

INVENTORY MANAGEMENT FOR FRESH REPLENISHMENT

The simple structure of retail business – open a store, source products, sell for a profit and repeat – has changed greatly. Technology has impacted every step of the customer interaction to dynamically personalize the shoppers journey. While these innovations have improved the consumer experience, it has not been an easy transition for grocery retailers. With higher revenue expectations from fresh products, efficiently managing replenishment cycles has been a challenge technologically and operationally.

Grocers face increasing pressures from the rising cost of waste, laborious replenishment processes and lower margins from race-to-the-bottom pricing. The issues are further compounded as traditional grocery model shift from being providers of goods to purveyors of services and solutions to meet the food, health and wellness demands of the modern consumer.

In 2018 Progressive Grocer surveyed 140 retail executives, 60 percent said that produce and deli/prepared foods are primary points of differentiation. Combined, sales of fresh products account for approximately 40 percent of grocery revenue.¹

FOCUSING ON FRESH FOODS IS GOOD FOR BUSINESS

With the rising prominence for fresh food, including food-to-go and meal kits, many grocery retailers are redesigning their store formats to engage shoppers and increase in-store traffic using fresh products. Grocers are swapping out underperforming products with more in-demand fresh items as a dedicated, revenue-driving strategy. However, many grocers use a fixed, rule-based forecasting and replenishment approach of minimum/maximum methodology to manage fresh goods. These traditional forecasting and inventory management methods are not built for the variability of fresh goods optimization to reduce spoilage and waste. Both of which pose a daunting challenge for grocers.

Spoilage and waste are margin-impacting concerns for the industry, and if they remain unaddressed due to system limitations, these challenges will only intensify as the importance of fresh products continues to gain prominence. Ahold Delhaize, the parent company of Food Lion and Stop & Shop, reported that its total volume of food waste in 2017 was 5.32 tons for every \$1.2 million in sales.² The incremental economic damage of spoilage and waste can also increase when it leaves the consumer with a poor experience, or when a grocer's spoilage and waste management practices conflict with consumers' desire to patronize a sustainable business. This could be the case among the eco-friendly millennial segment, which is now the largest (30 percent) U.S. demographic group.³

Today's customers also have a very low tolerance for poor experiences, and retailers generally don't have many opportunities to get it right. According to PWC, grocers and retailers alike lose about one-third of their customers after one bad experience – even if they love the brand – and another two-thirds will walk away after multiple bad experiences.⁴

“As we look toward the future, it's clear that consumers have some high demands for the technology applications they expect grocers to invest in...”

Dana Krug, vice president and general manager of food and beverage for Durham, N.C.-based Phononic

ESTABLISHING A DIFFERENT APPROACH TO DEMAND FORECASTING IS JUST THE BEGINNING

As grocery retailers innovate to meet and exceed the demands of the connected consumer with omnichannel solutions, Manhattan recognizes that the journey can be arduous. Grocers that have to manage increasingly more items with shorter life cycles requires a gradual approach to overcome constraints from restrictive technology and/or limited visibility of demand across the inventory network. These constraints can cause decentralization of the forecast. As a result, the grocer's ability to forecast fresh product life cycle is limited to the depth of historical demand and replenishment data availability.

However, when Manhattan Demand Forecasting and Replenishment is integrated into the inventory workflow and near real-time inventory levels are shared with buyers and planners, they gain visibility and insights into a wealth of structured and unstructured data. They can then analyze the data to help grocers understand the "why" behind their demand signals. The data source is also enriched by inventory feedback from managers and associates in the field. When demand planners have deeper insight into current conditions, they are able to unlock new levels of predictive forecasting accuracy to identify ranges of outcomes and the probability of each of those outcomes occurring with probabilistic guarantees. The information generated from our Demand Forecasting and Replenishment engine can then be used to identify optimal inventory targets for replenishment planning.

LEVERAGING MACHINE LEARNING TO OPTIMIZE AND AUTOMATE REPLENISHMENT OF FRESH PRODUCTS WITH DEMAND FORECASTING AND REPLENISHMENT

To meet the demand and replenishment expectations for fresh goods and to manage the growing number of short shelf-life products, grocers need technology that optimizes for the hyper-personalized customer experience. And, while MEIO enabled a bi-directional network approach to inventory management, it was not designed to facilitate omnichannel demand and fulfillment expectations. At Manhattan, we have built a robust Demand Forecasting and Replenishment engine that delivers the positive experiences customers have come to expect and provides powerful new insights into customer buying patterns to improve replenishment cycles. The machine learning algorithms of demand forecasting have become a crucial element for grocery retail success.

Manhattan Demand Forecasting and Replenishment – powered by the most advanced machine learning and analytics algorithms – enables day-level, baseline forecasting, balance availability against waste and spoilage and promotional event impact analysis. It also accounts for other exogenous parameters to improve the accuracy of the replenishment cycle.

Today, Manhattan's solution dynamically manages replenishment cycles for some of the oldest and most-complex specialty fresh, natural and organic wholesale foods distributors and grocery retailers in the industry. We can help you automate your processes to simultaneously reduce waste, increase availability and shorten lead time to put fresher products in the hands of your consumers.

For more information

To learn more about Manhattan Demand Forecasting and Replenishment technology, contact us today:

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1. mckinsey.com/business-functions/marketing-and-sales/our-insights/fresh-take-on-food-retailing
2. biologicaldiversity.org/programs/population_and_sustainability/grocery_waste/pdfs/CheckedOut.pdf
3. brookings.edu/research/millennials/
4. pwc.com/us/en/services/consulting/library/consumer-intelligence-series/future-of-customer-experience.html

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