Retail anti-recession prescription:

- AT LEAST 20% less inventory
- AT LEAST 20% more net profit
- In 90 days

A Retailer's Challenge

Please raise your hand if you think you've spent too much money on lousy forecasting systems! Retailers are perpetually trying to forecast future demand, to keep the proper goods on their shelves. Under-forecasting demand results in stock outs and lost sales. On the other hand, over-forecasting leads to surpluses that consume cash and space and typically result in discounting to get them to sell.

IDEA has a painless way to increase sales and reduce inventory at the same time. We permanently free up over 20% of the money currently tied up in inventory and can implement it in 90 days. No new forecasting or ERP systems are required.

The Opportunity for Grocers

While individual figures vary, industry research shows that grocers average about 8% stock-outs at the store level. Assuming a gross margin of 25%, reducing a half of these stock outs adds 1% to a grocer's bottom line, $10 million for each billion dollars in sales. On the other side, grocers are forced into considerable discounting on a regular basis. Assuming average discounts of just 25%, eliminating the need to discount on 4% of sales adds another full percentage point to the grocer's bottom line, a further $10 million per billion dollars of sales. Combined, these two factors double the profits of most grocers, but this is just the tip of the iceberg.

How is it Possible?

Continuing to try to remedy the situation with forecasting can only produce results similar to the past. No model can fully predict the precise customer demand for each SKU, at each store, each day. Trying to "guess-better" has produced the current state of shortages and over-stocks. There is an alternative however. The solution lies in moving to a pull-replenishment model based on *actual customer purchases* and dynamically buffering SKUs individually to protect against variations in demand.

Using actual daily sales to trigger inventory replenishment increases the frequency with which an individual SKU is re-ordered. Even without more deliveries or trucks, individual SKUs are replenished much more frequently. Earlier response to a purchase enables the retailer to maintain a more consistent in-store stock level across all SKUs, greatly reducing the chance of stock outs. In addition, when stocks are replenished

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sooner, stores and DCs require much less inventory while guaranteeing far better availability. With less required inventory, the need for discounting to move slow selling goods drops dramatically.

Our Solution

Our Solution, called Elucidate, provides retailers with the mechanisms and processes to ensure much higher on-shelf availability with average inventory levels 30%-50% lower. At the same time, the model utilizes a rule-based methodology to systematically adjust buffer sizes to keep stock levels "in the sweet spot" as market demand rises and falls over time. Results do not depend on the varying skills of a small army of people. Because the solution impacts the bottom line in three ways—increased sales from better availability, improved margins from less discounting, and reduced investment in inventory—the impact on profits and ROI is dramatic, more often than not, doubling retailers' return on sales.

The Real Potential

But, as mentioned above, even this is only the tip of the iceberg. Once the retailer has the capability to maintain high in-stock availability with 30-50% less on-shelf inventory the freed cash and space can be used to expand the product offering. With better availability and a wider selection the retailer captures more of its shopper's dollar and brings more new customers to its stores. The impact on sales and profits from this step is larger even than the gains earned because of the initial steps.

Our Business Model

Yes, we know, it sounds too good to be true. The beguiling simplicity of the concepts and outlandish magnitude of the suggested results fly in the face of everything practicality and experience have forced us to expect. But if it wasn't true, we could never make the offer we do: *The vast majority of our fees are paid only after you achieve bottom line gains and our fees are a small proportion of the increase in profits and market valuation that you achieve.* The solution can be tested in a small subset of the business to validate its impact on profits and demonstrate the how swiftly it can be rolled out within the organization.

IDEA
rethinking retail
products
logistics
manufacturing

Call IDEA at (843) 744-2727 and ask for Tom DeMuth if you need more information