State of the Retail Supply Chain
2017

Research Findings on Supply Chain
Planning & Execution across Europe

Contents

Foreword

Welcome to the latest annual State of the Retail Supply Chain report, researched by Martec International and commissioned by RELEX Solutions, and which this year focuses on Europe.

Shoppers have access to almost any product at any time and fulfillment times are shrinking by the month. With almost constant availability, consumers are asking 'where?' and 'when?' while retailers are increasingly asking themselves 'how do we meet customer expectations?'

In the turbulent and unpredictable market, with e-tail's growing presence, and with consumer expectations constantly growing, running a fully integrated supply chain is vital. Good communication and joined-up operations lead to better decisions and in turn to lower inventory levels, better availability, less waste and more sales. Yet siloing, where one hand doesn't know what the other hand is doing, remains far too common and produces the opposite results.

For instance, very few retailers consider space management part of their supply chain replenishment process. This is because space is not generally the responsibility of the Supply Chain Director. This is a typical silo-driven mentality and, in modern retailing, it exposes businesses to higher risks.

Getting supply chain managers, store supervisors and planners to collaborate in optimizing space to meet local demand both tailors the offering to each store's market and helps ensure there's enough stock for merchandising and promotions, that there's room for incoming inventory and that, when it arrives, there's space to put it on shelves. Integrating space, assortment, forecasting, and replenishment disciplines enables retailers to respond effectively to shoppers in each individual store and maximizes sales.

And yet a full third of survey respondents say they have no systems that can handle the task while a further one in six use in-house systems rather than dedicated tools from specialist providers.

Promotions are another way in which retailers answer consumers 'where?' and 'when?' with a 'here and now.' Promotional campaigns and merchandising events are increasingly important in driving sales. Both promotions and product introductions top the list of the challenges retailers say they face (each citied by 40% of respondents). And yet three quarters of retailers are unhappy with the tools they have to manage these most common supply chain headaches.

Likewise, external data (i.e. competitor pricing, weather, local sports matches, concerts, elections etc...) should be included in inventory planning. But the survey suggests that fewer than three in five factor weather into their demand forecasting despite the huge impact that it can have on sales.

Smart and innovative technology exists that means managing space, promotions and product introductions can be done, and done well while providing the level of visibility that makes integrating your supply chain wholly achievable.

But far too many businesses think adopting new technology is risky, expensive or both. It doesn't have to be. Indeed, the rise of the cloud-based SaaS model eliminates tie-ins and minimizes investment and risk. So perhaps the real question shouldn't be 'how?' but 'what are you waiting for?'

Mikko Kärkkäinen
Group CEO
RELEX Solutions

Research Highlights

40%
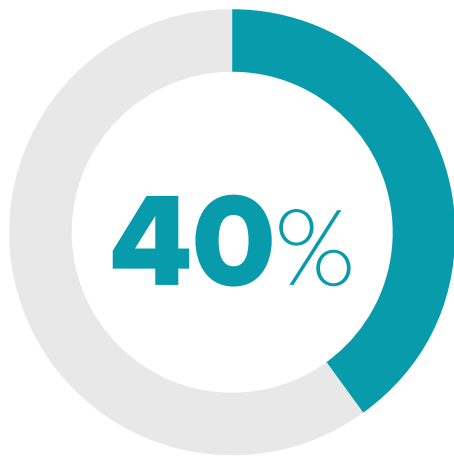
say forecasting for promotions is biggest business challenge

82%

are dissatisfied with their current promotion & new line introduction planning system

This research, conducted by Martec International and commissioned by RELEX Solutions, covers European retailers with sales in excess of €100 million p.a. We interviewed 80 retailers across France, Germany, Italy, the Nordics, Spain and UK representing a total of €248 billion of sales. We are confident that the findings are applicable to other retailers in these countries. Below are some of the key findings.
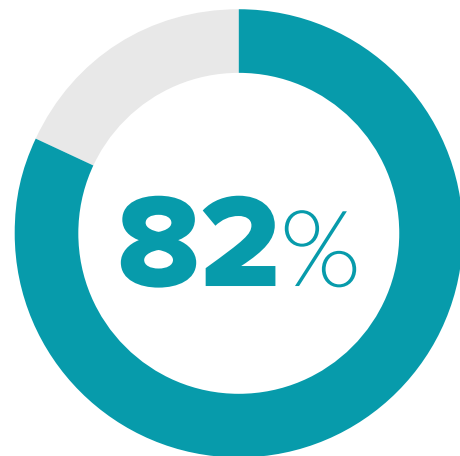
Promotions (page 8)

The difficulties of running effective and profitable promotions emerged as a key theme this year. The tough trading environment means that many retailers are relying on promotions to draw in customers and increase transaction value. Yet many companies are doing this without suitable systems support. A massive 82% of retailers are dissatisfied with their current promotion and new line introduction planning system. Promotions emerge as retailers' biggest business challenge regarding supply chain planning and execution – mentioned by 40% of companies. Furthermore,

forecasting for promotions comes out as the joint biggest challenge for retailers.

Forecasting (page 10)

Effective forecasting is a major challenge for the retailers we interviewed. Most (76%) are not happy with their current supply chain system in terms of analysis and reporting on forecasting. Forecasting more effectively for promotions and for new products are the joint top challenges. The rapid pace of change in product innovation and the increased use of promotions mean this will continue to be a challenge.

Use of external data and space (pages 16-19)

Very few retailers make effective use of external data, like weather or competitive pricing, in their forecasting, scoring an average of 4.3 out of 10 (with 1 being the lowest with no external data taken into account). This is probably because their current systems are unable to do this and it is quite challenging to use external data manually. However, we noticed that online retailers score higher here.

> ❝ **The tough trading environment means that many retailers are relying on promotions to draw in customers and increase transaction value**
>
> **Martec International**

> ❝ **Very few retailers make effective use of external data, like weather or competitive pricing, in their forecasting**
>
> **Martec International**

They leverage their online data such as page views, or competitors' pricing, to ensure availability and reduce markdowns. This is an area that forward-looking retailers should look at too.

The average satisfaction level for the use of space data (such as minimum display requirements and changes in the amount of space available in individual stores) in forecast and replenishment processes is only 5.1 out of 10 which demonstrates that very few retailers consider space as part of their supply chain replenishment process. The main reason is that space is not usually the responsibility of the supply chain director.

This siloed approach to the organization and business processes goes against the drive for more integrated operations and business processes which lead to better inventory levels, less markdowns and higher customer experience.

Benchmark (page 48)

The research enabled us to put together a benchmark designed to be used by retailers as a guide to understanding how their business compares with other retailers. We have defined 4 levels with the average retailer designated '2.0', or 'standard'. Retailers at the standard level have started to automate, but there are still a number of basic, manual processes and systems in the business with variable visibility of the supply chain. Stock holding can be high and is not optimized across all sales channels. There is only a manual consideration of space in the supply chain and limited analysis and management of promotions. We have benchmarked all interviewed retailers and highlighted strong and weak areas, and a strategy for improvement. Find out where you rank against your peers.

Top Three Issues Regarding Supply Chain Planning and Execution

39%

Say increasing availability without increasing stock holding & better collaboration with suppliers are top challenges

> " Managing promotion stock drive down is the big one for us and requires manual intervention at the moment
>
> **Head of Merchandising, Mass Merchant Retailer**

This year *Handling promotions effectively* is the biggest issue regarding supply chain planning and execution and highlighted by 40% of the retailers interviewed. As the market gets tougher, retailers increase the use of and reliance on promotions to drive sales and traffic. So, making sure promotions work from a supply chain perspective is clearly vital.

In joint second comes *Better collaboration with suppliers* and *Increasing availability without increasing stock holding*, each highlighted by 39% of the retailers interviewed. Better collaboration with suppliers was in joint third place last year and with the increasing focus on promotions this becomes more important. Also, as retailers try to improve the visibility of their supply chain, details of stock holding with suppliers or in transit becomes more important. Increasing availability without increasing stock holding may sound like a supply chain fundamental but it is very difficult to achieve and so a perennial area of concern.

Areas of Improvement

Retailers who want to improve the effectiveness of their promotions need to focus on better demand forecasting:

▶ Keep good information on the promotions you run so that you can use the most appropriate ones to plan future promotions

▶ Work with suppliers to plan promotions for maximum success and ensure availability of promoted products

▶ Make sure stores know what is expected of them to run the promotion in store, give them time to build and fill displays and sort signage and ensure good disciplines in store for replenishment

▶ Once a promotion has finished, review its success and especially focus on achieved service levels, lost sales and closing inventory so you can identify how to improve the next one

▼ Top Three Issues Regarding Supply Chain Planning and Execution

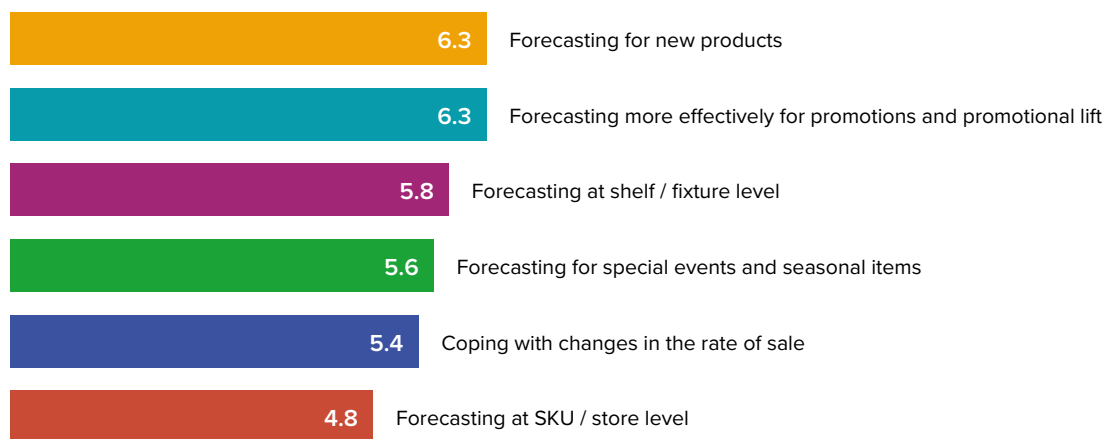| %	Issue
40%	Handling promotions effectively
39%	Better collaboration with suppliers
39%	Increasing availability without increasing stock holding
34%	Managing product introductions
30%	Reducing overall stock holding without impacting sales
29%	Automating key processes
9%	Implementing single stock pool
6%	Reducing wastage for food lines
5%	Reducing costs
5%	Using space information better
4%	Better stock visibility
3%	Better forecasting
3%	Coping with capacity constraints in DCs

% OF RETAILERS

Challenges Regarding Forecasting

We presented retailers with a list of potential forecasting challenges and asked them to score them out of 10. The joint top two most challenging issues are *Forecasting for new products* and *Forecasting more effectively for promotions and promotional lift*, which both score 6.3 out of 10. We've already seen that handling promotions effectively is the top business issue so it's not surprising that forecasting for promotions is top of the list too. Running out of stock during a promotion and thus disappointing customers is one of the biggest issues for retailers who rely on promotions to boost sales. In a time of fast moving product

innovation in many retail sectors, forecasting more effectively for new products remains a challenge.

Forecasting at SKU / store level is the least challenging of all those issues raised scoring 4.8 out of 10. Only two of the retailers we interviewed did not forecast at store level and most had systems that could support this reasonably well.

▼ Forecasting Challenges – All Retailers

6.3	Forecasting for new products
6.3	Forecasting more effectively for promotions and promotional lift
5.8	Forecasting at shelf / fixture level
5.6	Forecasting for special events and seasonal items
5.4	Coping with changes in the rate of sale
4.8	Forecasting at SKU / store level

AVERAGE MARKS OUT OF 10

▼ Forecasting Challenges by Retail Sector

Forecasting more effectively for promotions and promotional lift
- Food and Drug: 6.2
- Mass Merchants and Department Stores: 4.9
- Large Format Speciality: 5.8
- Small Format Speciality: 6.5
- Home Shopping: 8.2

Forecasting for new products
- Food and Drug: 5.9
- Mass Merchants and Department Stores: 6.9
- Large Format Speciality: 5.7
- Small Format Speciality: 6.7
- Home Shopping: 5.8

Forecasting for special events and seasonal items
- Food and Drug: 5.4
- Mass Merchants and Department Stores: 4.4
- Large Format Speciality: 4.8
- Small Format Speciality: 6.4
- Home Shopping: 5.6

Coping with changes in the rate of sale
- Food and Drug: 4.8
- Mass Merchants and Department Stores: 5.3
- Large Format Speciality: 6.1
- Small Format Speciality: 5.3
- Home Shopping: 4.4

Forecasting at shelf / fixture level
- Food and Drug: 4.5
- Mass Merchants and Department Stores: 6.3
- Large Format Speciality: 5.3
- Small Format Speciality: 5.3

Forecasting at SKU / store level
- Food and Drug: 4
- Mass Merchants and Department Stores: 4.5
- Large Format Speciality: 4.9
- Small Format Speciality: 5.3

AVERAGE MARKS OUT OF 10

- FOOD AND DRUG
- MASS MERCHANTS AND DEPARTMENT STORES
- LARGE FORMAT SPECIALITY
- SMALL FORMAT SPECIALITY
- HOME SHOPPING

▼ Forecasting Challenges by Country
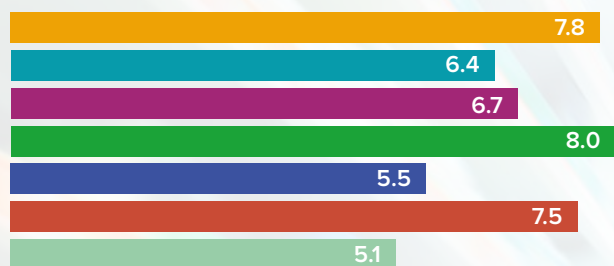
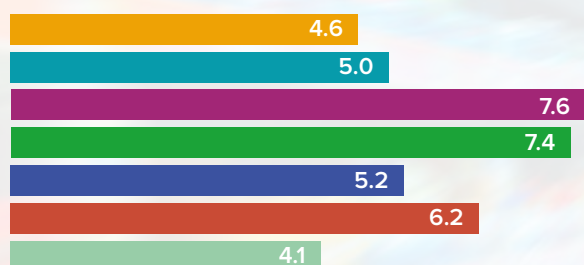### Forecasting more effectively for promotions and promotional lift
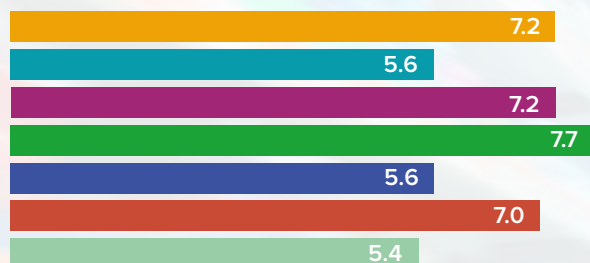
- Benelux: 7.8
- France: 6.4
- Germany: 6.7
- Italy: 8.0
- Nordics: 5.5
- Spain: 7.5
- UK: 5.1

Forecasting for new products

- Benelux: 7.2
- France: 5.6
- Germany: 7.2
- Italy: 7.7
- Nordics: 5.6
- Spain: 7.0
- UK: 5.4

Forecasting for special events and seasonal items

- Benelux: 4.6
- France: 5.0
- Germany: 7.6
- Italy: 7.4
- Nordics: 5.2
- Spain: 6.2
- UK: 4.1

Coping with changes in the rate of sale

- Benelux: 4.8
- France: 5.8
- Germany: 6.4
- Italy: 5.9
- Nordics: 4.9
- Spain: 4.3
- UK: 4.8

Forecasting at shelf / fixture level

- Benelux: 5.5
- France: 4.6
- Germany: 6.1
- Italy: 4.7
- Nordics: 4.9
- Spain: 6.3
- UK: 5.8

Forecasting at SKU / store level

- Benelux: 5.8
- France: 4.7
- Germany: 4.6
- Italy: 4.6
- Nordics: 3.8
- Spain: 8.1
- UK: 4.5

AVERAGE MARKS OUT OF 10

- BENELUX
- FRANCE
- GERMANY
- ITALY
- NORDICS
- SPAIN
- UK
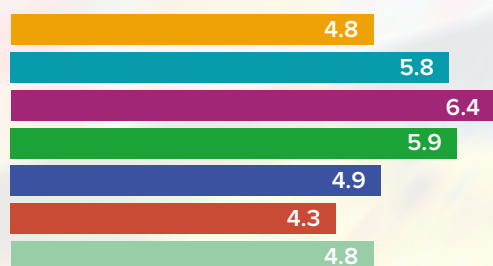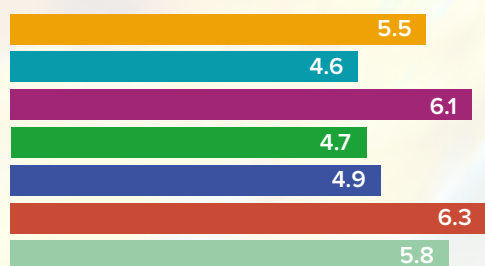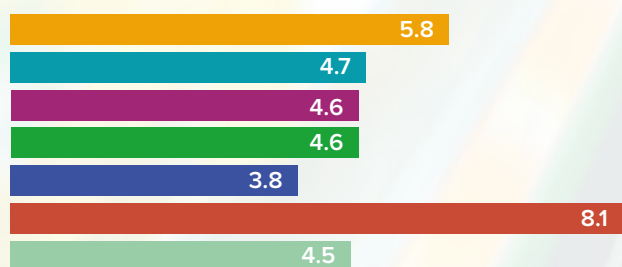
Areas of Improvement

▶ A lot of retailers replenish stores using Min/Max or "sell one get one" models. These are simple forecasting methods that often lack accuracy and can easily lead to over- or under- ordering. Forecasting is not a static situation with "one technique fits all". Advanced systems offer the ability to select and automatically review what forecasting technique is best for each product at each location based on its profiles and planned activities (promotions, new...)

▶ The more automated your forecasting processes, the more effective they will be

▶ Forecast all lines at DC/SKU level

▶ Forecast fast movers at store/SKU, slow movers at DC/SKU and allocate downwards

▶ Use system-selected forecasting algorithms

▶ Use external data effectively in your forecasting process, e.g. space, weather, footfall, competitive pricing

▶ Factor lost sales analysis into demand forecasting

❝ **Forecasting is not a static situation with "one technique fits all", advanced technology can select and automatically review what forecasting technique is best**

Martec International

❝ **When the sun shines we do have a problem making the most of it**

IT and Logistics Director, Small Format Speciality Retailer

Systems Capabilities Regarding Promotions and New Line Introductions

We've already noted that over three quarters of retailers are not satisfied with the analysis and reporting capabilities of their supply chain systems. Things are even worse when we focus on reporting for promotions and new lines with 82% of retailers unhappy with the reports generated by their systems. In such a fast-changing business landscape, this is very worrying and means that the retailers with poor promotions reporting will lag behind more and more.

Joint top of the list of reports retailers would like to have but don't have now are *Building new product demand forecasts automatically at SKU / store level* and *Estimating separately the sales lift associated with changes like price reductions, fixture changes and marketing investment*, mentioned by 68% of retailers each.
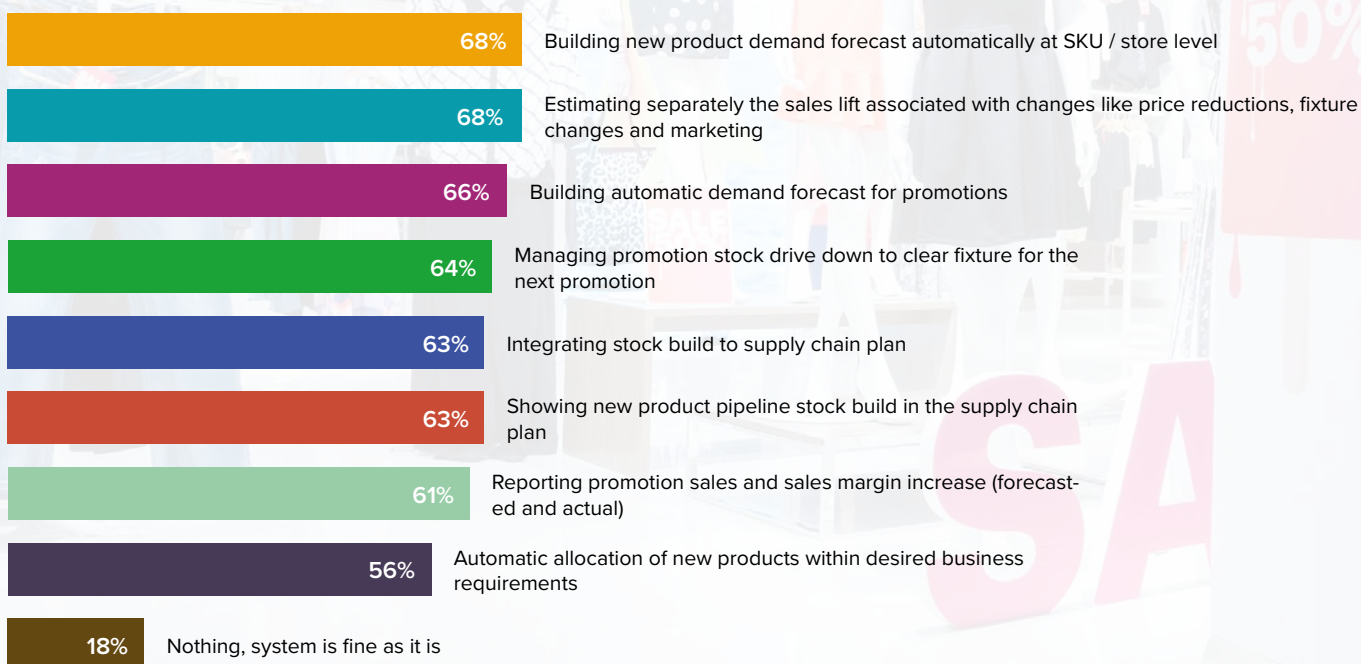
The desire to forecast at SKU / store level was highlighted when we focused on forecasting and now it is raised again in the context of promotions and new lines. The other challenge is about the ability to estimate what changes in which factors affect sales lift in order to determine which half of your marketing spend is paying off and which should be improved.

It's interesting to note that all the features relating to promotions that we highlighted to retailers were needed by at least half of the sample. This really is an area where current systems are lagging behind retailers' needs. As the market becomes more promotion-led, this will only get worse for the companies that don't invest in modern systems.

82%

of retailers unhappy with the reports generated by their systems

▼ Promotion and New Line Introduction Planning and Forecasting Features Retailers Would Like But Don't Have Now

68%	Building new product demand forecast automatically at SKU / store level
68%	Estimating separately the sales lift associated with changes like price reductions, fixture changes and marketing
66%	Building automatic demand forecast for promotions
64%	Managing promotion stock drive down to clear fixture for the next promotion
63%	Integrating stock build to supply chain plan
63%	Showing new product pipeline stock build in the supply chain plan
61%	Reporting promotion sales and sales margin increase (forecasted and actual)
56%	Automatic allocation of new products within desired business requirements
18%	Nothing, system is fine as it is

% OF RETAILERS

❝ **As the market becomes more promotion-led, this will only get worse for the companies that don't invest in modern systems**
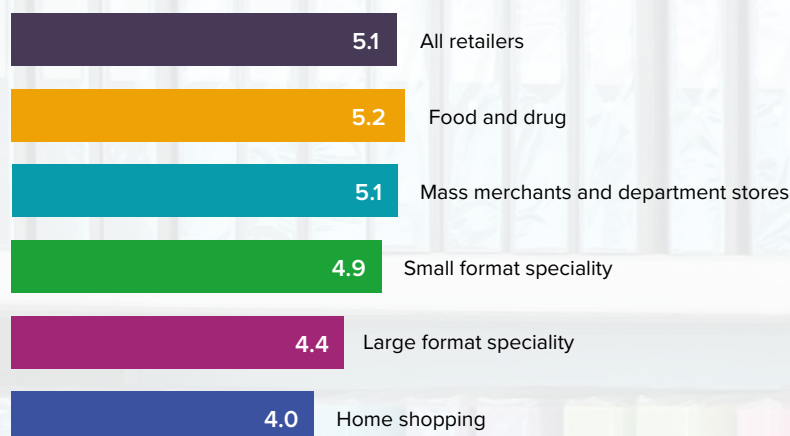
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Use of Space Data in Forecast and Replenishment Processes

We asked about the use of space data (such as minimum display requirements and changes in the amount of space available in individual stores) in forecast and replenishment processes for the first time this year. Satisfaction levels are low averaging 5.1 out of 10. Many of the supply chain executives we interviewed were not responsible for space and so did not incorporate it into their processes and systems. This siloed approach is at odds with the current trend towards a more integrated omni-channel and customer-driven approach to supply chain management. By having full visibility of the inventory from the shelf and throughout the whole supply chain enable retailers to offer the best assortment to their customers in the right locations.

Food and drug retailers score higher than average and they are the retailers most likely to use planogramming systems and integrate space considerations into their replenishment processes.

▼ Satisfaction Level with the Use of Space Data In Forecast and Replenishment Processes by Retail Sector

Score	Sector
5.1	All retailers
5.2	Food and drug
5.1	Mass merchants and department stores
4.9	Small format speciality
4.4	Large format speciality
4.0	Home shopping

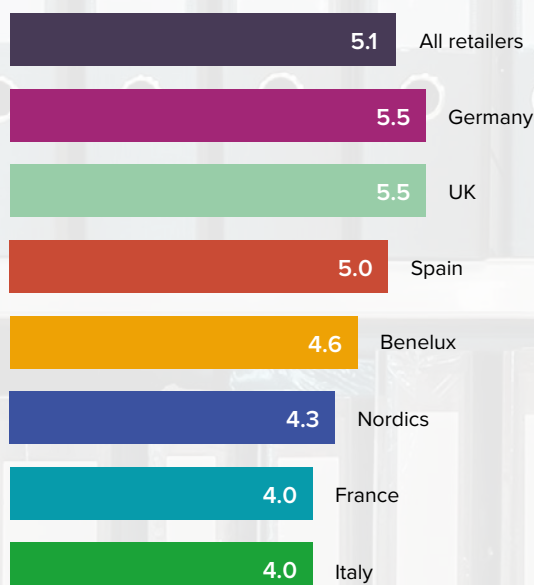AVERAGE MARKS OUT OF 10

> 66 **This is a huge weakness - space data is not readily accessible in the business**
> **Supply Chain and Logistics Director, Small Format Speciality Retailer**

Areas of Improvement

▶ Choose a space management system that can support supply chain processes such as forecasting & replenishment.

▶ Incorporate replenishment / order cycles at shelf level to maximize availability and improve sales

▶ Make sure that not only your supply chain planning system can take into account space data such as minimum display but that your space planning system also understands order schedules and delivery cycles. If both systems are integrated, the business can have an holistic view of the inventory and ensure products are in the right shelf at the right time maximizing sales and reducing movement of stock within the store and throughout the supply chain.

▶ Use hourly forecasts to change display (e.g. chilled food) for different times of the day (lunch meals vs take-away meals at the end of day)

▼ Satisfaction Level with the Use of Space Data In Forecast and Replenishment Processes by Country

5.1	All retailers
5.5	Germany
5.5	UK
5.0	Spain
4.6	Benelux
4.3	Nordics
4.0	France
4.0	Italy

AVERAGE MARKS OUT OF 10

" It's not that these data sources are completely invisible to us, more that they are not systemically coming together to support the right decisions and actions
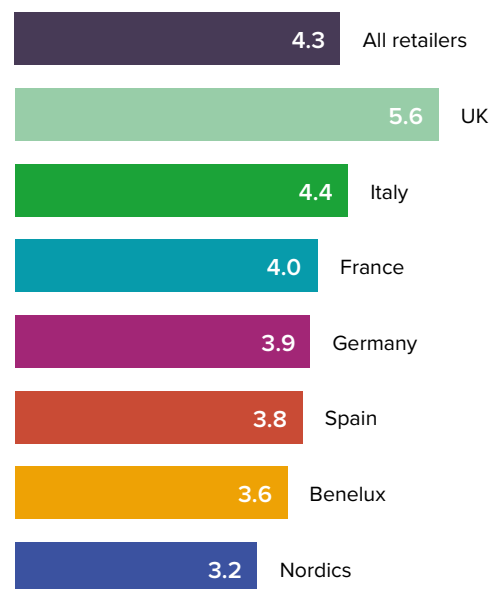
Senior Strategy Manager Supply Chain, Department Store Retailer

Use of External Data in Forecasting Processes

For the first time this year we asked about the use of external data in forecasting processes, and in particular focused on the use of weather and competitor information. Retailers scored a very low average of 4.3 out of 10 with regard to their satisfaction with their use of external data in their forecasting processes.

Many retailers do not use external data at all when forecasting and a substantial number have to do it manually. Mostly this is because their current solutions are not able to do this. However, for them to stay competitive, they need to integrate external data into their forecasting system and processes. Home shopping retailers scored slightly better as they rely completely on their web sites or catalogues for business and do not have the cost of store systems to consider. They are often ahead of other retail sectors in term of technology and are good examples for other retailers to follow. Small format specialty retailers score lowest at 3.4 and most are unable to use external data at all in their forecasting processes. Their longer lead times and extended supply chains mean that many are not able to react quickly enough to use weather or competitor pricing information effectively.

▼ Use of External Data in Forecasting Processes by Country

Score	Country
4.3	All retailers
5.6	UK
4.4	Italy
4.0	France
3.9	Germany
3.8	Spain
3.6	Benelux
3.2	Nordics

AVERAGE MARKS OUT OF 1O

> ❝ **It's manual, we will just look at the weather forecast, it's not connected but we use it**
>
> **Replenishment Business and IT Development Manager, Food and Drug Retailer**

▼ Use of External Data in Forecasting Processes by Retail Sector

4.3	All retailers
5.4	Home shopping
4.6	Food and drug
4.3	Mass merchants and department stores
3.8	Large format speciality
3.4	Small format speciality

AVERAGE MARKS OUT OF 1O

❝ **We have no advanced forecasting at all and can't use weather forecasts**

**Logistics Manager,
Large Format Speciality Retailer**

Areas of Improvement

External data to consider using to enhance your replenishment processes:

▶ Weather – probably the key one for most retailers

▶ Competitors' pricing and promotions

▶ Sentiment analysis from social media to get a heads up on the products which are likely to fly off the shelves so there is a chance you can source repeats and replenish effectively

▶ Footfall profiles per day / per hour

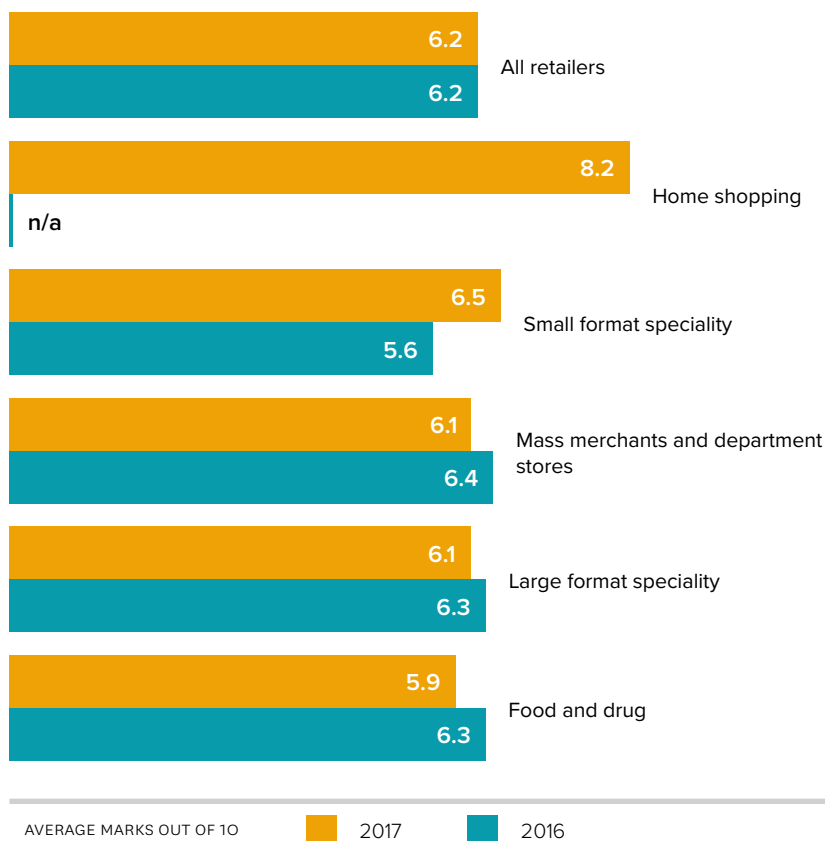▶ Marketing activities around new stores or local events

Visibility of the Supply Chain

We asked retailers to score the visibility of their supply chain out of 10, with 1 being low visibility and 10 being fully visible. We specifically asked about visibility of future stock levels including what is in shipment.

The average score was 6.2 out of 10, exactly the same as last year, which shows that retailers feel they have a fair way to go before they have full supply chain visibility. Retailers should consider extending the visibility of their entire supply chain – at their suppliers, being manufactured, in transit and in stores and DCs in their own business so they can identify potential issues with availability quicker, and take corrective action.

Home shopping retailers have the best supply chain visibility scoring 8.2 out of 10. This is because they have a simpler supply chain with no stores to worry about.

▼ Visibility of the Supply Chain by Retail Sector

Sector	2017	2016
All retailers	6.2	6.2
Home shopping	8.2	n/a
Small format speciality	6.5	5.6
Mass merchants and department stores	6.1	6.4
Large format speciality	6.1	6.3
Food and drug	5.9	6.3

AVERAGE MARKS OUT OF 1O   ■ 2017   ■ 2016

It is surprising that food and drug retailers score themselves lowest, at 5.9. In general food supply chains are shorter and so more visible. We believe that supply chain executives generally only have experience of either food or non-food supply chains, but not usually both. Therefore, we shouldn't compare both set of scores as food retailers have higher expectations of visibility. Food retailers typically do not expect to see stock levels of goods with their suppliers as they have an expectation of free supply and almost 100% availability. Whereas fashion and small format specialty retailers will generally have visibility of goods that their suppliers are manufacturing for them and where they are in transit as they have longer supply chains.

> **" A lot of the suppliers deliver direct to stores and we have no visibility of this**
>
> **Group Supply Chain Director, Large Format Speciality Retailer**

> **" If you look at the next 5 to 7 days it is really very good and transparent, beyond a week it is more limited but this works for us**
>
> **EVP Supply Chain and Logistics, Food and Drug Retailer**

Areas of Improvement

KPIs that retailers should record and track in their systems:

▶ Store stock levels - make sure stores record deliveries and stock movement accurately so that you have reliable information

▶ Online stocks – this should include stock in stores that is only available for click and collect or can be shipped from stores to customer, and goods that are in transit but can be shipped to customers within an acceptable period of time

▶ Current DC stocks – same comments as store stock levels above. Accuracy is vital

▶ Predicted future stock levels in DCs
  • taking into account manufacturer's seasonality and peak times
  • to plan staffing requirements
  • to ensure an even flow of inventory without impacting the suppliers' own supply chain

▶ Finished goods in transit or at factories awaiting dispatch whichs requires collaboration with your suppliers

▶ Inventory being shipped from freight forwarders

Single Stock Pool for All Sales Channels

Holding stock across several locations inevitably involves holding more stock than if you have a single stock pool across all sales channels. We asked our retailers how close they are to this ideal of a single stock pool across all sales channels.

Some 43% of retailers interviewed already have a single stock pool across all sales channels; this has increased from last year when it was 37%. This is higher than we had anticipated and shows that

the retail industry is moving towards a single stock pool quite quickly. However, 13% of the retailers we interviewed only have one sales channel. 18% of retailers interviewed have separate stock pools for each sales channel, generally because of systems or physical constraints that currently stop them doing this. 15% have separate stock pools for each of their distribution centers, rather than holding stock by sales channels.

▼ Single Stock Pool for All Sales Channels 2017

Online orders fulfilled from local store
Other
Plan to
Only have one sales channel
Yes

2017

- 5%
- 1
- 5%
- 13%
- 43%
- 15%
- 18%

No, separate stock pools for each warehouse

No, separate stock pools for each sales channel

▼ Single Stock Pool for All Sales Channels 2016

No, separate stock pools for each sales channel
Plan to
Yes

2016

- 5%
- 14%
- 37%
- 20%
- 24%

No, separate stock pools for each warehouse
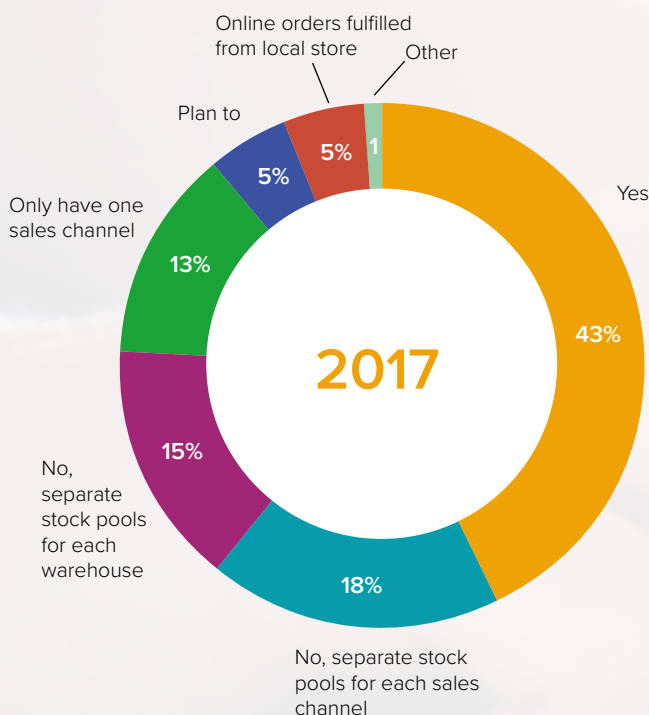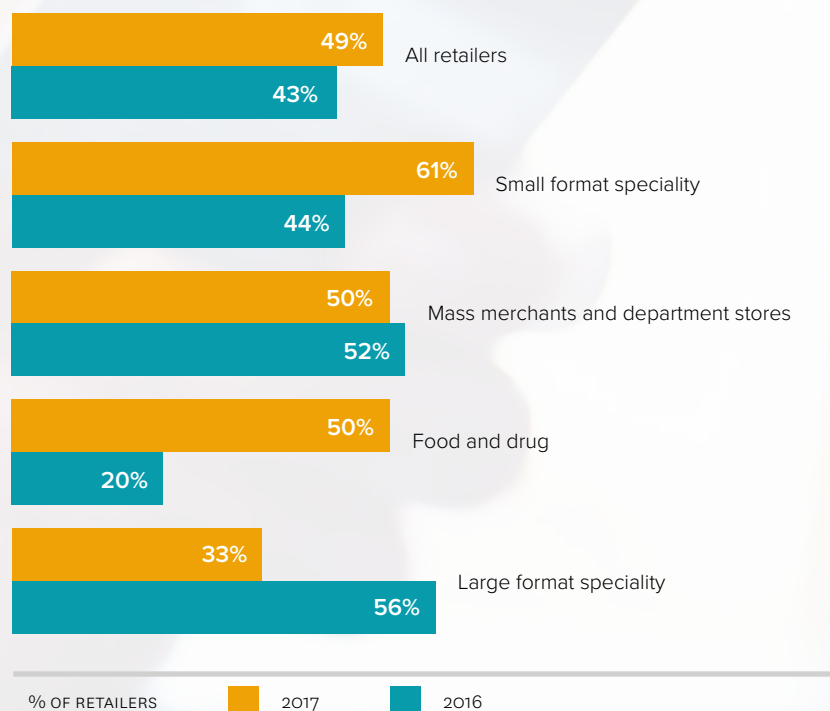
Only have one sales channel
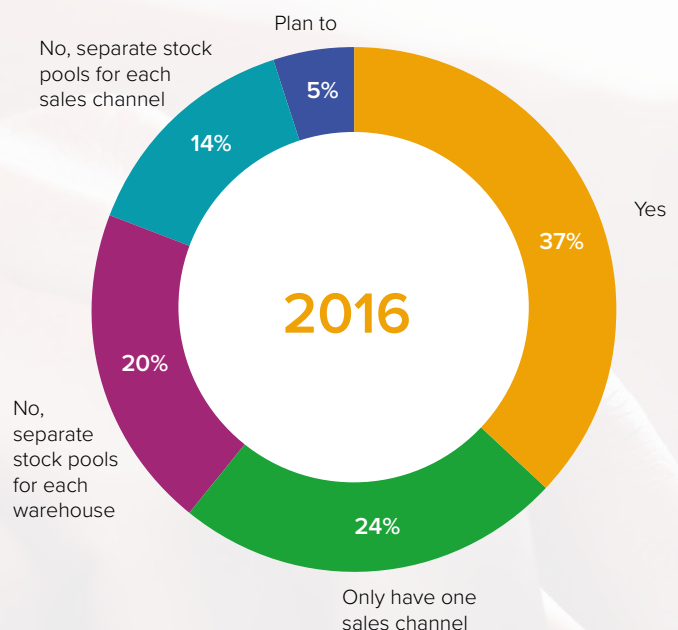
We drilled down on the detail by retail sector and analyzed only those retailers with more than one sales channel. This shows that from this base 49% of retailers operate a single stock pool across all channels, up from 43% last year, so this is now almost the norm. Results vary by retail sector. Small format specialty retailers are most likely to operate a single stock pool across all channels than any other sector with 61% already functioning in this way, up from 44% last year. In the case of small format specialty retailers, the reduction in lost sales is very significant when operating with a single stock pool. The vast numbers of SKUs needed when offering a range of sizes and colors makes the benefit in improved availability significant.

49%

of retailers with more than one channel operate a single stock pool across all channels, up from 43% last year

▼ Percentage of Omni-Channel Retailers Operating a Single Stock Pool Across All Sales Channels by Retail Sector

All retailers
- 49%
- 43%

Small format speciality
- 61%
- 44%

Mass merchants and department stores
- 50%
- 52%

Food and drug
- 50%
- 20%

Large format speciality
- 33%
- 56%
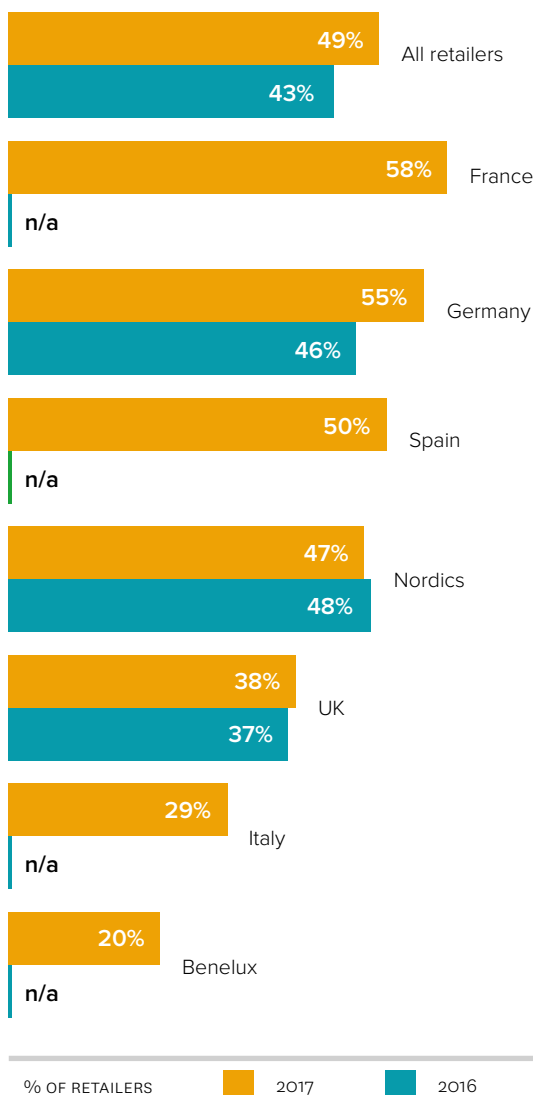
% OF RETAILERS   ■ 2017   ■ 2016

Areas of Improvement

The move to adopting a single stock pool to serve all trading channels is proceeding at some speed. This is driven entirely by the drive to improve stock productivity and customer service.

▶ Breakdown the departmental siloes. In our experience, people can be quite protective of their stock which could lead to over-stocking in one channel and being out-of-stocks in the other.

▶ Have a holistic view of the inventory incorporating disciplines such as: merchandise planning, WSSI ((Weekly Sales & Stock Intake) or OTB (Open-To-Buy), range planning, demand forecasting, pre- and post-allocations, warehouse management, imports management, distributed order management, returns management and clearance.

▶ Think real-time. A good place to start is to enable real-time visibility of warehouse inventories.

For most retailers, the safety stock element of inventory is approximately 60% of the total stock. Only 40% is cycle time stock on average. A single stock pool has a significant impact in reducing safety stocks and can reduce total stockholding by as much as 20%. So, while implementing a single stock pool concept can be complex, the inventory savings can be very large and customer service can be improved.

▼ Percentage of Omni-Channel Retailers Operating a
Single Stock Pool Across All Sales Channels by Country

	All retailers	49%
		43%
France	58%	
	n/a	
Germany	55%	
	46%	
Spain	50%	
	n/a	
Nordics	47%	
	48%	
UK	38%	
	37%	
Italy	29%	
	n/a	
Benelux	20%	
	n/a	

% OF RETAILERS   ■ 2017   ■ 2016

> 66 **We are trying to integrate to a single stock pool, but at the moment we have 4 DCs and one is just for internet orders**
> **Central Supply Chain Manager, Mass Merchant**

> 66 **It depends on the product, but mostly we pick online orders from stores, but our 5 year plan is to have a single stock pool**
> **Operations and Logistics Director, Food and Drug Retailer**

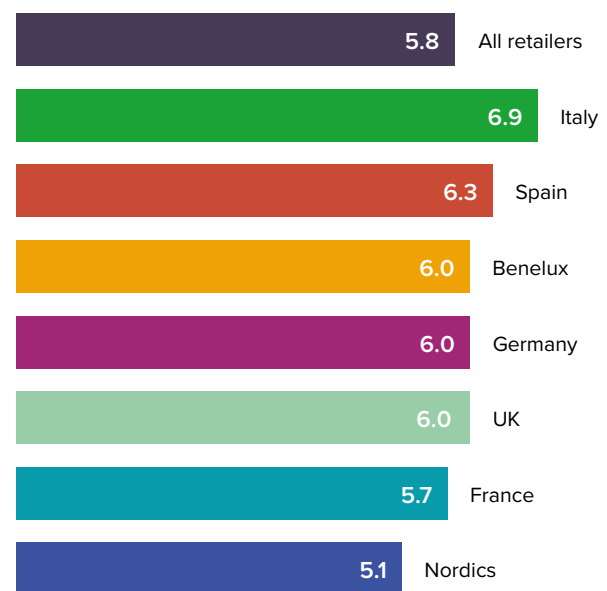# Ability to See Store Stock Replenishment Plan Changes in DC Replenishment

We asked retailers about their satisfaction level regarding their ability to see store stock replenishment plan changes in DC replenishment. Average satisfaction is low at 5.8 out of 10. 11% of the retailers interviewed have brought down the average significantly as they are not able to see store stock replenishment plan changes in DC replenishment at all because:

- They don't have stores as they are home shopping companies
- They have direct store deliveries and operate a showroom model
- They operate a franchise operation so stores operate independently
- They don't run store replenishment, just DC replenishment

Surprisingly a few supply chain executives told us that this was not an area that they were close to or responsible for and so were not able to make a valid assessment. 6% of the retailers we interviewed either could not see store stock replenishment plan changes in DC replenishment or could see this but were not able to use the information.

If we look at differences by country, Italy scores best with 6.9 out of 10 and the Nordics lowest with 5.1 out of 10. A higher proportion of Nordics retailers interviewed have direct store deliveries or operate franchises and so do not have access to store replenishment plans at all compared to other countries.

▼ Satisfaction with Ability to See Store Stock Replenishment Plan Changes in DC Replenishment by Country

Country	Score
All retailers	5.8
Italy	6.9
Spain	6.3
Benelux	6.0
Germany	6.0
UK	6.0
France	5.7
Nordics	5.1

AVERAGE MARKS OUT OF 10

▼ Satisfaction with Ability to See Store Stock Replenishment Plan Changes in DC Replenishment by Retail Sector

5.8	All retailers
6.1	Home shopping
6.0	Food and drug
5.7	Mass merchants and department stores
5.1	Large format speciality

AVERAGE MARKS OUT OF 10

Areas of Improvement

Areas to consider when integrating store replenishment with DC replenishment:

▶ Aggregate data from store sales to generate replenishment buys at the DC level

▶ Create optimized, multi-level replenishment plans so you buy what you sell

▶ Think about sensible time scales so that you are in a position to use the information you have to improve availability

66 **We are working on this as we speak. We can see from micro level in store up to the future in store but we are not yet linked to DC replenishment, but will be soon**

Merchandising Manager, Large Format Speciality Retailer

66 **We can see it but we can't react to it, it's already on its way or already out of stock**

Head of Merchandising, Mass Merchant

Size of Replenishment and Forecasting Teams

We measured retailers' efficiency by dividing their sales by the number of Full Time Equivalent (FTE) employees they have working on replenishment and forecasting. For some retailers, this was an easy enough number to provide, the people work in a separate team and are easily identifiable. In other companies, the tasks of forecasting and replenishment are carried out in store or shared by several different job functions including buying, merchandising and logistics.

On average, one FTE carries out the forecasting and replenishment for €80.9 million of merchandise. Economies of scale apply, so this figure rises significantly for retailers with sales exceeding €5 billion, when one FTE can manage €125.5 million of goods. But it is not until you get to more than €1 billion of sales that these cost savings become apparent. The smallest retailers we interviewed are much less efficient – one FTE works on only €13.6 million of product.

▼ Average Sales Volume Forecast and Replenished by One FTE by Company Size

€80.9m	All retailers
€85.0m	
€13.6m	Sales <€500m
€23.2m	
€57.7m	Sales €1,000–4,999m
€20.8m	
€75.2m	Sales €500–999m
€37.6m	
€125.5m	Sales >€5,000m
€165.8m	

■ 2017　　■ 2016

The country results reflect these economies of scale too. Germany, the largest country in the survey by retail sales, is much more efficient than the other countries studied with an average of €157.0 million of products per FTE compared to the average of €80.9 million. Except for Italy, the results show that the larger the retail sales in a country the higher the sales volume one FTE can replenish and forecast. In the case of Italy there are fewer very large retailers and so the low result of €29.4m of sales replenished and forecast by one FTE reflects the more fragmented nature of the retail market.

€157.0

million of products per FTE is the average for Germany, compared to the country average of €80.9 million

▼ Average Sales Volume Forecast and Replenished by One FTE by Country

Country	2017	2016
All retailers	€80.9m	€85.0m
Germany	€157.0m	€98.2m
France	€97.4m	n/a
UK	€89.8m	€73.2m
Spain	€86.4m	n/a
Nordics	€75.9m	€85.3m
Benelux	€38.0m	n/a
Italy	€29.4m	n/a

■ 2017   ■ 2016

If we analyze the results by retail sector then there are some significant differences. Food and drug retailers are most efficient with one FTE responsible for forecasting and replenishing €97.5 million of products. These retailers tend to have lower profit margins than most other sectors so need to be more efficient. Mass merchants and department stores are the second most efficient with one FTE replenishing and forecasting an average of €62.3m of sales.

▼ Average Sales Volume Forecast and Replenished by One FTE by Retail Sector

Sector	2017	2016
All retailers	€80.9m	€85.0m
Food and drug	€97.5m	€105.8m
Mass merchants and department stores	€62.3m	€19.0m
Large format speciality	€41.4m	€92.9m
Small format speciality	€32.5m	€14.0m
Home shopping	€22.8m	n/a

■ 2017   ■ 2016

Analysis and Reporting on Supply Chain

Over ¾ of the retailers we interviewed are unhappy with their current supply chain system in terms of reporting and analysis. We asked a prompted question about diverse types of reporting and asked retailers if they would like to be able to do it but cannot now. The most desired reporting is an accurate forecast of future out of stocks – highlighted by 70% of retailers. The ability to forecast future out of stocks and replenish to avoid them is one of the best ways to increase sales through better availability.
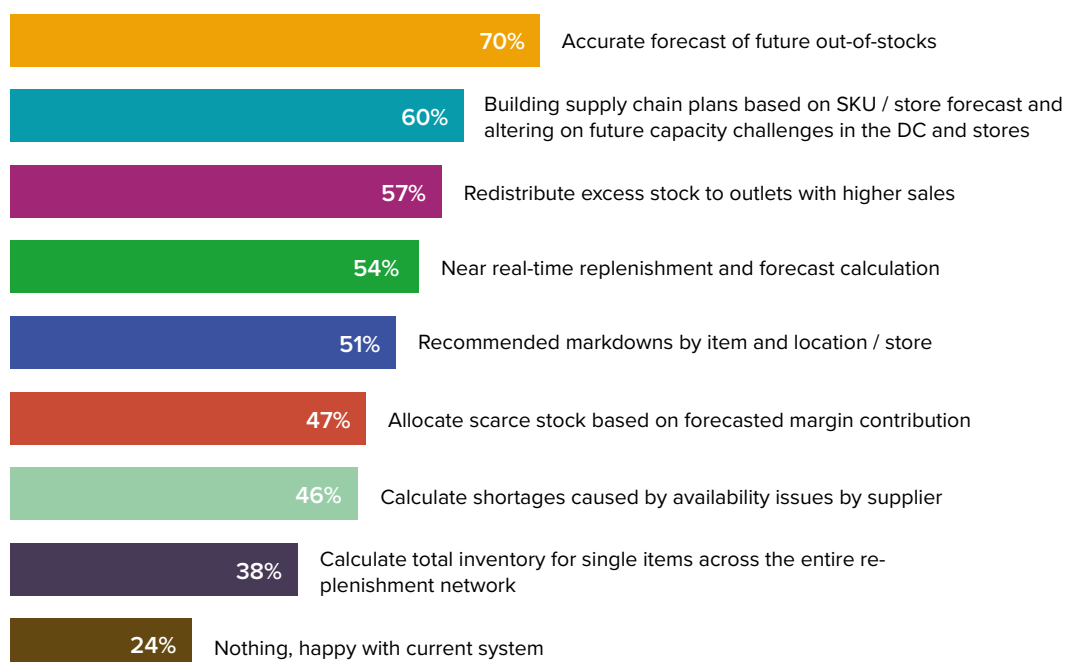
Other reporting that is much in demand is building supply chain plans based on SKU / store forecast and alerting on future capacity challenges in the DC and stores – mentioned by 60% of retailers. We have already discussed the low satisfaction scores for the ability to see store stock replenishment plan changes in DC replenishment and this reporting issue emphasizes the problem.

The third most important reporting challenge is about redistributing excess stocks to outlets with higher sales. Many retailers with simple systems are not able to do this and so end up marking down product in some stores which could have sold at full price in other stores resulting in an unnecessary decrease in margins.

Timely, easy to use reporting is vital in improving availability without increasing stock holding and most retailers we interviewed are working at a disadvantage with many vital analyses missing or being incomplete.

▼ Analysis and Reporting Retailers Would Like But Can't Do Now

Percentage	Description
70%	Accurate forecast of future out-of-stocks
60%	Building supply chain plans based on SKU / store forecast and altering on future capacity challenges in the DC and stores
57%	Redistribute excess stock to outlets with higher sales
54%	Near real-time replenishment and forecast calculation
51%	Recommended markdowns by item and location / store
47%	Allocate scarce stock based on forecasted margin contribution
46%	Calculate shortages caused by availability issues by supplier
38%	Calculate total inventory for single items across the entire replenishment network
24%	Nothing, happy with current system

Supply Chain Planning and Execution Systems
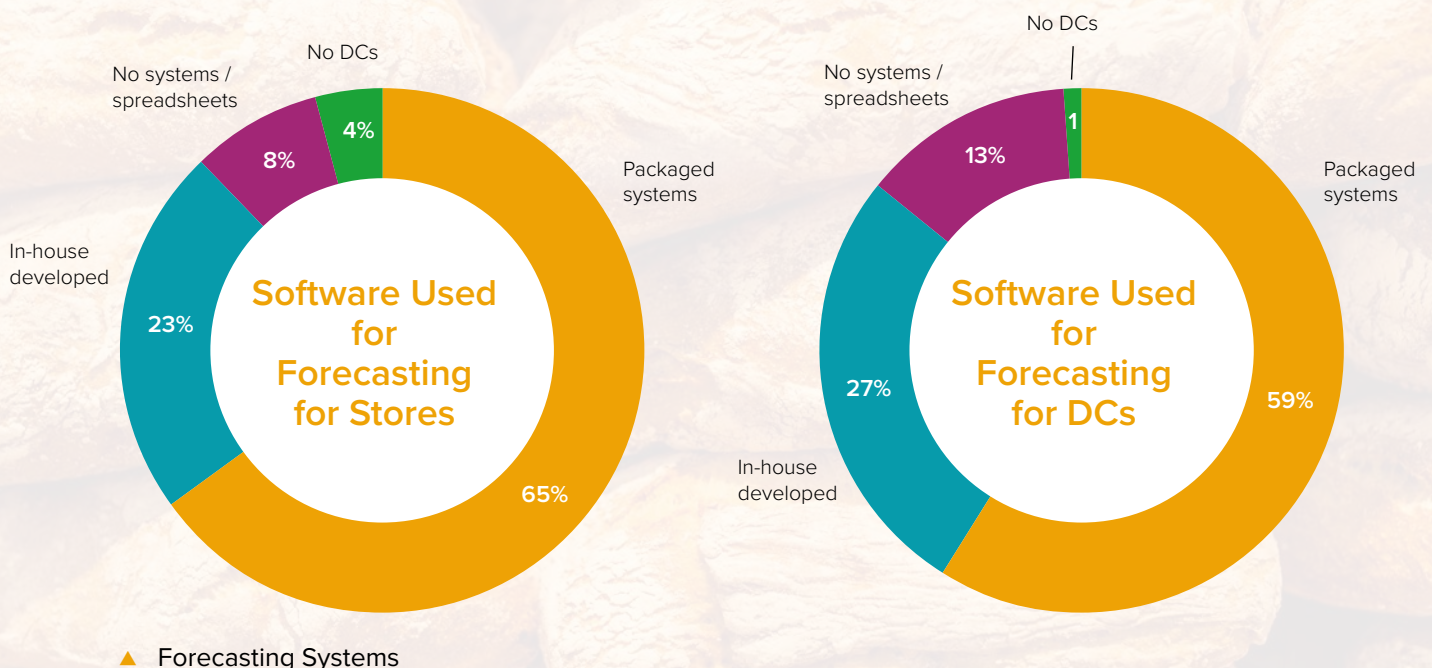
Forecasting Systems

Most retailers use the same system for forecasting as for replenishment. Considering we interviewed retailers with sales over €100 million it is surprising that 8% of retailers use no systems at all or just spreadsheets for forecasting for stores and 13% use no systems at all for forecasting for DCs. This helps explain why many of the forecasting challenges we raised are very real for these companies who rely mainly on guesswork and intuition.

In-house developed systems are very popular too, used by 23% of retailers for forecasting for stores and 27% of retailers for forecasting for DCs. Some of these in-house developed systems may be little more than spreadsheets, although of course some are very sophisticated and tailored to the retailer's precis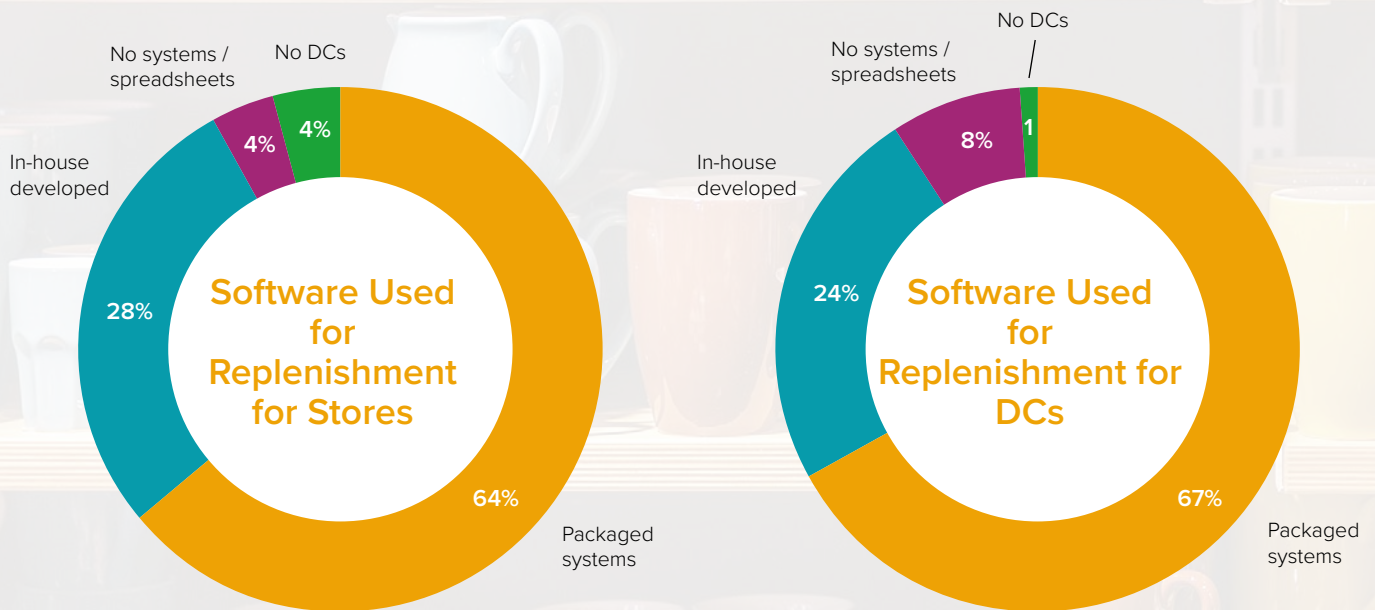e requirements. This is largely because in the early days, systems were not flexible and retailers had to adapt to the solution. Today, technology can be flexible and respond to the business needs at the time of implementation and to future needs.

A lot of retailers replenish stores using Min/Max or "sell one get one" models. These are simple forecasting methods that often lack accuracy and can easily lead to over- or under- ordering. Forecasting is not a static situation with "one technique fits all". Advanced technology offer the ability to select and automatically review what forecasting technique is best for each product at each location based on its profiles and planned activities (promotions, new...)

Most retailers use packaged systems – 65% for forecasting for stores and 59% for forecasting for DCs.

No systems /
spreadsheets

No DCs

Packaged systems

In-house developed

Software Used for Forecasting for Stores

8%

4%

23%

65%

No systems /
spreadsheets

No DCs

Packaged systems

In-house developed

Software Used for Forecasting for DCs

13%

1

27%

59%

▲ Forecasting Systems

Software Used for Replenishment for Stores

- No systems / spreadsheets — 4%
- No DCs — 4%
- In-house developed — 28%
- Packaged systems — 64%

Software Used for Replenishment for DCs

- No systems / spreadsheets — 8%
- No DCs — 1
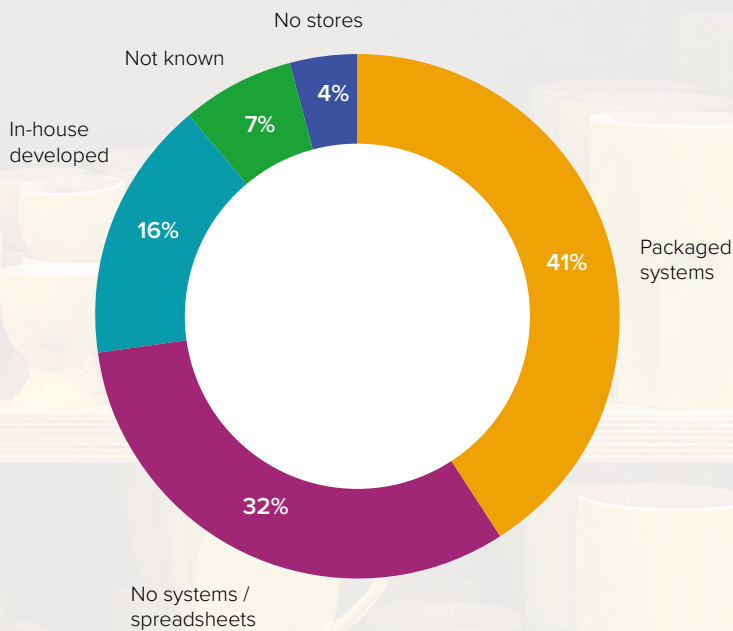- In-house developed — 24%
- Packaged systems — 67%

Replenishment Systems

Slightly fewer retailers use no systems or spreadsheets for replenishment for stores and for replenishment to DCs compared to forecasting systems, the figures are 4% and 8% respectively. This indicates that replenishment is taken more seriously than forecasting or at least it is the process that is automated first. In-house developed systems are again used by over a quarter for replenishment for stores and 24% for replenishment for DCs. Typically, those systems tend to lack flexibility and capabilities.

But packaged systems dominate, used by 64% for replenishment for stores and 67% for replenishment for DCs.

No stores

Not known

In-house
developed

Packaged
systems

4%

7%

16%

41%
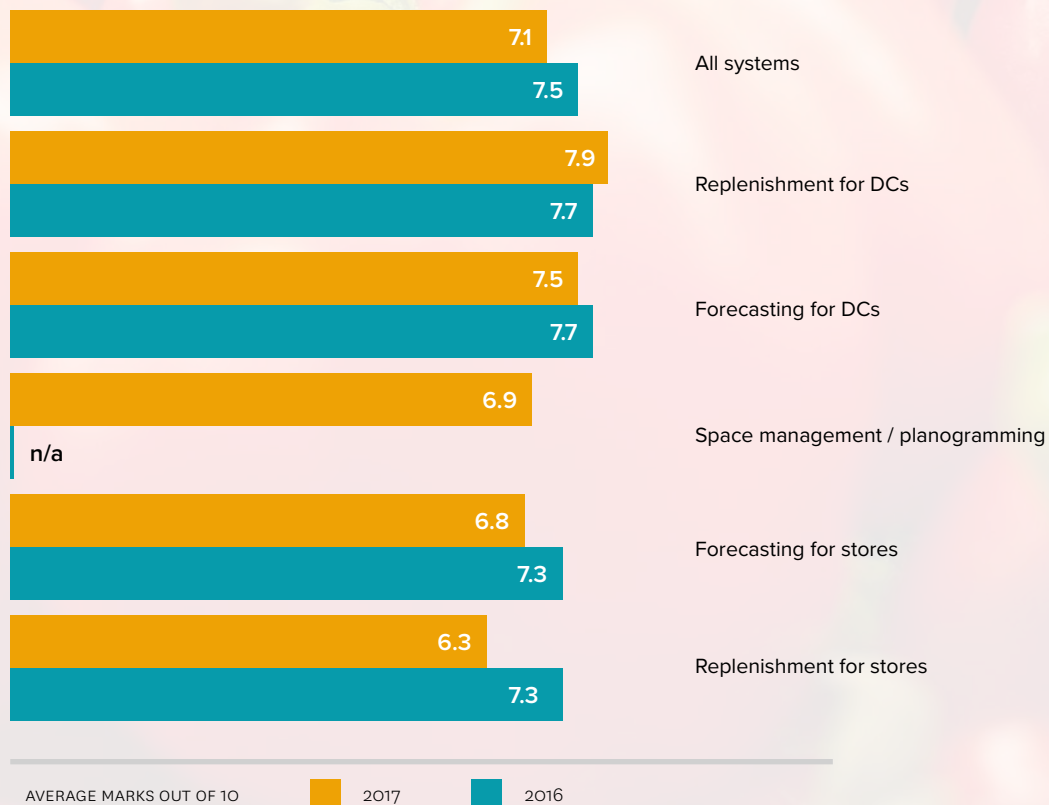
32%

No systems /
spreadsheets

Space Management Systems

Space management systems enable retailers to plan and measure revenue realized from the space given to each product. Accurate space management can help retailers ensure that they are maximizing profit from the sales space available, as well as in positioning products where they will achieve the highest sales volumes. Space management or planogramming systems are not considered part of the supply chain brief for quite a few of the executives we interviewed. For 7% of the companies the use of space management systems is unknown.

A far higher proportion of retailers do not use systems for space management than is the case for forecasting and replenishment, with almost a third (32%) using nothing at all. Space management is mostly used in a food and packaged goods environment, and therefore unlikely there will ever be complete penetration of this application.

However, in recent years these systems have become more suitable for a wider range of products, with graphics and other functionality being added. A higher proportion of retailers use a package (41%) while 16% use in-house developed system.

Age of Replenishment, Forecasting and Space Management Systems

System	2017	2016
All systems	7.1	7.5
Replenishment for DCs	7.9	7.7
Forecasting for DCs	7.5	7.7
Space management / planogramming	6.9	n/a
Forecasting for stores	6.8	7.3
Replenishment for stores	6.3	7.3

AVERAGE MARKS OUT OF 10   2017   2016

Age of Replenishment, Forecasting and Space Management Systems

The average age of replenishment, forecasting and space management systems is 7.1 years, a slight drop from last year when it was 7.5 years. So, retailers tend to keep their systems for quite some time. However, Martec's research for the IT in Retail report shows that this is not an unusually long time to keep systems as replacement cycles tend to be at least 10 years.

Systems for DCs tend to be oldest at 7.9 years for DC replenishment and 7.5 years for forecasting for DCs. Whereas store replenishment systems are the most youthful at 6.3 years. These are the ones that retailers are most likely to use and to replace first.

> ❝ We don't have a linked up system, we have lots of data sitting in different places and it takes a lot of clever people with sticking plaster to make it work
>
> **Logistics and Operations Director, Food and Drug Retailer**

▼ Replacement and Implementation Plans

2017	23%	3%
2016	17%	2

Forecasting for DCs

2017	21%	3%
2016	18%	2

Replenishment for DCs

2017	20%	4%
2016	16%	4%

Forecasting for stores

2017	16%	1
2016	17%	2

Replenishment for stores

2017	10%	5%
2016	n/a	

Space management

■ % OF RETAILERS PLANNING TO REPLACE SYSTEMS   ■ % OF RETAILERS PLANNING TO IMPLEMENT SYSTEMS
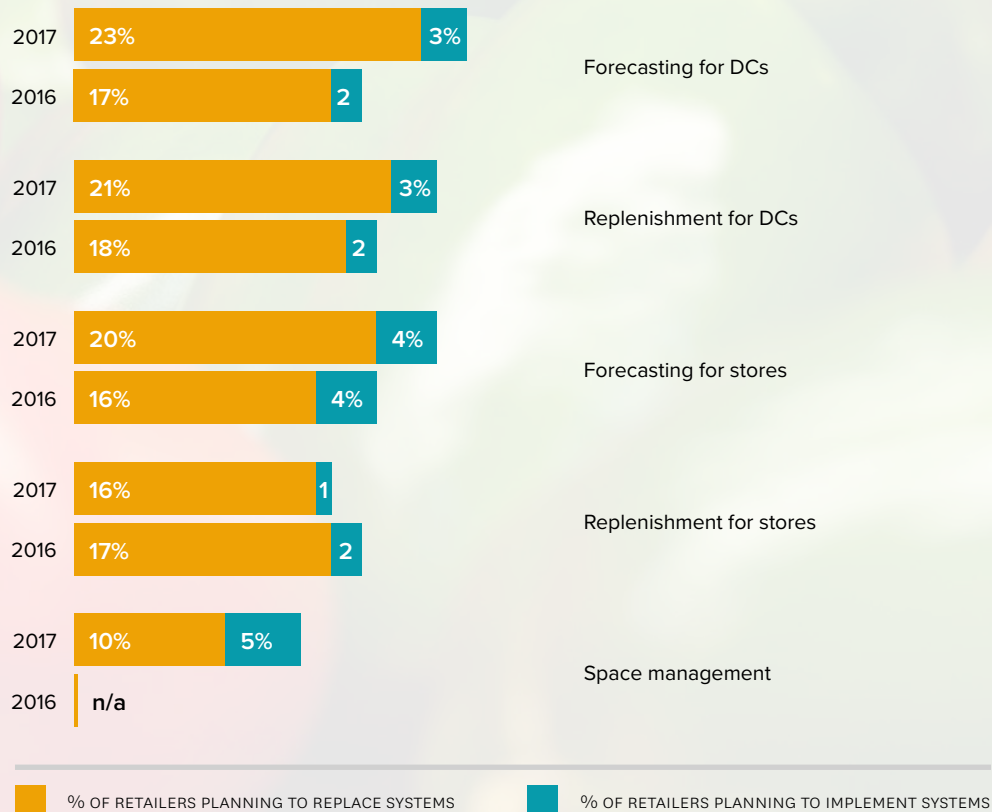
Replacement and Implementation Plans

Against the background of systems that are over 7 years old it is not surprising to find that there are a lot of replacement plans in place. This chart shows high levels of replacement plans for all supply chain systems, with almost a quarter of companies planning to replace or implement for the first time. Levels are slightly higher than for last year. However, our experience suggests that this is because retailers are taking a long time choosing a new system or getting authorization to spend the money on new systems. A number of the retailers we interviewed last year who were planning to replace key systems have still not made a decision.

The highest level of activity is for retailers who plan to replace or implement new systems for forecasting for DCs (26%) and 24% for replenishment for DCs. It isn't surprising considering that they are the oldest installed systems.

Space management systems are the least likely to be replaced or implemented, only 15% of retailers are looking at this option, however it may be that this is not the full picture as a fair number of supply chain executives are not aware of the plans for new space management systems.

Retailers told us that these replacement plans are all in the next 18 months; however, experience tells us that it is likely that these timelines will be extended.

Increased availability — 6%

Supply chain visibility — 6%

Implemented POS so wanted to use this data — 6%

Needed better forecasting — 13%

Needed more accurate replenishment — 13%

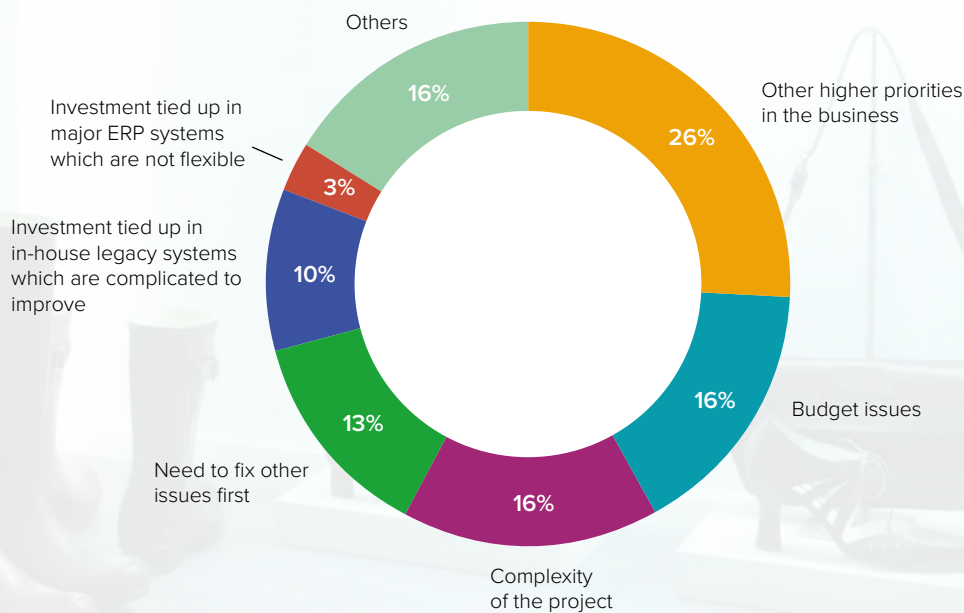Old system — 31%

Integration across the business — 25%

Reasons for Replacing Systems

Of the retailers with plans to invest in new systems or who have recently acquired new systems, the main reason is for replacing an old system (31%). Mostly these are antiquated systems that cannot cope with omni-channel retailing, are not being supported any longer or the retailer has outgrown the system. Retailers often outgrow a system because it cannot handle international expansion or an increase in store numbers or product lines. The other reason is the lack of integration across the business (25% of retailers). A number of retailers spoke of manual processes to integrate systems across sales channels and this reason clearly ties in with the replacement of old systems.

❝ We upgraded (our system) because it was long overdue and we need the new functionality to support our expansion plans and grown internationally

Head of Logistics, Small Format Speciality Retailer

Others

16%

Investment tied up in
major ERP systems
which are not flexible

3%

Investment tied up in
in-house legacy systems
which are complicated to
improve

10%

Need to fix other
issues first

13%

Complexity
of the project

16%

Budget issues

16%

Other higher priorities
in the business

26%

Reasons for Not Replacing Systems

Of the retailers with no replacement plans for their supply chain systems the top two reasons are that higher priorities exist in the business (26%). Joint seconds are budget issues and the complexity of the project (both 16%). There has been a lot of pent up demand for retail investment and so there are a number of projects that may be hindering supply chain system replacements – opening new stores, other sales channels or other systems investments for example. Budget issues are always raised by retailers as a reason not to replace systems.

The pain and cost of replacing replenishment and forecasting systems are the key reasons for most retailers still using older systems. Retailers who use in-house developed and ERP systems are most likely to perceive that it will be complex to replace them. In fact, most modern solutions do not take as long or involve as much complexity as old fashioned systems did. With SaaS and cloud-based

options, investing in a new system no longer has to mean lengthy contracts and bulk payments. When you look at the reasons not to replace old systems all of them do want to replace them but there are barriers or reasons they cannot. No-one says that the old system works and is cost effective.

> ❝ **With SaaS and cloud-based options, investing in a new system no longer has to mean lengthy contracts and bulk payments**
> **Martec International**

Sector Summaries

Food & Drug Retailers

This research is based on interviews with 29 food and drug retailers (36% of all interviewed). These include supermarkets, cash and carry, convenience stores, chemists and drug stores.

Food and drug retailers are more efficient than other retailers in terms of staff productivity. The average full time equivalent employee forecasts and replenishes an average of €98 million of sales. This compares favorably with the all sector average of €81 million of sales and is probably because of the lower margins of food retailers as well as their larger average company size. This enables them to achieve greater efficiencies.

Retailers in this sector have the highest satisfaction rating for the use of space data in forecast and replenishment processes scoring 5.2 out of 10 compared to the average of 5.1 out of 10. This is probably because food and drug retailers are the retail sector most likely to use planogramming systems and so are more likely to have supply chain systems that can support the use of space information to inform replenishment processes.

Food and drug retailers are most satisfied with their ability to see store stock replenishment plan changes in DC replenishment, with a score of 6.1 out of 10, compared to the average of 5.8. This may be because of the faster stock turn and shorter lead times food and drug retailers operate with – this visibility is more crucial to these companies.

5.2

is the average score out of 10 for the use of space data in forecast and replenishment processes

31% satisfied with analysis and reporting of their supply chain system

3.8 is the average score out of 10 for use of of external data in their forecasting processes

Small Format Speciality Retailers

This research is based on interviews with 80 retailers of which 24% are small format specialty retailers, i.e. 19 companies. These include clothing, shoes, accessories, books and toy retailers.

Small format specialty retailers are the most satisfied with the analysis and reporting of their supply chain system, some 31% are happy compared to the average of only 24% that are satisfied. They are also more satisfied than average with their systems for promotion and new line introductions (15% vs the average of 18%). Although it is worth noting that these levels are very low and the majority of retailers, even among this sector, are dissatisfied with their systems' capabilities. Small format specialty retailers tend to operate on a seasonal basis and so more reporting is ad hoc and manual than for food and other category management style retailers. So, it may be that small format specialty operators are just less demanding than other sectors.

Retailers in this sector are less efficient than average in terms of staff productivity. The average full time equivalent employee forecasts and replenishes an average of €33 million of sales. This compares unfavorably with the all sector average of €81 million of sales and is the lowest of all sectors apart from home shopping. Many small format

specialty retailers, especially fashion companies, do not carry out a great deal of replenishment as a high percentage of goods are allocated at the start of the season and are often sold out from stores rather than replenished regularly.

Small format specialty retailers with more than one sales channel have the highest levels of use of a single stock pool, 61% compared to 49% for all retailers. Small format specialty retailers benefit significantly from the reduced stock holding and better availability a single stock pool brings. This figure is up significantly from last year when only 44% of the small format specialty retailers we interviewed operated a single stock pool.

Retailers in this sector score lowest for their use of external data in their forecasting processes with a rating of 3.8 out of 10 compared to the all retailer average of 4.3. While some may use long term weather forecasts for forecasting it is likely to be a more manual process than for other sectors. The use of competitive pricing information is much lower than for branded goods which are easier to price compare than for the private label products more common to small format specialty companies.

Large Format Speciality Retailers

This research is based on interviews with 80 retailers of which 25% are large format specialty retailers, i.e. 20 companies. These include DIY, motoring, garden centers and electrical retailers.

Retailers in this sector are less efficient than average in terms of staff productivity. The average full time equivalent employee forecasts and replenishes an average of €41 million of sales. This compares unfavorably with the all sector average of €81 million of sales. Food and drug retailers perform the most efficiently and we would have expected large format specialty, which also operates category management style processes to be more in line with food retailers.

Large format specialty retailers have the lowest levels of use of single stock pools. 33% of omni-channel retailers in these sectors have a single stock pool compared to the overall average of 49%. This is surprising as very often retailers such as electrical and DIY retailers sell products with a high unit value and so the benefits of being able to maximize availability while reducing stock holding are greatest in this sector.

Large format specialty retailers have the lowest satisfaction levels with the use of space data in forecast and replenishment processes of all store based retailers with a score of 4.4 out of 10 compared to the average of 5.1. This is surprising as large format specialty retailers, along with food retailers are most likely to use space management systems and so we would have expected them to come out nearer the top. Though it has to be said that the majority of companies we spoke to did not use space information well in their supply chain processes.

The biggest forecasting challenge for large format specialty retailers is coping with changes in the rate of sale, 6.1 out of 10 compared to an average of 5.4. This is probably because they tend to sell many seasonal items but do not operate seasons in the same way as small format specialty and department store retailers where they will plan to sell out of seasonal items by the end of the season and may well allocate but not replenish. Large format specialty retailers tend to sell products which have a more variable rate of sale than food and drug retailers.

Mass Merchants & Department Store Retailers

This research is based on interviews with 80 retailers of which 9% are mass merchants and department store retailers, i.e.7 companies. Mass merchants are those selling a wide range of different products and include discounters.

All the mass merchants and department store retailers we interviewed are dissatisfied with their systems for promotions and new line introductions (compared to the average of 82%). Retailers in this sector tend to run more promotions than most other sectors and often more complex promotions, plus they have the highest number of SKUs, so these factors probably account for the total dissatisfaction with current systems.

Retailers in this sector are less efficient than average in terms of staff productivity. The average full time equivalent employee forecasts and replenishes an average of €62 million of sales. This is much lower than the all sector average of €81 million of sales and is probably because of the complexity, larger number of SKUs and more seasonal business than other sectors, notably food. Like fashion retailers, companies in this sector have the complexity of size, color and fit for their apparel or fashion ranges.

Forecasting for new products is the top challenge for mass merchants and department store retailers (as it is for all retailers) but these companies score higher than average at 6.9 out of 10 compared to 6.3. These retailers have the highest number of SKUs and so new products present the biggest challenge.

Retailers in this sector have the lowest score for their satisfaction with their ability to see store stock replenishment plan changes in DC replenishment at 5.1 out of 10 compared to an average of 5.8. This may be because there is often more store level control of replenishment in this sector than for other sectors.

Country Summaries

UK & Irish Retailers

This research is based on interviews with 80 retailers of which 25% are from the UK and Ireland. We interviewed UK and Irish retailers with sales totaling €88 billion and the 20 retailers we interviewed account for a 24% share of this market by sales.

UK retailers are more satisfied with the analysis and reporting capabilities of their supply chain systems than in any other country, with 29% being satisfied compared to the average of 24%, though this is still very low, with most UK retailers being dissatisfied with their systems.

If we look at challenges regarding forecasting by country UK retailers are most concerned with forecasting at shelf / fixture level with a score of 5.8 out of 10 compared to the European average of 4.8. The higher concentration of multiple retailers and larger chains in the UK mean this is more important than in other European countries.

UK retailers with more than one sales channel are less likely than average to operate a single stock pool (38% of retailers vs the all country average

of 49%). In our opinion, this is surprising given that omni-channel retailing has been going on for longest and is most sophisticated in the UK compared to the rest of Europe.

UK retailers (as well as German ones) have the highest satisfaction levels with their use of space data in their supply chain processes with a score of 5.5 out of 10 compared to an average of 5.1. The higher levels of multiple retailers in these countries and greater use of space management systems means they have the means to use space data more than other countries.

UK retailers score highest for their use of external data in forecasting processes with 5.6 out of 10 compared to an all retailer average of 4.3. We believe that UK retailers are more likely to have systems that allow them to make use of external data in their supply chain.

Nordic Retailers

This research is based on interviews with 80 retailers of which 41% are from the Nordics. This covers Denmark, Norway and Sweden. We interviewed Nordics headquartered retailers with sales totaling €62 billion or more and the 25 retailers we interviewed account for a 41% share of this market by sales.

Nordics based retailers score lowest of all countries in terms of the use of external data in forecasting processes with a score of 3.2 out of 10, compared to the average of 4.3. In these countries, most of the retailers we interviewed were not even using external data like weather information manually to inform their forecasting calculations.

Retailers in the Nordics scored lowest for their satisfaction to see store stock replenishment plan changes in DC replenishment as well with a score of 5.1 out of 10, compared to an average of 5.8. The dominance of franchised businesses and buying groups with independent retailers in the Nordics may explain this as the stores operate independently and may not be replenished centrally.

5.1

is the average score out of 10 for satisfaction to see store stock replenishment plan changes in DC replenishment
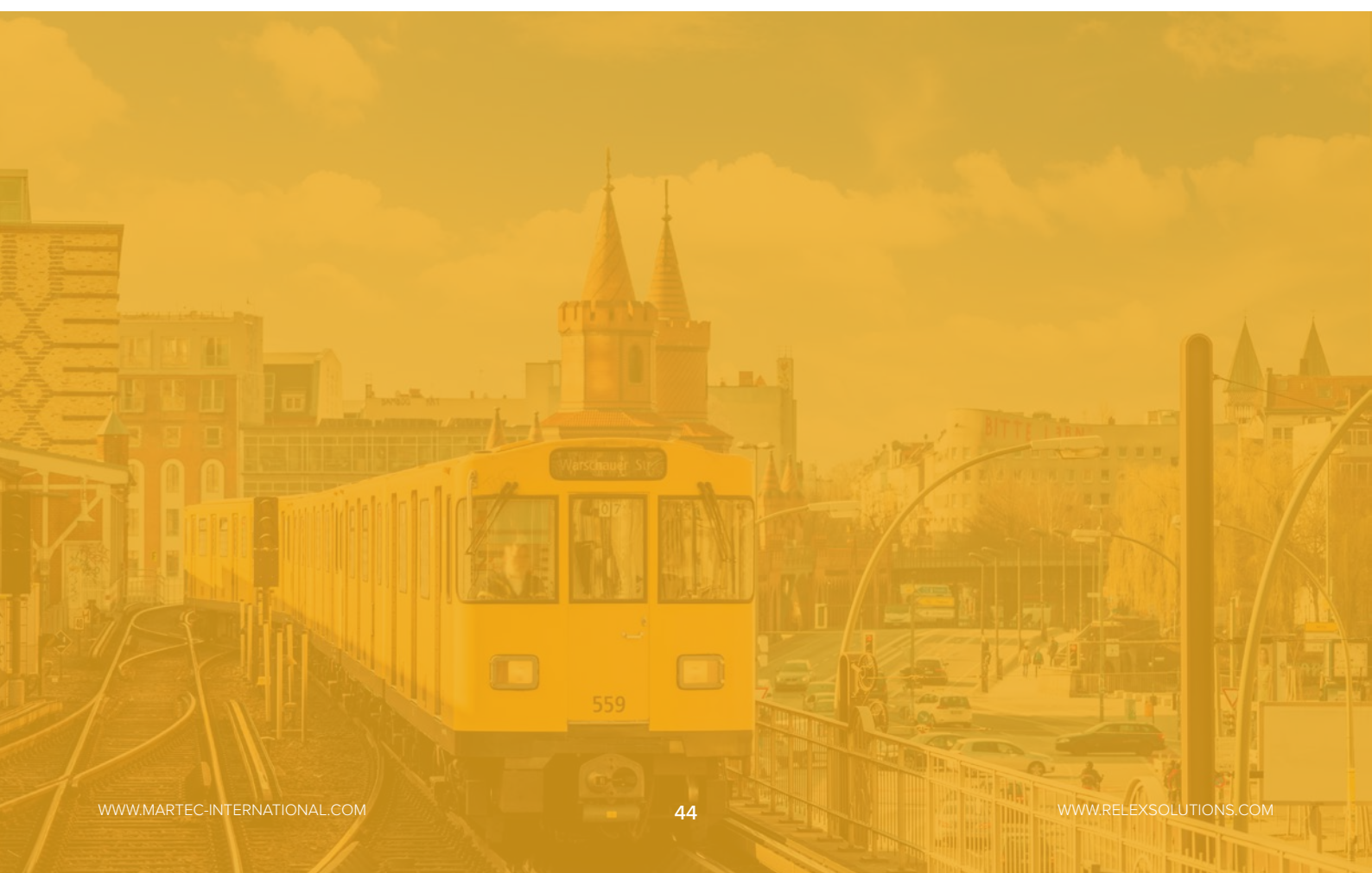
German Retailers

This research is based on interviews with 80 retailers of which 18% are German companies. We interviewed German retailers with sales totaling €27 billion which is a 6% share of the German market by sales.

German retailers are the most efficient in terms of staff productivity. The average full time equivalent employee forecasts and replenishes an average of €157 million of sales. This is much higher than the all country average of €81 million of sales. We are uncertain why Germany is much more efficient than France or the UK in this respect as the average size of the retailers interviewed at €1.9 billion is smaller than for the UK (€4.4 billion) and France (€5.1 billion) so it cannot be down to economies of scale.

German retailers with more than one sales channel are marginally more likely to operate a single stock pool than average (55% of retailers vs the all country average of 49%) and the German figure has increased from 46% last year.

Retailers in Germany have the joint (with the UK) highest satisfaction levels with their use of space data in forecasting and replenishment processes at 5.5 out of 10 compared to 5.1 for all retailers. German and UK retailers have a higher penetration of space management and planogramming systems than in other countries which explains the difference – they have the base data on space to be able to use in supply chain processes.

Germany is the only country where the top forecasting challenge is forecasting for special events and seasonal items; this scores 7.6 out of 10 for difficulty compared to the all retailer average of 5.6. In most other countries retailers see this as an easier task than forecasting for new products and forecasting more effectively for promotions. Forecasting for special events is normally seen as more of a "business as usual" activity.

French Retailers

This research is based on interviews with 80 retailers of which 14% are French companies. We interviewed French retailers with sales totaling €56 billion which is a 13% share of the French market by sales.
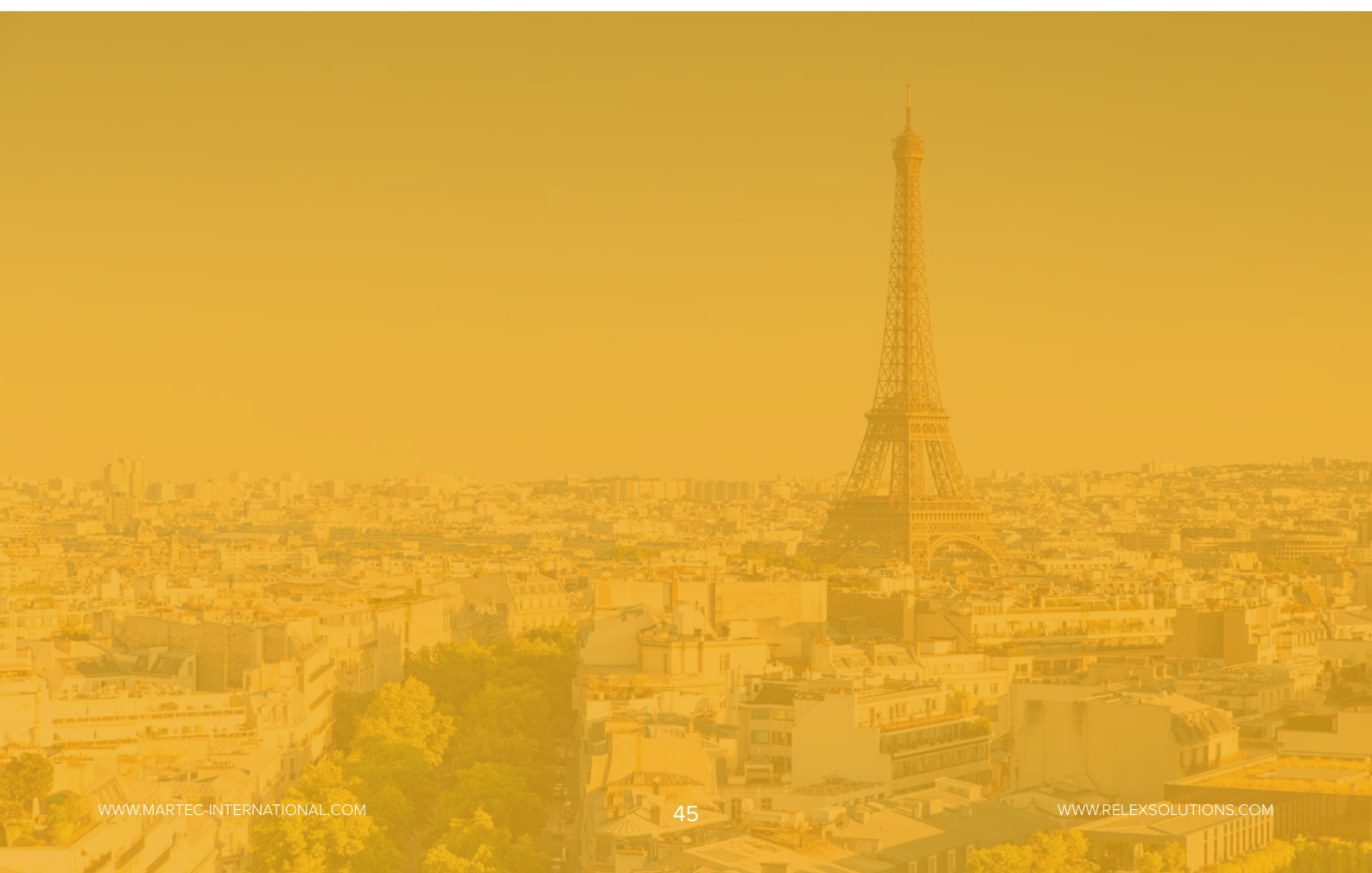
French retailers are the second most efficient in terms of staff productivity. The average full time equivalent employee forecasts and replenishes an average of €97 million of sales. This is slightly higher than the all country average of €81 million of sales, but not nearly as high as in Germany where it is €157 million. The French retailers we interviewed are larger than the German ones on average (€5.1 billion for France vs €1.9 billion for Germany) so they should be enjoying greater economies of scale than Germany.

French retailers with more than one sales channel have the highest levels of single stock pool operation (58% of retailers vs the all country average of 49%). In our opinion, this figure seems high and might not reflect the current state of omni-channel supply chain in France.

Satisfaction levels for the use of space data in forecast and replenishment processes are joint lowest for France at 4.0 out of 10, compared to the average of 5.1. Many of the supply chain executives we interviewed in France do not have responsibility for space and do not use space information.

French retailers are also dissatisfied with their ability to see store stock replenishment plan changes in DC replenishment and have the second lowest score at 5.7 out of 10. For some French retailers, replenishment decisions are made locally rather than centrally which may account for this difference.

Italian Retailers

This research is based on interviews with 80 retailers of which 9% are Italian companies. We interviewed Italian retailers with sales totaling €7 billion which is a 3% share of the Italian market by sales.

All the Italian retailers we interviewed are dissatisfied with their current systems for promotion and new line introductions. This compares with a European average of 82%, so there is a great deal of dissatisfaction about systems elsewhere too.

Italian retailers are the least efficient in terms of staff productivity. The average full time equivalent employee forecasts and replenishes an average of €29 million of sales. This is much lower than the all country average of €81 million of sales. However, the average size of the Italian companies we interviewed is quite small and so they cannot make use of the economies of scale that large retailers do.

Only 29% of Italian retailers with more than one sales channel operate a single stock pool, far lower than the all retailer average of 49%. Italian retailers get a lower proportion of their sales from online channels and so do not have as sophisticated a supply chain as countries where online retailing is more advanced.

Satisfaction levels for the use of space data in forecast and replenishment processes are joint lowest for Italy at 4.0 out of 10, compared to the average of 5.1. Many of the supply chain executives we interviewed in Italy do not have responsibility for space and do not use space information.

Italian retailers have one of the highest scores for any of the forecasting challenges we looked at, scoring 8.0 out of 10 for forecasting more effectively for promotions and promotional lift, this compares with an average of 6.3. One of the themes of this year's report is the focus on promotions and improving the supply chain processes to make promotions more effective and it seems as if Italian retailers are taking this seriously.

Spanish Retailers

This research is based on interviews with 80 retailers of which 8% are Spanish companies. We interviewed Spanish retailers with sales totaling €3 billion which is a 2% share of the Spanish market by sales.

Spanish retailers have the highest score for any of the forecasting challenges we looked at, scoring 8.1 out of 10 for forecasting at SKU / store level, this compares with an average of 4.8. For the rest of Europe forecasting at SKU / store level is the least challenging activity and one which most retailers see as a basic forecasting task.

Spanish retailers have the second highest satisfaction levels with their ability to see store stock replenishment plan changes in DC replenishment with a score of 6.3 out of 10 compared to an average of 5.8.
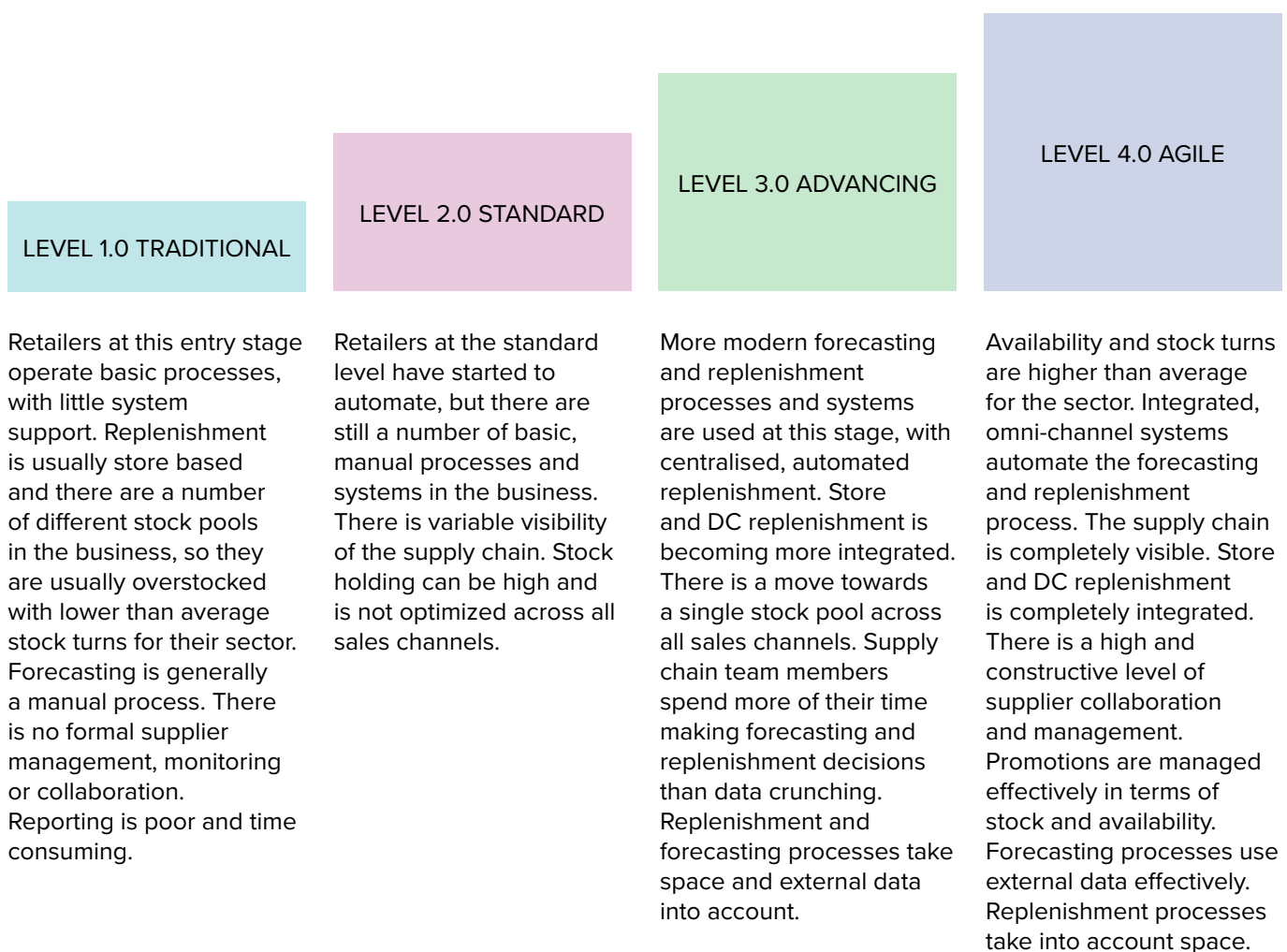
6.3

is the average score out of 10 for satisfaction levels with the ability to see store stock replenishment plan changes in DC replenishment

Benchmark for Retail Supply Chain and Execution

The research enabled us to put together a benchmark for retail supply chain and execution. This benchmark is designed to be used by retailers as a guide to understanding how their business compares with other retailers.

We have defined 4 levels:

LEVEL 1.0 TRADITIONAL	LEVEL 2.0 STANDARD	LEVEL 3.0 ADVANCING	LEVEL 4.0 AGILE
Retailers at this entry stage operate basic processes, with little system support. Replenishment is usually store based and there are a number of different stock pools in the business, so they are usually overstocked with lower than average stock turns for their sector. Forecasting is generally a manual process. There is no formal supplier management, monitoring or collaboration. Reporting is poor and time consuming.	Retailers at the standard level have started to automate, but there are still a number of basic, manual processes and systems in the business. There is variable visibility of the supply chain. Stock holding can be high and is not optimized across all sales channels.	More modern forecasting and replenishment processes and systems are used at this stage, with centralised, automated replenishment. Store and DC replenishment is becoming more integrated. There is a move towards a single stock pool across all sales channels. Supply chain team members spend more of their time making forecasting and replenishment decisions than data crunching. Replenishment and forecasting processes take space and external data into account.	Availability and stock turns are higher than average for the sector. Integrated, omni-channel systems automate the forecasting and replenishment process. The supply chain is completely visible. Store and DC replenishment is completely integrated. There is a high and constructive level of supplier collaboration and management. Promotions are managed effectively in terms of stock and availability. Forecasting processes use external data effectively. Replenishment processes take into account space.

How to Use the Benchmark Grid

The darker shaded boxes show the benchmark or average performance of the retailers that took part in this research. For the majority of processes the average performance is level 2.0 or standard. It is only for replenishment and stock management that the average was higher at 3.0 or advancing.

You can use this as a framework for benchmarking yourself against industry peers.

This benchmark is intended to be used as a guide to show you where to focus effort and investment, rather than a hard and fast rule. There will be some quite understandable differences in performance depending on the exact nature and culture of the business, trading formats, sales channels and so on.

We suggest the following approach for improvement of your supply chain planning and execution processes:

1. Take your personalised benchmark and identify the areas where your company performs below average. These are the areas to tackle first. By studying the next box along to the right you can see what a realistic goal for improvement is. In some cases you may be able to leap frog a stage for significant performance advances.

2. Look at the areas where you are ahead of your competitors. Are you really making the most of this competitive advantage? It won't last for long.

3. Where your performance is average, take a look at the next column along to the right and see which of these areas are ones where you feel you will get most benefit from improving. The market is moving on, so you should too!

Benchmark out of 4.0	1.0 Traditional	2.0 Standard
Forecasting	Manual process only Poor promotional, new product and special event forecasting Based on moving averages or similar	Mostly manual process Not very reactive to changing events Poor promotional forecasting Based on variance from seasonal profiles
Replenishment	Store and DC replenishment separate or no central replenishment at all Basic replenishment, e.g. Min/Max, 1 for 1 (SOGO – sell one get one) Poor product introductions and terminations	Store and DC replenishment with some integration Dynamic Min/Max or weeks cover model based on simple forecast
Stock management	Overstocked with a number of separate stock pools for sales channels and/or DCs No process for removing an item when a new item added to the range	Use a number of different stock pools but attempting to reduce stock holding and manage this better Some attempt to manage the long tail but no formal process No separate consideration of cycle time and safety stocks
Space management	Space not considered part of the replenishment process No use of planogram software	Some manual consideration of space in the supply chain Planograms produced using current software, but don't feature fully in replenishment computations
Visibility of supply chain	No visibility of the supply chain Stores can't see other stores or online/warehouse stocks, B&M can't see finished goods in transit or at factories awaiting despatch	Variable visibility by supplier and sales channel Can get inventory being shipped from freight forwarder but not integrated into in house systems
People	Spend time gathering info and cutting/pasting rather than decision making Everything done manually or in spreadsheets Each supply chain team person responsible for managing lower than average sales for segment	A lot of cutting and pasting of information and data manipulation but some time available to make decisions Each person in supply chain team responsible for sector standard replenishment volume
Reporting	Difficult to get information across the supply chain Reporting doesn't support effective promotion planning and execution or effective replenishment at store/SKU level	Basic reporting available Basic promotion information available Can report sales and stocks at store/SKU level and use it in replenishment calculations
Technology	Mainly spreadsheets linked to legacy systems Different systems for each sales channel or no real supply chain systems at all	Use older systems for supply chain processes supplemented by spreadsheets Not many systems are truly multi-channel Online fulfilment done from central warehouse(s) for click and collect

3.0 Advancing

4.0 Agile

3.0 Advancing	4.0 Agile
Forecasting becoming more automated and effective Forecast all lines at DC/SKU level Manual use of forecasting data in forecasting processes Forecasting based on sales rather than estimated demand	Efficient process with few problems Forecast fast movers at store/SKU, slow mover DC/SKU and allocated downwards System-selected forecasting algorithms Use external data effectively in forecast e.g. space, weather, footfall, competitive pricing Lost sales analysis factored into demand forecasting
Store and DC replenishment becoming more integrated Replenishment becoming more automated and effective Weeks cover model based on advanced forecast	Store and DC replenishment totally integrated Sophisticated replenishment process taking into account space and capacity constraints in the supply chain Variety of replenishment algorithms used depending on circumstances e.g. regular, promo lift or clearance Availability high
Moving towards one stock pool across all sales channels Some key competitor analysis on width and depth ranges stocked in Semi-formal process for managing width / depth Good management of cycle times Semi-scientific process for determining safety stock levels	One stock pool across all sales channels In stock service levels defined by SKU importance to consumers and level of substitution of out of stock products Disciplined process for managing width and depth Tight control of long tail and management of cycle times Science based safety stock planning High stock turns for your sector
Starting to integrate space management with supply chain processes Some impact on store replen quantities and frequency of replen but not at shelf and store stockroom levels	Space management fully integrated with supply chain processes Replenishment quantities and frequencies impacted by space available on the shelf and in store stockrooms Very advanced: Use store traffic today to date, plus shelf fill quantity and average hourly rate of sale to predict shelf out of stocks and alert store shelf replen teams Ability to vary displays according to traffic flows and requirements at various times of the day e.g. lunch time, evening etc.
Mostly visible, with some exceptions, usually at factories ready to ship	Fully visible from end to end including in transit and at factories ready to ship, know predicted future stock levels in DCs and can plan staffing requirements in the DC Ability to see promo stock availability
Processes becoming more automated so better quality decision making is emerging Each person in supply chain team responsible for more than sector standard sales volume	Automated processes so majority of time is spent on decision making rather than data gathering Each person in supply chain team responsible for managing higher than average sales for their sector
Most reporting available but may be time consuming to do ad hoc reports Reporting available will support advanced forecasting and replenishment even if not used	Reporting available on all key aspects of supply chain planning and execution and promotions – out of stocks, inventory to sales ratio, stock turns... - usually at the "press of a button"
Modern forecasting and replenishment systems Little use of spreadsheets Most systems can cope with omni-channel retailing	Integrated systems to optimize space, forecasting and replenishment processes Systems designed for omni-channel retailing Can fulfil online orders from stores if appropriate

Survey Methodology and Research Criteria

The results of this supply chain planning and execution research are based on 80 interviews across Benelux, France, Germany, Italy, Spain, UK and Nordics (defined as Denmark, Norway and Sweden). All the respondents were at the director, controller or managerial level. The interviews were conducted from January to March 2017 among retailers with sales exceeding €100 million. The sales of these companies total €248 billion. The sales of the retailers interviewed in each country represent the following share of their country's total retail sales:

Benelux 2%

France 13%

Germany 6%

Italy 3%

Nordics 41%

Spain 2%

UK 24%

So it is a very representative sample. The average sales of the companies interviewed is €3.1 billion.

Retailers interviewed by country

This survey covers Europe. The break down by the number of interviews is as follows:

UK and Irish based companies 25%

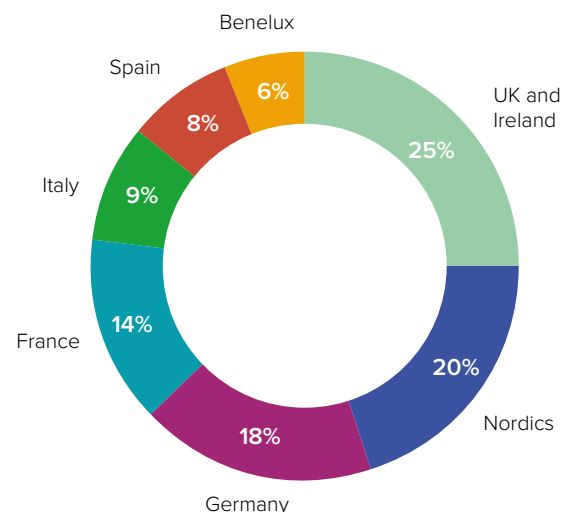*Nordics, including Denmark, Norway and Sweden 20%*

Germany 18%

France 14%

Italy 9%

Spain 8%

Benelux countries, including Belgium and the Netherlands 6%

▼ Retailers Interviewed by Country

Responsibility of people interviewed

The respondents are senior executives who are responsible for supply chain planning and execution across the business.

*46% are Vice Presidents, directors, department heads or controller level executives. The rest are senior managers.*

The majority, 60% are supply chain directors or executives.

21% are logistics directors or executives.

15% are merchandising executives.

4% are in other job functions including operations and IT.

▼ Executives Interviewed by Job Function

Others
Merchandising
4%
15%
21%
Logistics
60%
Supply chain
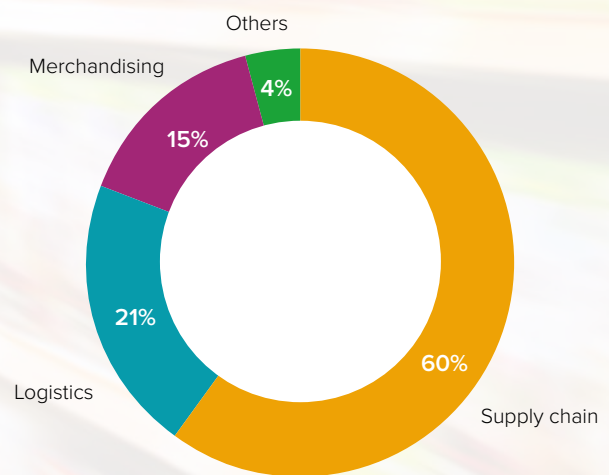
Companies interviewed by sector

This survey covers all retail sectors. They comprise:

36% food and drug retailers including supermarkets, cash and carry, convenience stores, chemists and drug stores.

25% large format speciality retailers including DIY, motoring, garden centres and electrical retailers.

24% small format speciality retailers including clothing, shoes, accessories, books and toy retailers.

9% mass merchants – retailers selling a wide range of different products including discounters and department store retailers.

6% home shopping or mail order retailers with few or no physical stores.

▼ Retailers Interviewed by Sector

Home shopping
Mass merchants and department stores
6%
9%
24%
36%
Small format speciality
25%
Large format speciality
Food and drug
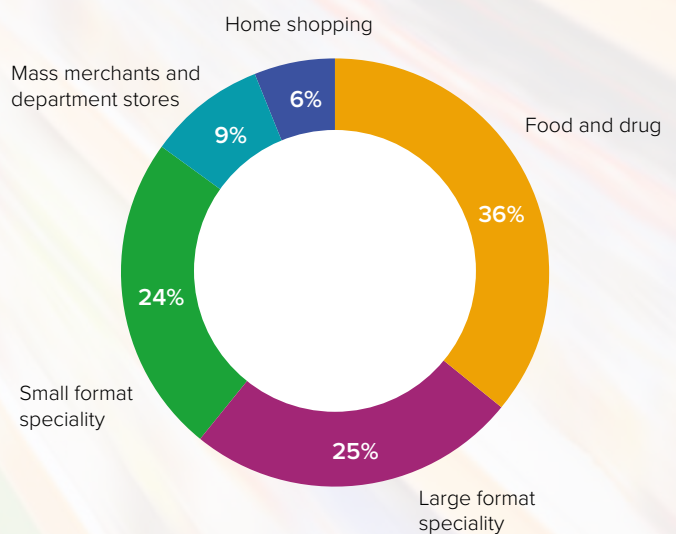
About RELEX Solutions

RELEX Solutions provides an integrated retail and supply chain planning system that delivers impressive results for customers around the world.

Through precise demand forecasting, automated replenishment, revolutionary space planning, and assortment optimization, RELEX helps businesses plan better, sell more and waste less however fast the market changes.

Through our retail expertise and technology, we build strong, enduring, award-winning partnerships with our customers. RELEX's success is inseparable from theirs.

RELEX Solutions is trusted by leading brands including WHSmith, Morrisons, AO.com, Coop Denmark and Rossmann, and has offices across North America and Europe.

For more information please visit:
www.relexsolutions.com

❝ As a retailer, we appreciate that RELEX understands retail, other vendors didn't, especially within areas of promotions, campaigns and automated replenishment

Supply Chain Manager
Mio

❝ RELEX really stood out for me in terms of their desire to understand us as a business

Senior Project Manager
East of England Co-op

❝ Stores feel as though they have an extra employee handling ordering, and that employee is RELEX

Supply Chain Manager
Europris

About Martec International

Martec International is a specialist retail consulting and training company and the market leader in this type of research. We assist retailers to improve their business performance and help suppliers to retail to execute their go to market strategies more successfully.

Our clients include retailers, technology and merchandise vendors, ingredient manufacturers, CPG and FMCG companies, banks, telecommunications companies and venture capitalists.

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