

## The Ultimate Supply Chain Irony

### Part 3: Promotion Planning Secrets to the Right Amount of Inventory for Successful Promotions



In the last installment of this three-part series, we tackled the ultimate supply chain irony by [discussing demand forecasting](#).

While having out-of-stock products means that some shelves and warehouse racks are empty, there are billions of dollars wasted each year in excess stock.

And that's the irony of it all.

So how does this affect promotions? As consumers become more budget-focused, we see more prices drop in retail stores, great deals using mail-in rebates and consumers clipping coupons. But what happens if you order so much inventory that you end up with too much stock, or even worse, run out of stock altogether? Well, besides some angry customers, you're losing out on sales.

In fact, a study by Emory University's top-ranked business school called "Retail Out-of-Stocks: A Worldwide Examination of Extent, Causes and Consumer Responses" shows that retailers are likely to lose almost one-half of the intended purchases when a consumer confronts an out-of-stock item.

So what are the secrets to successful promotion planning?



Secret #1

**Plan Your Promotion by Looking at Your Entire Product Line, Not Just the Products on Promotion**

#### Cause and Effect

Promotions inherently alter consumer buying habits. When you place a product on promotion, it seldom just affects the sales of that particular product. Sales on certain products may cannibalize other products, such as one soft drink on sale reducing sales of similar products at regular price. In other cases, sales on certain products may increase sales of complementary sales, like peanut butter and jelly.

In order to successfully plan a promotion, indirect promotional impacts like these need to be included in your demand plan. By looking at forecast history to pinpoint these impacts, demand planning software can then forecast the actual uplift you'll see from a future promotion – for the promoted product as well as the products that are affected by the promotion.

With a comprehensive solution like JustEnough's Demand Management software, forecasts are then used to accurately project replenishment orders so your customers find the stock on the shelves.

#### Success Story

Retail stores Game & Dion (Massdiscounters) sell a wide range of general merchandise and non-perishable groceries at discount prices. Over three million SKUs generate annual revenues of over \$1 billion, while 40,000 SKUs are active in any one store.

"A big drive for us has been to improve availability of our merchandise, eliminating excesses and stock-outs

in our inventories, and thereby consistently improving customer service levels,” says Jay Currie, Business Systems and Process Director.

Promotional stock ordering is also less cumbersome for Game & Dion. It is now handled by the replenishment clerks, and the tie-in to advertising campaigns is more accurate, with 97% of promotional products in stock on replenished lines.



**Replenish and Redistribute  
Inventory According to  
Projected Sales**

Secret #2

Once you’ve forecasted sales for the product(s) on promotion and adjusted the forecasts for your other products, it’s now time for the tricky part – stocking stores and warehouses at a low cost and with minimal risk of excess inventory. A study by the Massachusetts Institute of Technology (MIT) found that 34% of out-of-stocks can be attributed to forecast error while 22% of out-of-stocks can be attributed to a delay in order replenishment.

A software solution can automatically determine your optimal demand-based replenishment, minimizing the risk of human error and improving order accuracy.

have in other stores, distribution centers or wherever else you have product. Instead of placing another order with a supplier and hoping to receive it before the promotion is over, JustEnough shows you which locations have excess inventory so that stock can be taken from those locations and redistributed to other locations that need it.

### Strandbags: A Success Story

The Strandbags Group is one of Australia’s largest specialty retailers with more than 350 stores throughout Australia, New Zealand, the Middle East and South Africa. The company was relying on memory to send inventory by certain dates to certain locations so items could arrive in time for a promotion or a holiday sales period. It didn’t have advanced knowledge of when to push inventory to stores.

After implementing JustEnough’s software, the system now decides where an item needs to continue to be stocked and its ideal quantity. It also determines whether the quantity should increase or decrease over time. Lead-day requirements are built into the system, enabling planners to push selected amounts of inventory on time and more accurately.

From the store’s perspective, on-site retail managers are now confident about building sales because when they see a particular item is selling briskly, they know it will be replenished quickly.

“Stores are amazed that their deliveries include more of the products they see selling well.”

Nathan Toussaint, Business Analyst, **Strandbags**

In fact, you can build replenishment orders based on real-world situations that constrain your ability to replenish such as supplier minimums and container fill rates. That way, constraints don’t get in the way of you running your promotion and inventory is put in the places most likely to sell. You’ll even receive alerts when inventory is low so that you can replenish outside of your regular order schedule.

Once your promotion gets going, optimize your cash flow by maximizing the inventory that you already

“Stores are amazed that their deliveries include more of the products they see selling well,” said Nathan Toussaint, Business Analyst at Strandbags. “Earlier, if two or three items were selling quickly, they’d need to wait a week or more for new stock.”

While accurate demand forecasting and replenishment are critical to planning a promotion, it’s important to have inventory in reserve too, a.k.a. safety stock.



### Get a Handle on Safety Stock... Just in Case

Safety stock is kept to reduce the risk that an order is delivered late from your supplier and the risk that a customer purchases more than you forecasted for that time period. Both of these can dampen even the most well-planned promotion.

Inventory planning software can dynamically adjust safety stock based on demand forecasts and changes in supply and demand. For example, software like JustEnough's Inventory Planning solution increases safety stock levels when a product is on promotion compared to when it's not. Plus, as supply and demand fluctuates, the software recalculates safety stock levels to increase or decrease accordingly.

To drive the most accurate results at each inventory location, JustEnough calculates this at the item/location level. This means that a location close to a supplier may have less safety stock while product that needs to clear customs may have higher safety stock levels. You see not just the excess stock amounts but also how many days of excess inventory you have. From there, you may decide to run your promotion a little longer to get rid of the excess inventory.

## In Conclusion

If you can do all of these successfully, then you'll be able to run successful (and profitable) promotions that keep products in-stock without having too much inventory when the promotion is all said and done.

Want to learn more about promotion planning? Visit the [Promotions Planning and Analysis page](#) on our website or email [info@justenough.com](mailto:info@justenough.com).



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## About JustEnough

Founded in 1994, JustEnough is a global leader in Demand Management solutions. JustEnough services more than 500 of the world's leading brands including Allocation and Replenishment of inventory at **Kenneth Cole**, Merchandise and Assortment Planning at **Levi Strauss**, Sales Forecasting at **Kraft Foods**, Inventory Planning for **IDS Group (Li & Fung)** and **Nissan**, and Mobile Sales Force Automation at **SAB Miller**, **Cadbury** and **Heineken**.

**OnCloud**, **OnSite** and **OnMobile**, JustEnough's Demand Management solutions help retailers, suppliers and brand owners forecast their customer demand, plan their assortments, allocations and inventory, shape their demand and then execute on those plans. JustEnough is headquartered in the United States with offices worldwide. Learn more at [www.justenough.com](http://www.justenough.com).