

Direct Store Replenishment Using VMI

Take More Control of Store
Availability to Build Sales
for both Suppliers and Retailers

More Connected.
More Supported.
More Prepared for
What's Next.



PROVEN RESULTS:

Suppliers of consumer products using TrueCommerce for directstore replenishment have experienced on average:

- Up to 45% reduction in out-of stocks
- Up to 90% increase in sales
- Up to 3x increase in SKUs carried by the retailer

*based on actual TrueCommerce customer data

INTRODUCTION

Retailers are increasingly looking to their suppliers to help streamline the supply chain all the way down to the store level. Suppliers have reduced distribution costs by delivering direct to the store. Now retailers are asking suppliers to go a step further by taking greater responsibility for replenishment planning. Innovative retailers recognize that suppliers are often in a better position to manage storelevel availability of their respective products. By sharing point of sale (POS) data and collaborating on merchandising, promotion and replenishment, retailers and suppliers can jointly reduce costs while improving sales and optimizing inventory levels.

Suppliers recognize the tremendous opportunity this presents. Greater collaboration with their customers combined with more control of inventory at the store level is a strategy to grow sales for both the supplier and retailer. Direct Store Replenishment using Vendor Managed Inventory (VMI) is the method forwardthinking suppliers are increasingly using to make it happen.

HOW THE TRADITIONAL ORDERING PROCESS CONSTRAINS RETAIL**Sales**

In a traditional ordering process, the retailer is responsible for placing orders with suppliers to replenish store-level inventory. But staff reductions and heavier workloads leave retail buyers managing a greater number of suppliers than ever before. They simply cannot spend the time to think strategically about every product line they manage. They don't have time to closely analyze actual replenishment needs beyond their top products and suppliers. And they are challenged to find the time to work closely with suppliers on promotions, new product introductions or planning for peak sales seasons.

Many retailers use the 'open to buy' approach to simplify the buying process and add rigor around the financial

commitment of buying. Typically, these open to buy limits are established monthly at a macro budget level. The limitations of the open to buy process and its 'first come – first served' nature can leave buyers unable to replenish inventory beyond the top few fast-moving items and suppliers.

The result is that sales for many suppliers fall well below their potential for a number of reasons:

Out of stocks

This is the single largest factor negatively impacting sales. Out of stocks occur because:

- Replenishment orders are placed too infrequently, leaving displays empty for days or weeks
- Sales and inventory reviews, and associated order point re-setting, are also done far too infrequently, allowing under-stocking to continue (and over-stocking of items that aren't selling)
- Seasonality and other variations in demand are often not effectively considered in the replenishment process

Sub-optimal assortments

Sub-optimal assortments can leave some items sold out while others sit on their shelf or peg for long periods. Complementary products that could increase basket value never get stocked – and therefore never sold.

Sub-optimal assortments occur because:

- Buyers do not have the time to re-assess assortments with any frequency – often no more than twice a year
- Buyers don't have the time to segment assortments to match different store types or groups, or line up with geographic opportunities.
- Buyers only have visibility of sales within their span of responsibility and never see the positive impact of different assortments at other stores or chains

Limited collaboration between supplier and retailer

With buyers stretched across many categories and suppliers, they are not able to spend as much time as they would like with suppliers jointly planning programs to build sales for particular products. This results in:

- ▶ Ineffective promotions
- ▶ Poor new product introductions
- ▶ Lost sales opportunities in peak selling periods (or excessive markdowns)

Poor allocation of limited supply

When particular products are in short supply, the buyer must determine how to allocate the limited inventory that is available. Lacking the time to process store-level sales data and the systems to allocate inventory to the point of greatest need, the buyer can only make an 'educated guess' about where to allocate items. Too often, the result is that product that would have sold quickly at one store sits unsold at another. The sales opportunity is lost.

HOW DIRECT STORE REPLENISHMENT USING VMI HELPS INCREASE SALES

Direct Store Replenishment using VMI enables the supplier to take more control of store level availability, including stock replenishment, assortment management, and inventory planning for promotions and peak selling periods. It also gives the supplier far greater visibility of actual consumer demand, sales trends and the impact of different assortments and promotions.

That combination of control and visibility – along with the far greater focus the supplier can undoubtedly put on their particular products – enables the supplier to eliminate many of the constraints of the traditional ordering approach and increase sales for both themselves and the retailer.

HOW IT WORKS - THE MECHANICS

VMI with Direct Store Replenishment works well in the retail sector. The supplier monitors sales and inventory

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at each of their retail partner's store locations. Replenishment orders are automatically generated based on a number of merchandising, promotion and inventory metrics agreed upon by the supplier and retailer.

The basic process works like this:

- The retailer provides the supplier store-level sales and inventory information on a daily or weekly basis (EDI 852, EDIFACT INVRPT or similar)
- The VMI system monitors activity, calculates forecasts and order points, and suggests replenishment orders to the supplier on at least a weekly basis
- The supplier's analyst or customer service specialist reviews the replenishment recommendations, makes any necessary adjustments, then generates a PO for the items to be replenished.
- A purchase order acknowledgement is sent to the retailer.
- The supplier ships the replenishment order directly to individual stores or to a DC with individual store containers for cross-docking

HOW VMI GROWS SALES

Direct Store Replenishment using VMI helps increase sales in two important ways. It enables trading partners to:

1. **Increase near-term sales** by reducing the out-of-stock occurrences, maintaining optimal store-level availability and utilizing detailed assortments to ensure the right product mix is maintained in each store

2. **Increase longer-term sales** by providing both the retailer and the supplier with store level demand data that enables both to make better decisions related to merchandising and sales. The result is strengthening of the retailer/supplier relationship and a more strategic approach to planning joint sales programs

NEAR TERM IMPACT: OPTIMIZE STORE-LEVEL AVAILABILITY AND ASSORTMENTS

Given the proper VMI tools, suppliers can use Direct Store Replenishment to take more control of store level inventory and increase near-term sales in the following ways:

➤ Reduce out of Stocks

Visibility of demand activity down to the store level enables the supplier to monitor demand and inventory on a daily basis, plan replenishment and make shipments weekly or as needed. With more frequent reviews and replenishment, in-stock availability – and therefore sales – can rise dramatically.

In addition, suppliers can better coordinate with retailers to plan promotion inventory levels down to a store level and build-up of stock in anticipation of peak demand periods. That enables both partners to take full advantage of every consumer sale opportunity.

➤ Stock Better Assortments

Combining in-depth product knowledge with the store-level sales visibility provided by VMI, the supplier



SUMMARY:

Now is the time to make the move to Direct Store Replenishment using VMI. The opportunity is tremendous for both the supplier and retailer. The benefits for both parties are clear – increased sales, reduced costs, and greater collaboration.

can design better assortments at each store or store type. With better control of assortments, suppliers can stock the right SKUs and maintain an appropriate shelf presence for each SKU. Regional and national demand knowledge can also be leveraged to anticipate trends and replicate successful assortments from one area to another.

➤ **Improve New Product Introductions**

Better assortment management enables suppliers to phase out older products and introduce new products into the assortments. Understanding demand down to the store level enables suppliers to make better decisions on inventory levels of new products as they are introduced.

➤ **Better Allocate Scarce Supply**

Unfortunately, short supply situations do occur. With full visibility of store level inventory and demand, suppliers are in a far better position to allocate supply to the stores that are likely to sell all that they receive. A good VMI system will automatically allocate inventory to the locations with the greatest need and greatest potential for selling the item.

**LONGER TERM IMPACT:
STRENGTHEN RETAILER
RELATIONSHIPS**

Direct Store Replenishment using VMI leverages the insights of both the retailer and the supplier to create optimal merchandising and promotion plans. This collaboration results in a more strategic approach to sales and a stronger relationship between the supplier and the retailer.

VMI enables the supplier to improve sales and optimize inventory levels. This makes the supplier's product more profitable for the retailer. By giving the supplier responsibility for replenishment the retailer benefits from:

- Increased sales through better shelf availability
- Increased inventory turns through better replenishment planning
- Reduced buying transaction costs
- Reduced obsolete inventory, reduced markdowns and returns

As a result, suppliers utilizing VMI become a more valuable partner to the retailer and 'earn the right' to discuss new initiatives. Those suppliers have more time to propose, discuss and execute salesbuilding programs such as

- Expanded product line
- Increased shelf/display space
- More and better promotions

VMI and Direct Store Replenishment help the supplier and retailer collaborate on merchandising plans, promotion plans, store clustering and assortment optimization. By focusing on common sales and profitability objectives the supplier and retailer relationship becomes a true partnership. VMI provides the both parties with the data needed to plan, execute and measure progress toward their common goals.

VMI: IT'S WHAT'S IN STORE

ABOUT TRUECOMMERCE

TrueCommerce is the most complete way to integrate your business across the supply chain, integrating everything from EDI to inventory management, to fulfillment, to digital storefronts and marketplaces, to your business system and to whatever comes next. That's why thousands of companies across various industries rely on us.

TrueCommerce.
Do business in every direction.

THE TRUECOMMERCE DATALLIANCE TEAM IS HERE TO HELP!

If you have any questions regarding TrueCommerce Datalliance and VMI, or how it applies to your business, our passionate, focused team is here for you.

Call us today at 513.791.7272

www.datalliance.com



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