The Business Case for Investing in Retail Data Analytics

Why product manufacturers are investing in POS and inventory analytics solutions

Introduction

In the latest Shared Data Study from CGT and RIS News on the state of retailer-supplier collaboration around retail data sharing, it was found that 100% of product manufacturers deemed to be 'leaders' in the use of retailer data – POS and inventory data received from retailers – view this as a strategic initiative in their companies. Additionally, that same study found that 75% of data sharing leaders say that the quality of collaboration and dialogue with their retail partners has improved significantly through their efforts incorporating this data into their daily operations.

Delving deeper, suppliers list numerous benefits from better managing retail POS and inventory data, with the top 5 being:

1. Improving on-shelf availability
2. Better demand forecast accuracy
3. Lower inventory and safety stock levels
4. New product launch execution management
5. Improving shopper/customer experience

Interestingly, these top 5 business benefits align almost exactly with the benefits listed by retailers as accruing to them through supplier data sharing, which further highlights that retailer-supplier data sharing and collaboration can get both sides singing from the same song-sheet in the pursuit of customer satisfaction and operational excellence.

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So with all these great benefits to suppliers, surely all suppliers must be investing in the people and tools to get them these benefits, right?

Wrong.

The reality is that not all suppliers are consumer packaged goods behemoths like P&G or Nestle whose massive volume affords them the opportunity to invest millions of dollars in people, processes and tools to integrate this data in to their daily operations. In fact, once you drop out of the top-tier of CPG companies, one sees a significant drop-off of capabilities in the effective use of retailer data to improve their business.

*Cloud computing and Big Data technologies have created options that **previously didn't exist for product manufacturers***

Furthermore, this capability is largely absent in those channels outside of traditional fast-moving consumer goods channels like grocery, even among the largest suppliers. Home improvement & hardware, sporting goods, apparel, general merchandise, and consumer electronics are all examples of classes of trade where suppliers are less mature than their counterparts in the traditional CPG channels at effectively using so-called downstream retail data.

With more and more retailers recognizing the benefits of retail data sharing with suppliers and starting to share data with their entire supplier bases, the expectations of – and opportunities for – suppliers are growing.

So how can your business follow in P&G's footsteps without needing to deploy armies of analysts and millions of dollars? How can everyone else leverage the best practices of the leaders in CPG?

New Opportunities

Fortunately, the recent emergence of cloud computing and Big Data technologies have created options that previously didn't exist for product manufacturers. Whereas a few years ago, the only way to harness this set of big data was to build so-called 'demand signal repositories' or data warehouses with expensive custom reporting tools, today there are cloud-based platforms that are deployed quickly and easily without the need for custom software, expensive implementation services or hardware infrastructure.

There are three key areas where suppliers leveraging retailer POS and inventory information can expect to see benefits:

- Sales
- Marketing
- Supply Chain

Sales

*Estimated global incidence of **out-of-stocks is 8.3%***

Reducing out-of-stocks. Despite all the technology investments that retailers have made in auto-replenishment and supply chain management software over the years, it is estimated that the global incidence of out-of-stocks is 8.3% (GMA, 2008). That's an astonishingly high number and one that's been consistent over years of measurement. And it's a number that shoppers can relate to – it means that shoppers only have a 42% chance of filling a 10-item shopping list without encountering a stock-out.

This is also a number that any product supplier can relate to. Intuitively, suppliers know that there are many situations – new product launches, promotional events, weather events – where consumers are not finding the supplier's products on the shelf. These stock-outs result in a lost sale as the frustrated consumer picks up a competing product. At worst, it can lead to a lost customer for a longer period of time (potentially forever) who has to be wooed back from the competing brand that the stock-out introduced them to.

While improved supplier POS and inventory analytics won't eliminate out-of-stocks entirely, suppliers with increased visibility can pre-empt potential problems at store-level and help bring the incidence of out-of-stocks down.

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Driving Replenishment. Even in seasonal product categories where in-season replenishment may be traditionally less common, opportunities exist to drive incremental sales with proper retail channel visibility. The reality is that many products that have traditionally been thought of as non-replenishable are only so considered because of the lack of sell-through visibility that suppliers have traditionally had into these channels. This blindness has in turn led to their inability to react along the supply chain to produce and/or push more product into the channel to fill assortment holes during the selling season.

Smart suppliers are harnessing sell-through and inventory data to ***outmaneuver their competition*** *on the shelf*

With global supply chains shrinking in both time and space, this ability for in-season replenishment is becoming a significant missed opportunity for suppliers across many channels. By harnessing the sell-through and inventory data that is increasingly being shared by retailers, this entire paradigm that has long underpinned many product markets is shifting. Smart suppliers can take advantage of the resulting sales opportunities, and can use retailer data to outmaneuver their competition on the shelf.

Marketing

Improved Promotional ROI. The holy grail of any marketing program is to be able to track its financial return or ROI. Unfortunately it is all too often elusive. As the old adage goes, "we know we're wasting half our marketing spend, but we don't know *which* half."

When product manufacturers invest in promotional activities or marketing campaigns – whether in-store, out-of-store, online, offline – it is pointless to measure the lift in sales by shipments into the retailer *before* the promotion. While it might be a nice shot in the arm to load product into a retailer as part of a joint promotion, the euphoria will be short-lived if the net impact to the supplier and retailer is not demonstrably positive in the medium term. And *demonstrably* is the operative word here – if a supplier is not able to credibly show its buyer or merchant at the retailer the joint gains produced from the marketing promotion, that buyer will look to another supplier next time a joint promotional window comes along.

Similarly, a supplier trying to approximate lift based on aggregate sales numbers across the channel over time will likely find that the analysis contains too much noise to sufficiently isolate the true immediate impact that the marketing promotion had on sales.

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Particularly as hyper-local shopper marketing techniques – those that combine multiple touch points to consumers both out of store and in store – increase in popularity, the opportunity, or rather, the imperative to measure their effectiveness is based on store-level POS data.

Take the example of a supplier who manages to get off-shelf displays for their product in the retailer aisles. This is a tried and true tactic to draw increased awareness and attention to the product, potentially driving sales up significantly. A supplier who can zero in on those stores with displays to track the rate of sale before and after the display hit the stores, compare it to similar format non-display stores, compare it to same store sales in previous years, will be able to triangulate to the precise return that the investment in the additional merchandising yielded. Decisions can then be made to expand, amend or abandon this particular marketing tactic.

Regularly measuring all marketing promotional activities, whether they be coupons, in-store demos, signage, packaging, merchandising, geo-targeted online or mobile ads, etc. will ensure that the 'wasted half' of marketing spend is identified and eliminated. With increasing focus on those marketing investments with positive return, profits and revenue growth should follow.

Optimized Assortments. No two markets are exactly alike. Retailers know this and accordingly build different format stores and stock shelves differently depending on population size, consumer demographics and socioeconomics, language, climate, etc.

Suppliers can simply rely on the retailer to place orders and they can passively ship product, assuming that the retailer is making these optimization decisions for them. But how realistic is it to imagine that a single category buyer who is managing dozens of suppliers and hundreds of SKUs has the time to do market analysis for each and every product? As it turns out, not realistic at all.

Retailer buyers recognize that ***product suppliers are the subject matter experts*** *when it comes to their product markets*

Retailer buyers recognize that product suppliers are the subject matter experts when it comes to their product markets. Accordingly, they are increasingly looking to suppliers to come to the table with this type of product market analysis and recommendations to optimize category and assortment performance.

Smart suppliers who are able to analyze what's driving their sales by store, by market are viewed as trusted partners by their retailers and are part of the conversation when it comes to joint planning that ultimately drives their business.

Supply Chain

More Accurate Forecasting. Forecasting is an art even at the best of times. A supplier's forecasts may start with sales providing a bottom up estimate by SKU by customer. Or it may be top down driven by past performance with a growth factor applied. Either way, the more information that is used in arriving at these numbers, the better they will be.

A key success factor in forecasting accuracy is the granularity of information. By using the granular SKU- and store-level sales information hiding inside the POS data, smart suppliers can build more accurate forecasts so that they are not caught with too little stock – and therefore suffer out-of-stocks or miss replenishment opportunities – or on the flipside, too much stock at which point they need to clear out product at a discount at potentially negative margins.

Reduced Safety Stock and Increased Inventory Turns. When suppliers are blind to customer demand driven by store level purchases and instead manage their business only to periodic 'lumpy' purchase orders, they often err on the side of carrying too much inventory. After all, choosing between carrying extra inventory and short shipping a retailer, most suppliers will choose the former option so as to not jeopardize their standing with that retailer.

Effective use of store-level, SKU-level data enables suppliers to ***smooth out inventory levels, thereby freeing up capital***

When less money is tied up in inventory, money is freed up to generate returns elsewhere. Effective use of store-level, SKU-level data enables suppliers to smooth out inventory levels, thereby freeing up capital. Those dollars multiplied by the supplier's cost of capital will give suppliers a target for improved capital efficiency.

More Efficient Replenishment. When retail replenishment orders arrive unexpectedly, the downstream costs for a supplier can add up quickly. Expedited production costs, expedited freight cost, both along its supply chain and to the retailer (not to mention the risk of short-shipment and lost sales) can all add up.

Effective use of store-level data and analytics enables smart suppliers to see around corners and anticipate demand in advance of the order, enabling a smoothing out of the production and supply chain costs. This is particularly important in the case of new product introductions when historical-based demand planning cannot help. The earlier customer demand signals are sensed in the retail channel, the sooner suppliers can plan and execute their supply chain activities to meet this new demand curve.

Enabling Smarter Suppliers

The level of retailer-supplier collaboration enabled by supplier POS analytics has proven to be a key enabler of Walmart's growth and success. The more information shared with suppliers, the more partnership-like the relationship between retailers and suppliers, which in turn leads to better joint planning, execution and performance. With more and more retailers jumping on the data sharing bandwagon, smart suppliers need to be ready to capitalize on the opportunities that this rich stream of big data present.

With recent advances in cloud big data analytics and mobile technology, suppliers wanting to get a leg up on their competition are now able to drive smarter decision-making and execution using this retail data throughout their organization. From sales, to marketing, to supply chain to field service teams, it is now possible to get everyone optimizing the business based on the same shared set of facts.

Moreover, with the emergence of powerful Software-as-a-Service platforms which turns the traditional technology model of up-front investments in business intelligence software and implementation services, hardware and ongoing IT support on its head, all this capability can be deployed for nominal all-in monthly subscription fees.

Given the opportunities for increased revenue and reduced costs to be achieved across sales, marketing and supply chain, the question suppliers should be asking is not, “can we afford to invest in retail data analytics”? Rather, the question smart suppliers should be asking is, “can we afford *not* to”.

About Askuity®

Askuity is a cross-retailer Big Data analytics platform that connects retailers and product suppliers with insight and information, enabling better collaboration, decision-making and retail execution. Accessible in the cloud from any device, at any time, Askuity combines secure product- and store-level data sharing with a full suite of analytic tools to help reduce out-of-stocks, increase inventory turns and optimize promotional spend.

Askuity – See What's in Store®.

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