Unlock Inventory Success:

A Four-Step Approach for Retailers

Optimize inventory planning with enhanced inventory visibility, accurate forecasting, supplier optimization, and leveraging technology.

What's in this guide.

1. Introduction

Inventory planning success for retail businesses depends on three key factors:

Visibility, adaptability, and a customer-centric approach. With ongoing challenges like unpredictable demand, omnichannel supply chains, and economic disruptions, the need to quickly adapt, manage inventory and costs, and keep customers happy is now more crucial than ever.

What's impacting retailers in their supply & demand?

Demand variability: Retail supply chains face shifts in unpredictable customer demand. Seasonal fluctuations, changing consumer preferences, and unexpected events, such as the COVID-19 pandemic, can lead to significant fluctuations in product demand, making it challenging to maintain optimal inventory levels and avoid stock-outs or excess stock situations.

Large inventory: Balancing inventory levels efficiently while managing a vast array of products (often exacerbated by the proliferation of SKUs) is an annual challenge. Overstocked inventory ties up working capital, while stock-outs can result in lost sales and dissatisfied customers.

Omnichannel complexity: The rise of omnichannel retail, which encompasses physical stores, eCommerce, mobile shopping, and more, adds complexity to supply chain operations. Coordinating inventory, order fulfillment, and customer experiences across multiple channels can be intricate and requires robust logistics and technology solutions.

Distribution center constraints: Inadequate or insufficient distribution centers can hinder a supply chain's ability to meet customer demands. Expanding the network of distribution centers and optimizing their locations is crucial for ensuring timely deliveries and reducing transportation costs.

Supply chain disruptions: Retail businesses are vulnerable to disruptions, including natural disasters, geopolitical issues, and economic fluctuations. These disruptions can disrupt the flow of goods, increase lead times, and impact cost structures.

Supplier issues: Retail supply chains rely on a network of suppliers to provide the necessary products and materials for manufacturing and stocking store shelves. Supplier issues, such as delays in production, quality control problems, or disruptions in the supplier's supply chain, can lead to delays in receiving goods. This, in turn, can impact inventory levels, product availability, and customer satisfaction.

Shortages of raw materials: Retailers may need help sourcing the materials they need to manufacture their products, resulting in production delays or increased costs to secure alternative sources.

2. A four-step approach to inventory success

Step 1: Increase visibility

Focus on what matters

Inventory visibility is critical, allowing businesses to monitor and manage their stock levels accurately, **reducing the risk of stock-outs, excess stock, and incurring unnecessary hidden costs in your supply chain.**

A quick example: Inventory visibility allows businesses to monitor the availability of products at various locations. For example, imagine a customer who wants to purchase a specific item online and selects the "pick-up in-store" option. With inventory visibility, the retailer can instantly check if the item is in stock at the selected store. If it is, they can confirm the order and ensure the product is ready for the customer's pickup. Without inventory visibility, this process would be more challenging, potentially leading to customer frustration, lost sales, and operational inefficiencies.

With ongoing disruptions, setting the necessary inventory Key Performance Indicators [KPIs] ensures you make the right inventory decisions to serve your customers on time and in full.

The more volatile the supply chain becomes, the more regularly you should review and measure your KPIs to help plan your inventory accordingly.

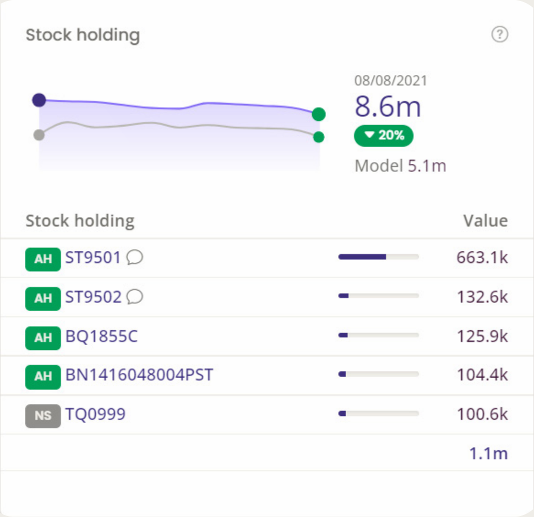
First, you need the right inventory KPIs in place!

Why inventory KPIs? The business goals and objectives will influence your inventory policies. Inventory KPIs are used to monitor inventory policies, track inventory turnover, and ultimately measure how well your inventory performs based on your sales. At Netstock, we divide inventory KPIs into two parts: 1) Stock holding; 2) Fill rate

1) Stock holding

This is the amount of inventory a business keeps for future use compared to an ideal model.

a. What is your inventory value compared to the benchmark in your industry?
b. Where are you in excess?
c. Where are you ordering too much of an item which, resulting in excess stock?



2) Fill rate

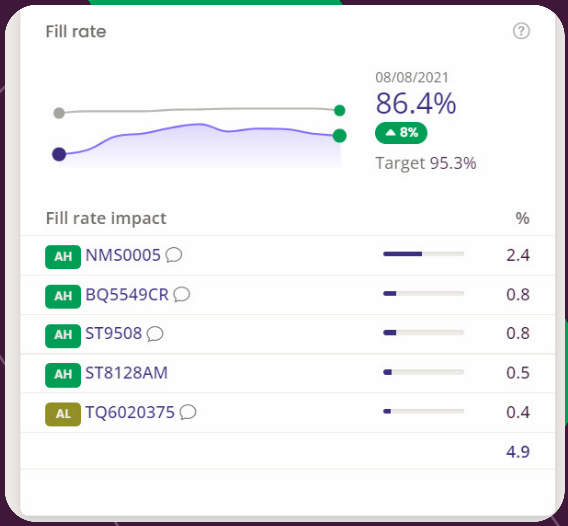
There are two types of fill rates:

1. The actual fill rate: the percentage of stock availability measured over a historic rolling 30-day period.

2. The target fill rate: The targeted stock availability percentage.

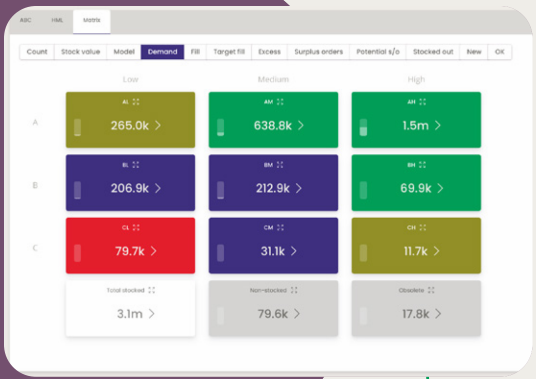
Your fill rate tracks how well you're servicing your existing customer base compared to what you're targeting.

a. Measuring the fill rate and how well you serve your customers.
b. When and where do stock-outs occur?
c. Where will you potentially stock out, and when will you run out of stock?
d. Where are you forecasting too much or too little? If you forecast too much, you'll have excess stock. If you don't forecast enough, potential stock-outs will occur.



How to set, refine and track inventory KPIs

When you start looking at your inventory, you need to know the value of your inventory holding in your business **relative** to how much excess stock you have. Is your inventory value increasing or decreasing?



It's vital to...

- **Classify your items** by looking at each item's value and velocity.
- **Understand your fill rate targets** and track towards them. If you keep getting closer to the target, then you know you are going in the right direction.
- **Measure your inventory value** and compare it to previous periods respectively.
- **Keep tracking it.** Know what you want to measure, your target, and how it changes over time.

CUSTOMER STORY | ZEBBIES LIGHTING

Perhaps one of the biggest advantages of Netstock is the dashboard, especially when you are looking after numerous stores with large inventory listings. It is so easy to navigate, and we can easily identify and deal with the top 20 items identified as excess, surplus orders or potential stock outs before they become a problem.

Zebbies Lighting

Listen to what Zebbies Lighting has to say about their inventory journey.

Watch here

Zebbies Lighting now has store-specific data for more cost-effective ordering.

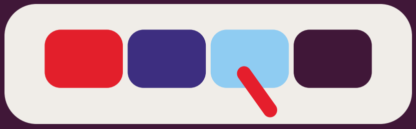
See how Netstock's dashboards are pre-configured to show you the KPIs and metrics that matter most for your business.

Watch here

Curious about the Health of your Inventory?

Take 3 minutes to complete the Netstock Inventory Health Quiz.

Health Quiz



Step 2: Monitor suppliers

Collaborate with top suppliers

Suppliers play a pivotal role in the success of retailers, providing the products and materials they need to meet customer demand, maintain competitive pricing, and ensure product availability. Strong supplier relationships will enable retailers to respond to market changes and reduce lead times.

Ask yourself these two questions...

#1. Is your supply chain set up to help serve your customers?

#2. Do you have inventory data to plan more efficiently with your suppliers?

Measure supplier performance and understand potential risks

You can control your supply more efficiently and reduce supply risk by learning everything you can about your suppliers! Being able to extract supplier data, you can monitor and measure your supplier's performance. **The key objective is to reduce long lead times to prevent you from over-ordering and incurring excess stock**.

Here's how to learn more about your supplier network:

- **Create an overview** of your supplier network taking note of their manufacturing and distribution locations.
- **Review the readiness of your suppliers** and what contingency measures they have in place when they can't deliver on time and in full.
- **Understand the flow of goods and the logistics involved.** Often a supplier will use more than one transport route. How will that affect lead times and cost?
- **Identify where you have experienced delays** in shipping, manufacturing, or experienced shortages of certain materials.
- **Regularly review how your suppliers perform,** noting who delivers on time and in full? Pay special attention to those who supply your key items.
- **Know the value of your open purchase orders** for each supplier.
- **Review how much you spend** with each supplier over a 12-24 month period.
- **Find out what security measures** your suppliers have in place to prevent cyberattacks.

Five tips to strengthen supplier relationships

Cultivating a strong relationship with your suppliers requires consistent effort and a genuine commitment to mutual success.

1. **Regular communication:** Establish open and transparent lines of communication with your suppliers. Regularly share information about your business needs, goals, and any changes that may affect them.

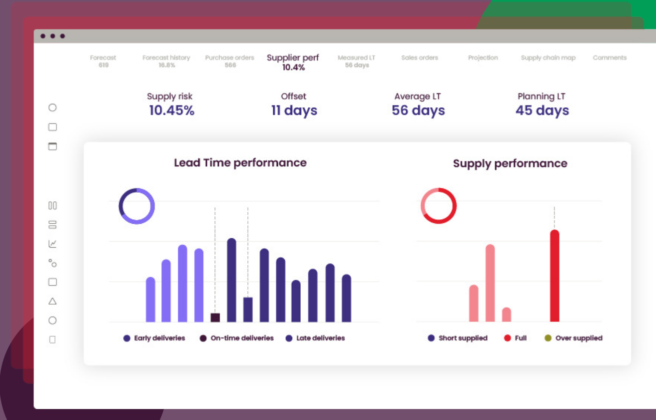
2. **Long-term partnerships:** Seek long-term partnerships with your suppliers. Build trust and loyalty by consistently fulfilling your commitments and treating them as valued partners. This can lead to preferential treatment, better pricing, and increased responsiveness.

3. **Pay on time:** Ensure prompt and fair payment practices with your suppliers. Timely payments demonstrate reliability and financial stability, which can enhance the trust and willingness of suppliers to go the extra mile for your business. Consider implementing automated payment systems to streamline the process and minimize delays.

4. **Share forecasts:** Provide your suppliers with accurate forecasts and production plans to help them anticipate demand and align their resources accordingly. This enables them to optimize their operations, reduce lead times, and improve their overall service level. Regularly update them on any changes in your plans to maintain alignment.

5. **Collaborative problem-solving:** Encourage collaborative problem-solving with your suppliers. When challenges arise, involve them early to leverage their expertise and develop solutions jointly. This approach fosters a sense of shared ownership and strengthens the relationship by demonstrating that you value their input and are committed to finding win-win outcomes.

Netstock measures supplier performance, comparing planned vs. actual lead times, and promptly identifies suppliers not meeting delivery requirements. It creates a risk profile for each supplier and automatically adjusts replenishment based on supply changes.



Step 3: Optimize inventory

Right stock,location and time

Inventory optimization is a strategic process of balancing having enough inventory to meet customer demand and minimizing the costs associated with carrying inventory.

The goal is to ensure the right products are available in the right quantities at the right time without tying up too much capital in inventory or incurring unnecessary expenses like storage, handling, and operating costs.

Watch how Netstock's **Opportunity Engine** quickly identifies opportunities in your inventory across all locations.
Say goodbye to excess inventory or potential stock-outs before they happen.

Watch here

Identify the right stock to focus on

It's challenging to view hundreds, or even thousands, of inventory items daily and decide what to buy, what's running short, and what items you have too much of. The best way to focus time and resources is to classify your inventory according to its level of importance. According to the Pareto Principle, classifying each inventory item allows you to focus on the 20% that will give you 80% of your sales.

First up, you need to organize your inventory!

Identifying obsolete items

Identify and remove all of the obsolete items. These items typically have not sold a single unit in 18 months to two years. Obsolete items should not be ordered under any circumstances – they are just noise that will distract you from the 20% that make up most of your sales.

Action:

Begin by marking all items with no sales in the last 24 months as obsolete.

Identify non-stocked items

A non-stocked item is one that you keep on the price list but not in the warehouse. You will only order a non-stocked item when a customer orders it. They are typically very slow movers that your customers can't quickly or easily get elsewhere and are willing to wait for.

Action:

Mark all items with no sales in the last 12 months as non-stocked. Ensure not to include new items you haven't stocked for at least 12 months.

Now that you know your stocked items, you can further classify your items according to the ABC analysis

You classify each stock item into the following categories:

- A = highest value, i.e., your best-selling items
- B = medium value, i.e., your mid-range selling items
- C = least value, i.e., your remaining items

Managing inventory is a collaborative process and can only happen in collaboration with the rest of the business. The same thinking applies when classifying your inventory. Planners can't only focus on ABC item value, and they also need to consider the **sales velocity** of each item, such as:

- H = High velocity
- M= Medium velocity
- L= Low velocity

A practical example

A high-value, low-velocity item like luxury handbags is planned and managed in your inventory system differently from a low-value, high-volume item like nuts and bolts, even if the annual turnover is the same.

Incorporating the sales velocity as part of your **classification matrix** will make your inventory classifications more precise.

In essence, an AH item is a high-value, high-velocity item is critical as it's a high-value fast moving item that makes up the bulk of your sales – you'd want to be extra careful not to run out of stock on these items.

In contrast, a CL item is a low-velocity, slow-moving item.

Netstock automatically classifies every item based on sales value and sales velocity, creating an intuitive matrix of product importance. This holistic inventory profile lets you focus on your business's most profitable and highest-demand items.

Watch how Netstock automatically classifies your inventory.

Watch here

Have the right stock at the right time...

Set your inventory policy. Setting the inventory policy is a crucial initial step in optimizing your inventory. The policy sets guidelines ensuring every order you place aligns with your goals for balancing your inventory investment and achieving your desired fill rate. These guidelines establish rules for each stock item or SKU, such as the target fill rate, replenishment cycle, safety stock level, lead time, and monthly demand. An inventory policy makes it easier to assess how well your inventory is performing or identify potential risks.

Place optimal orders. Knowing how much to order and when to place the order while keeping your inventory levels balanced is often the most-significant challenge when planning inventory. You can strike the ideal balance between inventory levels and order frequency by calculating the optimal order quantity based on lead time, demand variability, and safety stock levels. This approach can prevent **excess inventory** and related carrying costs and minimize the risk of stock-outs and the potential for lost sales.

Reduce risk with safety stock. Safety stock acts as your insurance policy, safeguarding your business against stocking out of critical items and helping your business prepare for unforeseen changes in supply or demand. **Safety stock** is extra inventory held by a business to mitigate the risk of delays in supplier delivery or unexpected spikes in demand. By incorporating safety stock into your inventory management strategy, you can quickly respond to changing market conditions, minimize the risk of stock-outs, and maintain high levels of customer satisfaction. Safety stock also helps reduce inventory carrying costs by avoiding rush orders or expedited, costly shipments.

Davey Textiles reduced surplus orders by $2.8 million.

CUSTOMER STORY | DAVEY TEXTILES

When we started with Netstock in January 2022, we had $3.8 million in surplus orders. Eleven months later, I reduced that to under $1 million on 19 items. Our customer fill rate was 89.4%; we currently provide a 95% fill rate. We have been delighted, not only with the capabilities of the product but with the Netstock team as a whole.

Davey Textiles

Read Davey Textiles' story

Step 4: Improve forecasting

Predict and plan

By accurately predicting future demand, businesses can plan more efficiently to reduce stock-outs, and long lead times, enhance product availability and ensure their supply chain planning is customer-centric.

Forecast management is a critical component of healthy inventory

Forecasting is one of the key drivers of inventory replenishment. Dumping data from your ERP into a spreadsheet isn't giving you a forecast, and you certainly can't rely on checking every single record and calculation one by one, day after day. So, you need to plan your forecast correctly.

Forecasting challenges...

If you over-forecast, you end up with excess;
if you under-forecast, you could run out of stock.

What makes forecasting challenging for retailers?

- **Demand variability:** Customer demand can be highly unpredictable, influenced by changing consumer preferences, economic conditions, seasonality, and unexpected events like natural disasters or pandemics.
- **Product variety:** Retailers often offer various products with varying demand patterns. Forecasting accurately for each SKU (stock-keeping unit) can be complex and time-consuming.
- **Short product lifecycles:** In industries like fashion or electronics, products have short lifecycles, making it challenging to forecast demand for items that may quickly become obsolete.
- **Promotions and marketing: S**pecial promotions, discounts, or marketing campaigns can significantly impact demand, and forecasting their effects accurately can be tricky.
- **Lead times:** Longer lead times for specific products or suppliers can lead to forecasting errors, as events occurring during these lead times may not be accurately anticipated.
- **New products:** Launching new products or variations can be challenging to forecast, as historical data may not exist or accurately represent future demand.
- **eCommerce and omnichannel retailing:** The growth of e-commerce and omnichannel retailing has increased the complexity of forecasting, as consumers can shop through various channels and expect seamless experiences.
- **Data quality:** Inaccurate or incomplete historical data can lead to inaccurate forecasts. Data quality issues, such as missing data points or data entry errors, can affect forecasting accuracy.

Retailers must continuously adapt and refine their forecasting methods to address these challenges and strive for more accurate predictions, as effective forecasting plays a crucial role in optimizing inventory management, reducing costs, and enhancing customer satisfaction.

Have you been in any of these situations?

- Need to forecast by style, color, size forecasting, or any other grouping?
- Demand planners need to provide independent forecasts…and then those get aggregated?
- Need collaborative forecasting, but collaborators cannot see each others' data?
- Certain customers are important, and you need to forecast them separately. The same goes for certain channels like Amazon or Walmart?
- Need to manage promotions in your forecasting…and automatically take historical promotions into account?

Want to know a secret?

Netstock's **Pivot Forecasting®** engine is the **only** forecasting functionality available in the market where you can:

- Have collaborative forecasting. Information from across the business can be integrated into a single forecast.
- Forecast by product, customer, location, or any other available grouping dimension.
- Forecast at any group level and in base units, price, cost, or margin. This is because Pivot Forecasting uses flexible hierarchies.
- New event forecasting, where you can estimate the effects of the event for items or customers you've never promoted to before.

See Netstock's Pivot Forecasting functionality in action

Watch here

How forecasting improvements impact inventory turnover

Inventory or stock turnover is a key financial metric used to measure how efficiently a business manages its inventory. It quantifies how often a business's inventory is sold and replaced within a specific period, typically a year. Inventory turns are calculated using the following formula:

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory value}}$$

Inventory turnover provides insights into how efficiently a business is managing its inventory:

- A higher inventory turnover indicates more efficient inventory management because the business sells its products quickly and replaces them with new stock.
- A lower inventory turnover suggests that products are selling slower, which can lead to higher holding costs and potentially obsolete inventory.

Let's consider a simple example to illustrate how improving forecasting accuracy can lead to improved inventory turnover.

Initial scenario...

A retail store has an annual inventory turnover of 3 times a year. This means they sell and replace their entire inventory three times annually.

Scenario with improved forecasting accuracy...

The retail store decides to invest in better forecasting tools and processes, resulting in more accurate predictions of customer demand. They can better anticipate which products will sell and when with improved forecasting accuracy. As a result, they can adjust their inventory levels more precisely, reducing the risk of overstocking or understocking.

Outcome...

With improved forecasting accuracy, the store can achieve an annual inventory turnover of four times a year instead of three. This means they sell and replace their entire inventory four times annually, indicating a more efficient use.

In this example, the improved forecasting accuracy allows the retailer to match their inventory levels more closely with actual demand, leading to higher inventory turnover. This can reduce holding costs, increase working capital efficiency, and potentially higher profitability.

CUSTOMER STORY | Aero Health

Aero Health reduces stock-outs and lost sales.

“*Netstock allows you to forecast in different ways based on sales parameters. It won’t just give one forecast across the entire product range as some other systems do.*”

Aero Health

Read Aero Health’s story

AERO Healthcare

3. How Netstock accelerates inventory planning for retailers

Netstock provides predictive functionality to enhance inventory planning by leveraging data directly from your **ERP**. Some specific functionality includes:

Deliver on your customer promise with Netstock...

- **Measure supplier performance:** work with reliable suppliers, increase collaboration, improve lead times, and automatically adjust safety stock levels.
- **Optimize automated ordering:** use replenishment cycle and order size constraints (MOQs) to reduce stock-outs and excess inventory.
- **Disaggregation:** plan nationally across all locations and let Netstock push the forecast to the correct location.
- **Supersession:** quickly see the impact of your product life cycle management during product planning.
- **Sales linking:** launch new products with a forecast based on similar products at the product or style level.
- **Assign demand forecasting models:** for each item, customer, region, unit, price, cost, or margin.
- **Scenario planning:** create and compare multiple demand-supply scenarios and easily share them with stakeholders.

Save time, money and resources with Netstock

Contact an inventory expert to discuss how Netstock can optimize your inventory.

Get Started

Place orders quicker

Save time on planning, forecasting and ordering

Minimize stock-outs

Save time on planning, forecasting and ordering

Reduce excess stock

Release cash tied up in excess inventory

Enhance functional collaboration

Align sales, operations and finance with S&OP

About Netstock

Netstock is a leader in inventory management and has earned the trust of over 2,200 global customers. Netstock's Predictive Planning Suite™ provides two powerful solutions - Predictor IA and Predictor IBP. Integrating into leading ERP platforms, Netstock empowers SMBs to place orders quicker, reduce stock-outs, minimize excess inventory and optimize capacity planning. Delivering immediate ROI, Netstock provides customers with the visibility to free up working capital, adapt to changes, and deliver outstanding customer service.

For more information, visit **www.netstock.com**