inventories/cycle counts – The very tools that retailers use to reset inventories to an accurate level may be fraught with inaccuracies due to oversight, misplaced inventory and the method employed to arrive a the counts (such as

counting and keying instead of scanning every unit).

How do we fix it?
Systems and technology can help to improve most of these situations. In some cases, only better procedures can.

There are certain processes, such as the associate at the check out who doesn't scan each unit individually, or the inventory taker who misses an entire case of a product in the overhead storage section, which have to be well designed and inculcated into the heads of every associate.

Scanning of barcodes both on the selling unit of merchandise and on case packs can increase the accuracy of most of the processes involved in the list above.

The promise of RFID, however, is that it will improve upon the ability of laser scanning to maintain accurate inventories. RFID, once embraced by the high-volume retailers and embraced by manufacturers will proliferate the warehouses, stock rooms shelves and racks of most retailers. Then, it will be much easier to know the location of product along the supply chain and its impact on replenishment. It will be expected that retailers can take a physical inventory that is 99.44% accurate. It will be almost impossible for the cashier associate to miss identifying each unit sold accurately. It may even increase the rate at which returned merchandise SKUs can be identified.

But again, applying technology to the extreme, in some retail formats, can be more expensive than the value of the inventory being tracked. With a high volume of product using RFID, the same thing will happen to this technology that happened to every other technology we've seen since the beginning of the aerospace industry: everything gets better, smaller and cheaper. Then, we will be able to answer the question "At what price control?" with "Not very much, thank you."

Our Apologies
In our last article, we neglected to include Datamark Technologies as on of the providers of Gift Card technology and services. Datamark Technologies is located in Princeton, NJ and boasts J. Crew, Aeropostale, Brooks Brothers and Electronics Boutiques among its customers. Datamark recently signed Frank's Nursery and Burlington Coat Factory.

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WHAT'S NEW

BBAMM

RTG was engaged by start up retailer BBAMM Inc., Princeton, NJ (D.B.A. Blue Tulip). The company had not selected a trade name at press time. The business model will consist of selling items for "personal occasions" such as custom-designed invitations, greeting cards, stationery, gift wrapping paper, and high-quality paper party goods in an upscale environment.

We have been assisting the company in the selection of an outsourced solution for merchandise management and a solution for store systems. BBAMM selected KWI of Port Washington, NY to provide both. RTG will continue to support this new client throughout the implementation phase.

J. Jill Group

This multi-channel retailer has engaged RTG to conduct a review and assessment of the current systems in place to support a growing brick-and-mortar retail presence. J. Jill, which is best known for its apparel and accessories catalog and its retail Web site, now boasts 63 retail stores with 30-35 more to open this year.

RS&S

The second annual Merchandise Planning Seminar Program was held on April 9th as part of the Second Annual Global Retail Technology Forum in Paris. Over 25 retailers attended and heard Frank Zarrello, Director of Planning and Allocation at Big M Inc; Jon Paton, Head of Supply Planning for World Duty Free Europe, David Beattie, Internal Consultant for World Duty Free EuropeSeminar and Terry Donofrio, President of RS&S discussed Space and Assortment Planning, Forecasting and In-Season Planning as well as Advanced Planning Methods and Assortment Planning case studies.

The 7th Annual Merchandise Planning Symposium will be held a June 24th at Retail Systems 2002 in Chicago at McCormick Place. Several senior Planning executives from Hot Topic, Bombay Company, Clothestime and Barnes & Noble will present their perspectives on Merchandise Planning and Allocation. Terry Donofrio will moderate the program and provide a review of Advanced Planning Techniques and Methods. For more information see retailsystems.com.

RS&S has continued to work in supporting a major Brand manufacturer/wholesaler in updating its assortment planning methods and systems as well as its overall product development processes. RS&S completed its Findings and Recommendations and has developed Systems Requirements for Merchandise, Store and Assortment Planning. The next phase will include new process development.

RS&S and IT Resources are continuing their joint efforts to develop a general Assortment Planning Process and User Documentation to support the Buyers Work-mate Assortment Planning System.

Working with Technology Training Corp, a leading CBT training company, RS&S is continuing the development of various internet based Merchandise Planning training seminars. These courses will be available to individuals and companies in a CBT environment for self-paced learning. A Merchandise Planning Basic Concepts seminar will be the first offerring. For information contact Terry J. Donofrio at RS&S (www.rs-s.com).

Consumer Goods Packaging

RTG has been engaged by a leading manufacturer of consumer goods packaging to provide retail industry information systems and inventory management perspective in the development and deployment of emerging technologies to improve the supply chain. In this capacity, RTG will provide counsel, introductions and experience-based design-and-implementation criteria to this multi-billion dollar company.

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You can read about us at www.RetailTechnologyGroup.com.

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