Control Issues

Advanced, affordable tech helps retailers become 'inventory stewards'

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Jenny Bullard is living proof that cigarettes are a gateway drug.

After experimenting with a computer-assisted ordering system for the cigarette category, Bullard and her colleagues at Waycross, Ga.-based Flash Foods adopted the program as a new way of life, and expanded it across all product categories delivered to the chain's 177 stores from Flash Foods' self-distribution warehouse.

"It has increased our sales in the cigarette category because we have the right products in the stores and we don't have the out-of-stocks that we had before," says Bullard, chief information officer for Flash Foods. "Several years ago, before we got into the computer-assisted ordering and learning more about our scan data, we had a set [that heavily focused on the] top 25 cigarettes that we sold and we had that set across the whole company. Well, that top 25 list changes drastically from store to store and region to region.

"Now," she continues, "we're able to make sure that a particular store has a particular brand that they're actually going to sell to their customers."

> "You're talking about close to **$6,000 in dead inventory**, and that's just one particular SKU of one brand in one category."

Store-specific item-level inventory, long a fairy tale hindered by costly technology with erratic performance, is gaining traction as prices descend and computer-assisted ordering (CAO) systems evolve from mass and clubs to c-store purposes. It is among a growing list of increasingly affordable tech items that are enabling c-stores to become better inventory stewards and negotiate more evenly with distributors and DSDs.

At the very core, CAO, its proponents extol, helps ensure that retailers are carrying top products sold by store, as opposed to by chain. Likewise, the smart technology tracks sales movement and helps eliminate out-of-stocks by making certain hot-moving items are replenished before the last SKU is sold.

For Flash Foods, an 1,800-employee retail division of The Jones Co. Inc., shifting ordering powers from the manager to an automated system has saved the retailer several million dollars; it stretches across Flash's entire wholesale order and health and beauty aid line. "We're in the testing process of working with some of our DSD vendors to utilize computer-assisted ordering," Bullard says.

Flash Foods uses a Pinnacle Corp. product line that enables the marketing team to create an inventory or sales algorithm that sounds the alarm for the system to place a reorder. "The computer automatically takes into consideration what the store has on hand, what has sold and the sales history," Bullard says. "The computer then places the order. We've been able to eliminate out-of-

stocks and, at the same time, we've been able to control our inventory and not have a manager saying 'I need this' or 'I need that' and overstocking the store. At any given time, we have eliminated $3 million of inventory [chainwide]."

The CAO option was an existing tool in the back-office product Flash Foods has been using since 1997, so there was no software infrastructure cost in this case. Bullard estimates that, considering Flash's store count, the initial investment in a back-office system that includes the options Flash now uses would be in the $350,000 range if the project started from scratch. In Flash's case, there's a monthly support fee of around $25 per store and a requirement to buy a new license for new stores.

One of Bullard's favorite features is the "build to" function, which marries inventory parameters with real-time sales data. "Let's say you want four rolls of paper towels on the shelf," Bullard says. "The 'build to' function tells the computer to always make sure it orders enough rolls so that the retailer has four on the shelf."

The system also tracks sales spikes and suggests increasing the "build to" number if a store is consistently outperforming the parameters. Aside from maximizing a retailer's sales opportunities and improving cash flow, the system generates dramatic labor savings. Prior to CAO, Bullard says, the ordering process chewed up about 12 hours of labor each month. Now, an average Flash store pays for less than two ordering-related labor hours per month.

"The managers are now able to focus on customer-service-type tasks," she says. "Before, a manager would have to spend three to four hours placing their orders each week, but the computer automatically does it for them in 20 minutes."

When the order comes in, the store receives the invoice electronically with the cost assigned to each item. Bullard says wholesale costs paint a clearer picture of the store's gross-margin profit opportunities. "Like many retailers in the industry, we used to look at our inventory at an overall retail value," Bullard says. "Once you knew what the retail value was, you had to take that amount down to cost."

That system invited confusion. "At corporate, you're bringing that invoice in at cost," Bullard says. "At the store, you've got to take that retail value down to cost and that's a percentage that can vary from product to product. Your monthly gross profit could be artificially inflated if you happened to receive a large number of high-gross-profit products in any given month, and that could affect your P&L."

By assigning cost prices during deliveries, Flash Foods protects itself against anomalies—a high-margin item such as Elmo dolls at Christmas—that might affect the store's overall gross-margin profit performance. "We felt that if we could get to an item-level inventory where we knew exactly how many Snickers bars we had in the store and we knew that those Snickers bars cost us 50 cents," Bullard says, "we would have better control because we're seeing it at item level and by cost volume."

The South Leach Diet

It's no surprise that a guy who works for a company named Lard Oil is interested in cutting fat from his shelves. Henry Leach, director of operations for the Denham Springs, La.-based chain, says that retailers can't afford to have lazy inventory lying around their stores.

Lard Oil isn't using a CAO function at this time. Yet by seriously poring over scan data, Leach says he rotated out 10% of his storewide SKUs in 2008. "Right now, with cigarette cartons being about $30 per carton, you definitely don't want 10 cartons of dead inventory sitting out there at $300 multiplied by the 19 stores that we have now," Leach says. "You're talking about close to $6,000 in dead inventory, and

AUTOMATIC: Flash Foods' automated ordering system prevents overstocks and out-of-stocks, according to chief information officer Jenny Bullard.

that's just one particular SKU of one brand in one category. There are 95 brands of cigarettes out there and considering that about 40 of them satisfy about 90% of your customers, you really have to control that inventory."

Lard Oil uses Vancouver, Wash.-based DM2 Software's Storelink solution to grab a better grip on store inventory. Like Flash Foods, Lard Oil is simply taking advantage of existing features offered by its back-office product. Lard Oil also pays a monthly support fee and a new-store license fee of less than $10,000. Leach believes it's money well spent. "By looking at scan data, we can judge what's being sold and we no longer have to rely on vendors for purchase advice," Leach says. "This helps us control the beer companies, soft-drink companies, chip companies and anybody else who wants to fight about space in the store."

"Any time you bring something new in, there's always some resistance."

BRUCE EARHART
Handee Marts Inc.

Leach is in the process of a beer reset that will be based solely on scan data. "No one is going to be able to just come in here and say that they have 60% of the market so they need 60% of my space," Leach says. "If you have a store that's around a university or a residential area and Miller Lite is the No. 1 product, you're going to want to make sure Miller Lite has more space than Budweiser or else you're going to have out-of-stocks on the weekend. That's what scan data does for you. It enables you to devise sets by store."

Leach says it doesn't require much more time to do resets on a store-by-store basis. "With MillerCoors and Anheuser-Busch," he says, "you just produce the scan data for them by store and they'll input it into their set-making software and come back to you with a set that you can either approve or disapprove."

The numbers also spill the beans on how well promotions perform. "Maybe we want to use Fritos Corn Chips with 12-packs of soda for a weekend promo," Leach says. "Now we can judge exactly how that does by using our scan data. That's the only way you're going to survive long-term and compete with the RaceTracs and the Wal-Marts of the world."

Lard Oil's system also enables Leach to streamline his rebate process and, by default, improve cash flow. "A [soda vendor] might come to me and say, 'We'll give you another nickel per 2-liter if you promo us this weekend,' " Leach says. "Now, on Monday morning, I can give them real-time data about how that promotion worked. It's not about losing a partner. It's about working together to find out how the promotion performed and making the next one better."

Leach says it's important for vendors to implement systems that are compatible with their retailer partners' systems so that c-store operators can simply push sales data to the vendor from one computer to another and get paid more quickly. "Let's use smokeless tobacco as the example because that's a big growth category for us right now," he says. "Kodiak might say they want to do a two-for-$5 and rebate me $1 per can based on the scan data at the end of the sale. All I have to do is push the scan data and I'm collecting my $1 per can on that promotion. You might not be able to do that with another vendor that's not scanning."

Inflating the rebate line increases gross profits. Still, Leach doesn't forget about "Old Reliable" when it comes to increasing profits: strategic price increases. "I can look at scan data and see where I can tweak pricing on a particular product," he says. "Can I get 10 cents more on this product or 50 cents more on these suitcases? I can look at scan data and see when the price starts affecting sales on any particular product."

Just Handee

Bruce Earhart also plans to use his scanning data to test price elasticity. Earhart is director of marketing for Gibsonia, Pa.-based Handee Marts, Inc., a licensee of 7-Eleven Inc. that operates eight locations and franchises 54 others. Handee Marts does not use 7-Eleven's propriety Retail Information System, opting instead for a Professional DataSolutions Inc. (PDI) suite of products that was fully implemented in November.

"We've followed 7-Eleven's lead in their item-by-item and store-by-store ordering process," Earhart says. "That's the direction we're going now that we're able to capture the data. Our emphasis is to empower our store operators to be able to use their scanning data to delete slow-moving items and add high-potential new items and top sellers so that we're never out of stock."

Before implementing the PDI system, Handee Marts and its franchisees relied on purchase history data to place orders. "We started by training the supervisors, who in turn worked with the franchisees," Earhart says. "They reviewed the scan data, set the store and verified the results after we eliminated slower items, added new items and expanded space for items that we may have been selling out of in the past."

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Handee Marts faced a different challenge with its rollout. It's one thing for a corporate-operated chain to pull the old "cram down" on store managers. It's an entirely different challenge to persuade a group of business owners to buy into a major operations change. "I believe everyone is on board, but of course it's to varying degrees," Earhart says. "Any time you bring something new in, there's always some resistance."

Success stories help Earhart make the sale, and he's enjoying some early wins. "It already has helped," he says. "Early last year when we had about 80% of the stores online, I was able to better negotiate with all of our suppliers. I've been able to improve my product mix, especially in the OTP category."

Handee Marts' inventory control program is still screaming in the crib, but Earhart has high hopes for his new baby. "First, we'd like to reduce our inventory by 10%," Earhart says. "The goal is to maintain sales volume while we're reducing our inventory."

To achieve any goal related to inventory control, vendors say retailers must be consistent in their use of the technology. All items must be carefully tracked through the entire supply chain process, from delivery to scanning at the checkout, to ensure correct data is being processed. There are potholes throughout the process. If a customer plops a 2-liter of Diet Coke and a 2-liter Diet Pepsi on the counter and the store associate scans the Diet Coke twice, the data set is false. Everyone must be fully committed to the program.

An ancillary benefit of conveying the importance of tracking every item is that store associates know that everything from Swedish Match to Swedish Fish is being watched. At best, the systems could reduce shrink. At worst, the systems identify shrink.

Retailers generally seem happy with returns on their investment, but that's not to say the systems are flawless. "It's not as user-friendly as I'd like to see it right now," Earhart says. "It's basically just ranking data with the reports that we get. It would be nice to look at that in trend lines and be able to graph it out and isolate it a little bit more. It would be nice to be able to pull an item out and examine it on a trend line."

Leach of Lard Oil would also like to see some changes to his system, which counts inventory by category rather than by item. "I would like to get to item-level inventory," he says. "During an audit, you count by item instead of by category. This way, you know exactly how many Snickers bars you have on the shelf in real-time. That's the next step that we're going to take." ■