Future Forecast: Maximizing the Value of Store Data

New tools can take the guesswork out of inventory management and demand planning – when the industry is ready

In collaboration with:

Alloy

By Path to Purchase Institute Staff

Consumer packaged goods companies still relying on infrequent data updates and time-depleting analytics processes to drive their inventory management and demand planning practices are certainly not alone. But they could be in the very near future.

The point-of-sale and inventory data that CPGs obtain from retailer partners has always been important. But it has never been more critical to success than it is today, as the industry bids farewell to the "stack 'em high, watch 'em fly" merchandising mindset of old to address an evolving omnichannel marketplace where "right product, right time, right place" is the new mantra.

Historically, the practice of retail forecasting has been a static, largely manual process for sales operations and supply chain management. CPGs created forecasts for predicted orders, in many cases worrying more about the sell-in than the sell-though. They updated these forecasts on a quarterly or, at best, monthly basis, and made all subsequent decisions accordingly.

"Ultimately, it's the end-consumer who matters most," says Joel Beal, chief executive officer and co-founder of Alloy. "True demand should always be the core driver for wholesale decisions, and it's not always what you would expect based on sell-in."

Because this process was so time-consuming and slow, most companies only revisited forecasts when it was time to evaluate results at the end of the month or quarter – which, of course, was far too late to allow for any kind of impactful corrections to be made if the original plan wasn't working.

In today's faster-paced retail environment, where consumers have more options than ever about what products to buy and where (and even how) to buy them, that approach to forecasting and execution is dangerously insufficient. Instead of an isolated, one-time exercise, demand forecasting must now be a process that occurs continually and provides critical, real-time insights for decision-making across the organization, like how to balance inventory across partners to avoid out-of-stocks.

The necessary tools to do so are already available. The business technology boom of the last decade has delivered effective tools for the collection, storage, dissemination and analysis of high-quality, granular retail data. In particular, machine learning and other forms of artificial intelligence are making it possible to turn demand forecasting into the "exact science" CPGs have always wanted it to be.

But just because the data and the tools are readily available doesn't mean they're being fully adopted across the industry. The usual obstacles – entrenched legacy systems, inadequate resources, unconvinced or indifferent leadership – are holding back progress in many organizations.

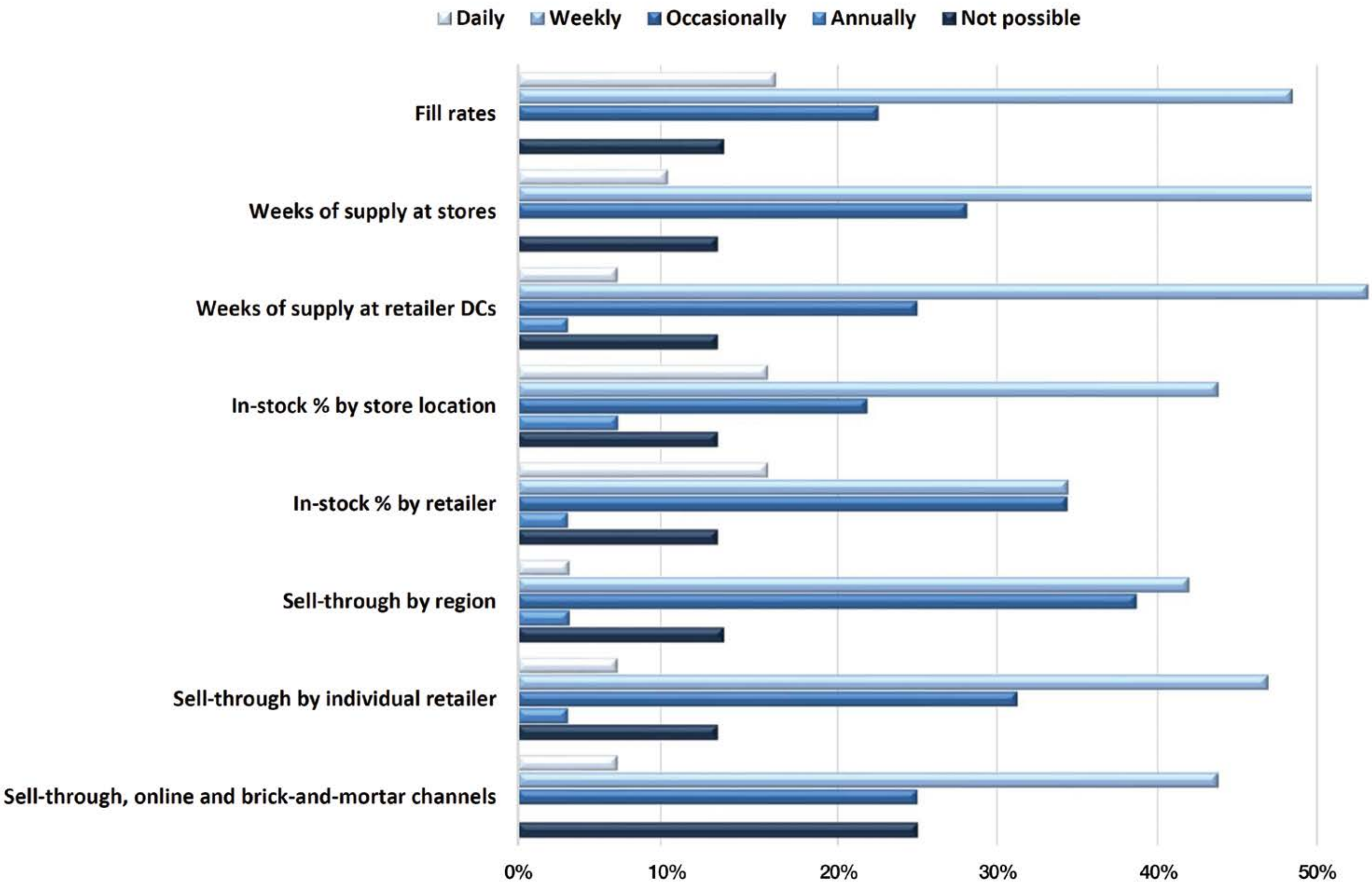
And that's despite pretty consistent dissatisfaction with existing tools among practitioners. In an informal survey conducted this summer by *Path to Purchase IQ* and Alloy, a group of CPG practitioners almost universally complained about legacy tools that are too slow or too difficult to use (for anyone but professional analysts), or about data that's either untrustworthy or too dense to turn into actionable insights. The issues are so widespread that only two of the more than two dozen industry professionals polled in the survey expressed satisfaction with the tools and processes they currently use.

No Time for Optimists

There are two ways to evaluate that feedback, which points to an industry that has been slow to adopt many of the tools and practices for which practitioners are calling. Optimistic, "glass is half full" types might breathe a sigh of relief, since it suggests that they aren't too far behind the competition in terms of responding to consumer demand.

But the more anxious, "glass is half empty" types might worry that even the small number of technologically advanced rivals in their

Frequency of Retail Data Analysis



Source: *Path to Purchase IQ*/Alloy

midst are already developing a competitive advantage that will be hard to match if they wait any longer to catch up. And they wouldn't be wrong.

For instance: "Only" 38% of the surveyed CPGs currently have complete visibility into their inventory down to the store level, and only 19% more even get data from the retailer distribution center-level. This doesn't mean, however, that the 22% of companies that are only tracking through their own DCs shouldn't worry about how far behind they're falling.

Similarly, the fact that less than 15% of surveyed companies are capable of analyzing such data as fill rates, weeks of supply, in-stock percentage and sell-through on a daily basis doesn't mean the rest of the industry can comfortably stay inactive much longer: The handful of CPGs already tracking daily sell-through both in brick-and-mortar stores and online channels are getting a much better read on an increasingly volatile marketplace, enabling them to increase efficiency and drive growth (see chart, above).

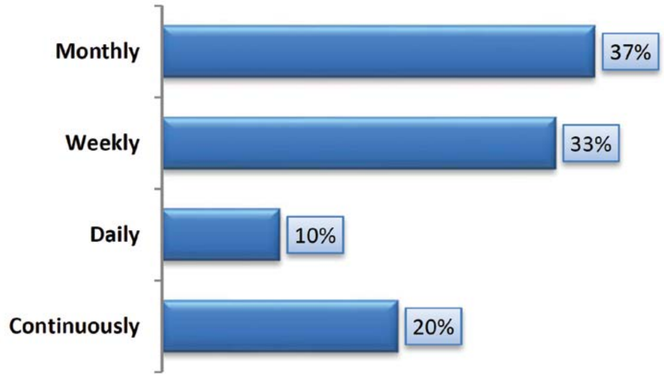
"Greater frequency is better because it drives closer connections, and hence enables better integration across the supply chain that results in better order fill rates, fewer out of stocks and overall greater efficiency in inventory management," Jon Harding, global chief information officer at Conair Corp., recently told *Path to Purchase IQ*.

The problem isn't just obtaining the data on a timely basis (as discussed later), but also having the systems and processes needed to digest it properly. While just under half of the survey respondents say their company has a centralized resource for "translating" retailer data into their internal nomenclature, a handful of others admit that retailer-specific understanding goes no farther than the account team (at best).

Such an inability to accurately align internal and retailer metrics can significantly cloud replenishment and demand planning at the account level – and makes cross-retailer analysis and company-wide best-practice development next to impossible.

What's more, real-time (or even weekly) visibility into sales and inventory data is worthless if the CPG organization isn't prepared to do anything with the information: Roughly one-third of survey participants still only update their internal forecasts monthly (see chart above). That's a problem, considering that a 30% error rate when forecasting SKUs 30 days out is the industry-wide average, according to the Institute of Business Forecasting & Planning.

Frequency of Demand Forecast Updates



Source: *Path to Purchase IQ*/Alloy

"That's usually what takes the most time: organizations adjusting to the fact that they have these insights and could do things differently than they have before," says Alloy's Joel. "That probably takes 80% of the work."

These results provide another warning for the glass-half-full people out there: A few companies are already conducting updates continuously, rapidly adjusting their plans to meet changing market conditions.

Similarly, the majority of companies still manually check for phantom inventory and calculate key metrics like future weeks of supply, in-stock percentage or lost sales on a manual, ad hoc basis – but a few more advanced organizations already get real-time alerts on all four data points. Likewise, most respondents are pinpointing opportunities related to specific locations, SKUs or orders by sifting through prepared reports or directly digging into data themselves; but a few already enjoy the benefit of dynamic dashboards that not only speed up the process but make it far easier to democratize the data across the enterprise.

The Race Is On

Nearly all CPGs agree that daily POS data should be considered foundational for maintaining correct inventory levels and gauging promotional success, according to *Path to Purchase IQ*'s 2019 "Retail & Consumer Goods Analytics Study" (April 2019).

But while more than three-fourths of CPGs (76%) now receive daily POS data from at least two key retailers, according to the study, their ability to analyze and quickly act on the data varies widely across the industry.

More than half of the companies surveyed this summer are pulling sell-through data from retailers less than weekly. Yet 15% say they're getting the data in near real-time, illustrating again that the technology is available for nimble companies with the desire – and the tools – to leverage it.

"Today's fast-moving markets have changed the way we look at demand planning excellence," said Thomas Fiedler, Procter & Gamble's director of supply chain planning solutions, while recently discussing changes to the CPG giant's tech stack. "The use of new tools to automate and streamline processes is at the core of our digital supply chain initiatives."

Adopting new tools wouldn't just improve forecasting directly by enhancing a company's analytics capabilities, it also would free up teams currently neck-deep in spreadsheets to spend their time on more productive, more strategic endeavors.

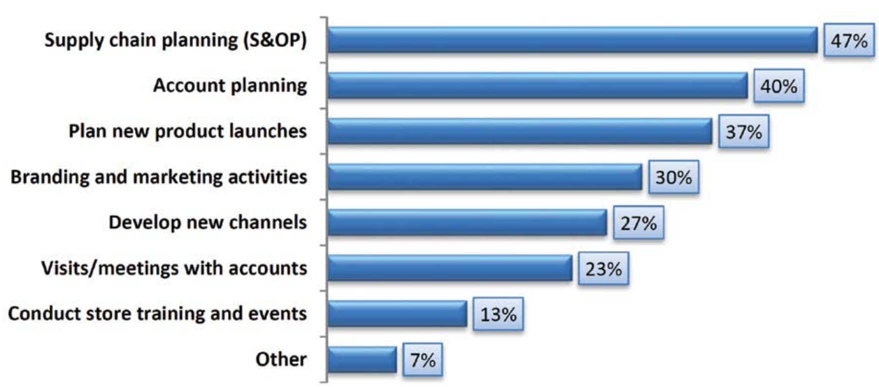
Practitioners say they would love to devote more time to strategic planning around the supply chain, key accounts, new product launches and other marketing activity, new channel development, or more frequent store visits – all of which ultimately would strengthen partner relationships and insights into consumers (see chart below).

"Ferrero is constantly looking at innovative ways to meet consumer demand," said Glenn Lawse, vice president of supply chain at Ferrero USA, which this fall began implementing a supply chain solution from Alloy in an effort to improve store-level out-of-stock and phantom inventory predictions, reduce overstocks and improve retailer relationships through a deeper understanding of demand drivers.

Ideally, daily sell-through data at the store/SKU-level should be driving decision-making in many areas of the business, which makes it critical for CPGs to invest the time and effort needed to collect and make use of it. Doing so might require companies to modernize some of their existing practices, but the effort should definitely prove to be worthwhile.

In the current retail climate, it might be the only way to fill up the rest of the glass. **IQ**

Alternative Activities for Internal Teams



Source: *Path to Purchase IQ*/Alloy

ABOUT ALLOY

Alloy readies consumer brands to capture demand and streamline supply by breaking down data silos across sales, marketing, and supply chain. The company's platform enables manufacturers to continuously monitor omnichannel demand to evaluate performance and improve forecasting, and connects those insights with end-to-end supply chain visibility to proactively address inventory risks and opportunities.