Omnichannel Inventory Optimization: Where Are My Products?
“Macy’s best customers are those who shop us in-stores and online. We have a whole series of strategies in place to drive our store customers to the Web, and our online customer to the stores. We strive to have a 360-degree view of the customer. Today’s customer is not monolithic. And that’s the way we are approaching our customer.”

– Macy’s CEO Terry Lundgren

In the world of multi-channel, omnichannel and mobile devices, it has become necessary to handle the needs of customers from all angles. However, not every business faces the same problems within their specific supply chain. It is with this in mind that retailers need to consider Inventory Optimization. Inventory Optimization is carrying a level of inventory that reduces the possibility of an out-of-stock situation, while at the same time ensuring the carrying cost of inventory does not hurt the bottom line. In the simplest of terms, Inventory Optimization means balancing demand and supply.

Retailers are facing inventory challenges such as:

- High inventory storage costs
- Inability to fill orders on time
- Significant margin loss on markdowns
- Inefficient fulfillment processes
- No visibility to inventory levels across channels

Balancing and optimizing inventory across the distribution network can address these and other difficulties. Part of the discussion must include the ability to identify where inventory is at any given moment. This requires a robust system and full integration to give an accurate snapshot based on the many different systems traditionally used within a retail enterprise.
Consider store inventory, distribution inventory and inventory in-transit (by truck, boat or air). In an ideal situation, inventory in the supply chain is fed into a supply chain visibility tool, and is then available for end users to make proper decisions, as well as to optimize fulfillment.

In this viewpoint, Parker Avery addresses these topics with detail around how integration and visibility of a retailer’s inventory supply can meet the demand from all channels.
Inventory Visibility

Inventory across a supply chain network changes rapidly throughout any given day. This includes inventory in distribution centers (DCs), stores, in-transit to DCs or stores, and on-order to be delivered to a DC or store. A common problem among retailers is determining exactly how much inventory resides in each area in a timely manner. If these numbers are available and accurate, it is much easier to match the demand with the true supply levels to fulfill customer orders.

Real-time inventory levels are a goal every retailer should try to achieve. An inventory management system needs to be in place and accurately utilized for proper data tracking. A good system aids in lowering operational costs over the supply chain network. This is achieved by reducing or eliminating lost sales due to inaccurate stock levels, inventory write-offs and shrinkage.

However, getting real-time visibility is a difficult task for any company because inventory levels are constantly changing due to customer purchases and replenishment activities occurring within all stores and facilities. In most retail enterprises today, a mere glimpse of what the inventory levels are at any point in time is the best anyone can ask for.

In today’s quickly changing technology environment, many new systems are now available to view inventory by channel. These are usually order management systems with access to information about inventory available in the store, distribution centers, purchase orders, purchase requests and other demand in real time. Based on this data, the system can provide employees with an accurate number on each item’s (or SKU’s) Available to Promise (ATP). This ATP number not only provides an accurate inventory number, but also can take into account the date the customer needs the product delivered.
Demand Across Channels

The need for agility in the retail marketplace has become an expectation. Customers expect to be able to purchase products:

- **In Store**
- **Online**
- **Via Mobile**

An expectation that the item is available for delivery to the customer’s location, to a local store (i.e., ship to store) or for pick up in store within a reasonable timeframe is established based on these purchasing methods.

There are many options for stores to deplete specific inventory levels and maintain margins without losing profit to markdowns. The challenge becomes fitting the appropriate supply to meet the daily demands of the customer, while balancing labor costs and operational needs. When inventory is available in real-time, companies are in a better position to choose the least costly and most efficient option to fulfill the order while maintaining the highest profit levels.

Another option is to enable employees within the store to help fulfill an order or locate missing inventory. Consider what might happen if a customer enters the store to purchase an item, but it is not available in that specific store. Should (or can) the customer order online or via the retailer’s mobile app? Is there another alternative?

If employees are given proper tools such as workstation computers or mobile devices with applications that enable them to view real or near-time inventory levels, then they are equipped to help the customer purchase the product for delivery to their home, pick-up in another store, or let them know when the product will be available in their desired store. This not only puts the employee in the driver’s seat on how

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be selective.
to best fill the order, but also helps the retailer keep the sale and increases customer satisfaction. With this store-level holistic view of the company’s inventory, there is now a mechanism in place to ensure customers have a higher level of confidence about the retailer’s ability to satisfy their needs. This confidence increases the likelihood of customers returning to the same retailer’s store for their future purchases versus a competitor’s store.

Part of inventory demand considerations should include orders from catalog and internet, or direct to customers. Some questions to consider here:

- Is the supply considered based on the delivery location?
- Does the company break up demand or supply by regions?
- Are internet and catalog considered one bucket of demand (direct to consumer)?

Based on the answers, demand can be fulfilled from the proper locations due to inventory supply visibility and therefore better enable the agility of the company.
Brand Management and Pricing

As part of Inventory Management, the ability to price items more profitably across the network becomes more apparent. Visibility of accurate inventory levels in stores, DCs and in-transit enables employees and customers to decide the best place to purchase or fulfill an item. This increased visibility raises additional considerations:

• Should a company price and size items differently online versus in store?
• Should the same item be priced differently between regions?
• What type of shipping options and pricing should be offered?
• And most recently, what are the sales tax implications?

This is where the world of Brand Management across the enterprise takes flight.

A good way to handle Brand Management is based on the lifecycle of the product, with different considerations at the beginning of the season, throughout, and at the end of the season. Price continuity in the beginning of a product’s lifecycle is typically much more appealing to a customer than at the end of life for an item. When an item is first available or put on sale (not clearance), then customers typically expect to find their desired color, size and other options of that product in any channel at the same starting or sale price. If the item is on clearance, then customers are looking for the lowest available price in hopes their desired options are available, but with the understanding that the product may have sold out already.

Consideration of pricing across channels to maintain brand image is important. With the availability of mobile devices and a myriad of price-comparison applications, consumers can now easily compare pricing in the store with the price online and across different retailers. Not managing to customer expectations can be costly for companies, and Inventory Optimization can be key in keeping prices and inventory levels manageable across the network.
Next steps

Now, look at the inventory model in your company. Is it at a place where inventory is optimized? What type of initiatives would it take to get this off the ground? Start first by looking at what business problems a solid approach to inventory management would help alleviate. Once the problems are identified, consider what balancing and optimizing inventory across the supply chain network would entail:

- How accurate is inventory in the stores and DCs?
- How often is inventory in transit?
- How often are turns within DCs?
- Are there protocols in place to monitor inventory levels?

Inventory Optimization can help reduce the number of items going on markdown, help in-store employees track down items more efficiently for customers, and manage costs across the network.
Final Word

Inventory Management and Optimization is an ever-evolving practice that most retailers are striving to accomplish – especially in today’s dynamic omnichannel retail world. With customer expectations for products to be available for purchase at the store, online, within a mobile application, or via catalog, the tasks of tracking and managing inventory location, customer activity and pricing are becoming more daunting. Technology investments have become a necessity for many retailers aiming to achieve the most balanced blend of supply, demand and pricing. The solution and investment that is right for your company must begin with determining which problems need to be solved.

When implemented and used correctly, there are a number of technologies available to enable the capabilities of managing and optimizing inventory. Such capabilities include:

- Helping employees provide accurate inventory levels, availability dates, pricing and location of the inventory in real-time
- Giving the customer a clear picture of when and how they will receive their desired products
- Better management of inventory across channels allowing for lower inventory levels and cost reductions

All of these factors help lead to improved customer satisfaction and revenues, more empowered employees and a stronger bottom line.
The Parker Avery Group

The Parker Avery Group is a boutique strategy and management consulting firm that is a trusted advisor to leading retail brands. We combine practical industry experience with proven consulting methodology to deliver measurable results. We specialize in merchandising, supply chain and the omnichannel business model, integrating customer insights and the digital retail experience with strategy and operational improvements. Parker Avery helps clients develop enhanced business strategies, design improved processes and execute global business models.

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