

Clear thinking inventory investment

How much inventory is 'Just Right'? Manthan, the leader in Retail Analytics provides some wickedly innovative capabilities that help you insure that your inventory is neither too hot, too cold, too much, too little, or moving too fast, or too slow.



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Determining the right inventory investment guaranteed to please both your customer and your CFO is not a straightforward exercise. This paper will examine a few techniques and metrics that are useful reminders that sorting through the complexities of inventory management can benefit from a few principles. Often these principles are forgotten during that daily rush to price, promote, purchase and assort to stores. Manthan, the leading provider of Business Intelligence and analytics solutions, hopes that this quick read will help provide some useful reminders that make your Inventory Investment better, providing that 'Goldilocks' moment.

There's a reason it's called inventory INVESTMENT

How much do you need to spend to get what return, and with what risks. Inventory Investing is a Portfolio Management exercise. Ideally you want to buy as little as possible to maximize sales and margin. Much as you may love that new item you just introduced, it's not a bad approach to consider inventory as a fundamentally evil necessity of doing business in Retail. Recognize that you are spending money on stuff that may well turn rotten in days or weeks if the customer doesn't love it quite as much as you do. Also recognize that some of the stuff that you buy may sell like hotcakes (some never at all...).

Like the stock market you will want to manage risk and opportunity through diversification and asset allocation. As well you will want to manage as dispassionately as possible. But like any Investment portfolio you need a strategy to help guide your purchase decisions.



1 Setting Investment Strategy: Step 1. Who's your Customer?

Sounds fundamental, but as the expression goes, 'before you buy a button', you had better be crystal clear as to who is going to buy that item from you, what fundamental need is satisfied, and what the buying decision making process is based on.

A mental picture of your customer, or a simple demographic description doesn't help all your buyers, planners, category managers to make the best choices. Secondly, you don't have 'a customer', you have many types of customers. Take the time to describe in detail 4 to 8 customer archetypes that are descriptive of the people who either shop in your stores, or should. Combine fundamental data with your experience or expectation. Segmentation analysis is a basic necessity today prior to creating the inventory investment portfolio strategy that will guide your every purchase.

2 Classification is Critical: Step 2

While there may be no doubt that you have a merchandise classification scheme that helps put every item properly in its place in the hierarchy, you will also need to look at products across a number of alternate classification methods. These attribute based techniques include the characteristics that tie back to the Customer Segments established above. Easy to understand, often implemented attributes include statements like good, better, best (quality or price point ranges), less frequently used product - client statements also need to include correlations to other customer descriptions and segments. If you have 'budget buster customers' then you need to have some budget-busting competition shaking products. What percentage of your Inventory portfolio goes to budget busters, well what percentage of your customers or expected customers fall into that category, and is it a growth group?

In the spirit of Inventory Investment Diversification, consider also describing some of your product based on risk profile. Everything will sell at some price, but if that next item turns out to be a dog, how low will you have to go to clear it, and therefore what's the risk characteristic of that product, or class. Unless you can pick the winner every time, you should manage the percentage of your Inventory Portfolio you want to hold of high, medium and low risk items. If you can pick a winner every time, perhaps a holiday in Vegas?

3 De-risk the Investment: Step 3.

Chances are you have some history that may help predict the probable outcome for any item or assortment that you plan to purchase. If you have managed to create rich attributes of product, you have a vehicle for modeling the success of the next product based on the past. Has this type of product worked well, where and when (and for what price). History may not be a great predictor of future performance, so the practice of Test and Learn can come into play to help you determine where to place those inventory bets. Test and Learn is a methodical and measured way to experiment with new products/concepts in a more limited and low-risk fashion, before taking the investment plunge.

4 Are we Investing to Plan? Step 4

While it sounds trite, execution of the product strategy is anything but. Going from strategy to execution involves insuring that the right products, purchase orders get placed and distributed to the right stores, and promoted or managed as planned. Strategy to Execution - all about measurement. Working closely and collaborating with your supplier community can provide tremendous support in execution, as can sharing data with your suppliers, so they have the same vantage point as you do in supporting your inventory investment requirements.

5 Is it Working? Step 5

While tremendous time and effort have gone into reporting applications, many retailers have trouble answering the basic questions of, Is my inventory investment successful, (and some element of it will certainly not be), why isn't it, and how do I fix it? Let's start with the first part, is it working? For this 5th part, we would like to apply 5 tests.

- a. Is my inventory investment producing the results that meet my strategy, ie. Are my segmented customer groups responding as expected? We accomplish this measurement through techniques such as shopping basket profitability analysis by segment and purchase behavior analytics.
- b. Is my investment producing the planned results, sales, margin, turns, GMROI? We accomplish this measurement through comparative assessments relative to plan.
- c. If we don't have plans at the right level of detail, or in fact believe in the accuracy of our plans, then (not as good a measure but still relevant), how are we doing relative to last year? Trend analytics and year on year growth supports this measurements.
- d. As well, let's double check some benchmark statistics from outside the organization, margin, turns, rate of sale/supply metrics from others in the same industry segment. Pure inventory performance statistics such as sell through, weeks of supply and GMROI compared with industry benchmarks provide the results of this test.
- e. Top Quartile test - what do I need to do to take poor performing inventory and have it work as well as my best products, basically the concept of aggressive continuous improvement towards the best. In this case comparisons to internal 'best in class' information provide the gap analysis to determine investment success.

Inventory represents the largest single controllable asset that a Retailer can manage, and the single most important aspect of Customer Service. Applying Portfolio Investment practices can provide new insights into the management and success of a Retailers largest discretionary spend.

Manthan Can Help

We have supported over 65 successful retailers in over 16 countries optimize their business by providing the technology and consulting to best manage Inventory Investment.



About Manthan

Manthan is the Chief Analytics Officer for consumer industries worldwide. Manthan's portfolio of analytics-enabled business applications, advanced analytics platforms and solutions are architected to help users across industries walk the complete data-to-result path - analyze, take guided decisions and execute these decisions real-time. Sophisticated, yet intuitive analytical capability coupled with the power of big data, mobility and cloud computing, brings users business-ready applications that provide on-demand access and real-time execution - the only path to profit in a contemporary, on-demand and connected economy. Manthan is one of the most awarded analytics innovators among analysts and customers alike - with over 170 customers across 21 countries. To see how your business can gain from analytics, visit www.manthan.com.