

FLASH FORWARD: WHY RETAILERS ARE SKEPTICAL OF NEW “OSA” AND “POS” PLANNING INITIATIVES

This Flash Forward considers a new approach to solving the “On-Shelf Availability”(OSA) issues that retailers face and some of the obstacles they have historically been saddled with. We will examine some of the prior pitfalls and inhibitors to success and recommend actions that will lead to a winning scenario.

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1. The OSA Challenge

To all my comrades in Retail - Merchandising, Category Managers, Buyers, Supply Chain Planning, VP of IT/CIO and Inventory, VP of Marketing - I remember when POS (point of sale) became available and enabled true visibility into what sales really were. It was clear at the time, now that real demand was known and once it was shared with planning and your manufacturing partners/suppliers, that out of stocks would disappear and on-shelf availability (OSA) would soar. Even if the POS data was deemed too proprietary to share, it was believed that internal planning alone would be enough to dramatically improve the OSA situation.

2. The Issues

So, where did we go wrong and what happened? The outcome to date has never lived up to the promise. The percentage of out of stock for normal demand items is still running at about 8% and for promotional items, about 10%-15%. The truth is that not much has changed. You've either provided, or been hounded to provide, your POS data to your partners. You've been on committees and task forces to understand why OSA improvements can't be solved, with the results typically being that it's due largely to the well documented contributing factors that appeared to be beyond the control of those involved. Because of the challenges, even the ownership and responsibility for solving the OSA problem has been nebulous. From a practical career standpoint, who would want to own the OSA improvement initiative? It was and remains a “no-win” situation.

It's true that, historically, just managing and making effective use of the sheer volume of POS data has been a challenge, but many of those problems are now behind us. However, there is a basic structural issue that must be addressed in order to make real progress – *creating one version of the truth (see sidebar for definition)*. The current situation for most retailers when it comes to service improvement at the shelf level is similar to the following structure:

- ➔ Multiple application components are in the solution process, starting from the shelf all the way back to the manufacturer's replenishment plan, which is the crux of the problem - *there is not one version of the truth*.
- ➔ Omni-channel challenges related to order management and fulfillment are taxing the limits of existing capabilities that were not designed to originally incorporate the multi-channel options that are now required.
- ➔ The result is *delayed responses due to multiple handoffs* between applications from the retailer back to fulfillment from the manufacturer/supplier.
- ➔ Manufacturers/Suppliers end up *forecasting the arithmetic of the retailer's replenishment plan (or worse yet just use historical shipment history)*, so they end up working to a different model.
- ➔ The retailer and their manufacturers/suppliers are then *working off of different signals in terms of quantity and time*.
- ➔ The retailer and their manufacturers/suppliers end up *marching to different goals*, rather than a total focus on OSA and the root causes of OOS – the heart of the problem. The net result is that both sides end up carrying additional inventory.

Figure 1 highlights the current state of collaborative sharing of POS data being leveraged in the replenishment planning process as seen by partners.

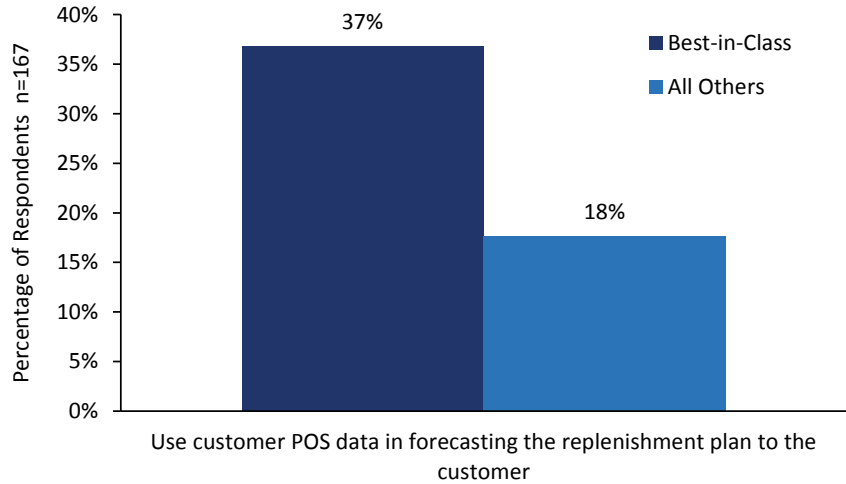
Aberdeen Definition: “One Version of the Truth”

- One common forecast for consumer demand
- One view of how the demand signal is propagated upstream in the supply chain (netted view for planning and ordering)
- Automatically updated based on real consumer demand (at least daily)
- One network view that is inclusive of the retailer's and manufacturer's enterprise
- Time phased beyond one order lead time (typically 52 weeks to support budget/S&OP planning)
- One plan jointly executed

Best-in-Class Definition

- *Best-in-Class* is the top 20%
- *Industry Average* is the middle 50%
- *Laggards* are the bottom 30%
- *All Others* are the sum of Industry Average and Laggards - 80%

Figure 1: Collaborative POS Data Sharing as Seen by Partners



Source: Aberdeen Group, February 2015

Only slightly more than a third of the Best-in-Class report the ability to use POS data in their forecasting. This is indicative of the limited degree of information sharing that manufacturers and distributors see. For All Others, the numbers are much less.

Given the situation - with multiple applications, silo functions, more than one organization involved, retailer vs. manufacturer/supplier, and no one owner in charge - it's difficult to improve. So, "What can you do about it?" and "How do you go about it?"

3. Take Heart - There is Hope!

There are answers out there that work to improve OSA; the problem has been solved more than once. Early deployments may have used a brute force approach, but there are solutions that exist now that can manage the problem.

Some of the challenges are just ownership and management issues. Because no one knew who had the ability to solve it, assigning ownership was like chasing a ghost. Everyone owned it, and therefore no one owned it, and there were a million reasons why it "wouldn't improve." As long as the belief that it won't improve is allowed to exist, the truth is, it probably won't get any better. Recognizing that it can be improved goes a long way towards solving the problem.

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4. What's Different This Time?

“What if” the capability existed that created one version of the truth from the retailer shelf all the way back to the manufacturer’s/supplier’s fulfillment? I know you’ve heard the promises before, so what’s different this time?

Assuming the issue of ownership is defined, consider a system that connects the shelf replenishment to the manufacturer’s/supplier’s fulfillment in one view across all entities and uses the POS data as the trigger. Visibility to one version of the truth would be available to all levels in the process. There would be no delay or latency, because there would be no handoffs, and all actions would be driven from the POS signal. The bullwhip effect would be eliminated and there would be no delay in system response to the demand trigger. There are always integration issues, but those can and have been solved and are not the real issue. In order to finally resolve the “partial SKU” (stock keeping unit) forecasting weakness, discrete forecasting using integer arithmetic algorithms would be included to address the slow moving and lumpy demand items as part of the planning. The net result would be one version of the truth across all silos and organization boundaries tying shelf replenishment to the manufacturer's/supplier's fulfillment.

5. Getting to a WIN-WIN Solution

I understand that you’ve heard it before, but times and technology have changed! Examples do exist where this has happened and is working successfully. Going beyond the four walls of your organization and creating a partnership type of relationship with your manufacturers/suppliers is a big step for any organization. The compelling argument is that *when you do solve this problem, you WIN!* Service goes up, the redundant inventory buffers will drop with increased visibility and confidence, and, perhaps most importantly, revenue and profitability will increase. A further point and word to the wise, *if you choose not to engage, rest assured that the competition will* at some point. Seize the opportunity!

Following are some key considerations on your quest for the WIN-WIN solution. Some of these are the retailer side of the equation for the recommendations identified in our report, [Flash Forward: Why Manufacturing Hates S&OP: Part 2 - Making it Happen!](#)

→ [Related Report](#)
“Demand Planning: Why the Best-in-Class Excel & Why You need to Know!”
February 2015

→ [Related Report](#)
“Flash Forward: Why Manufacturing Hates S&OP: Part 1”
July 2014

- ➔ The “Big Picture” approach is required here, along with a leadership commitment from the top. Executive commitment will be required to overcome cultural issues and turf battles when engaging with your partners.
- ➔ Define what constitutes a WIN/WIN at the top level as well as the policy that will define how the benefits will be shared.
- ➔ Assign a core team that has organizational respect going into the project. *The will to succeed is perhaps the biggest hurdle!*
- ➔ “IT” must be engaged in both organizations at the “how to make it work” level.

Realign and incent the account teams on both sides to the new model, moving from the “sell into” approach to the “sell through” approach. This is not an exhaustive list, but the intent is to identify some of the organizational and structural challenges that are there. Unlike before, the technology does exist to solve the problem. Don't let past disappointments deter you from your WIN/WIN vision!