



FLOWCASTING: IN-STOCK—WHENEVER, WHEREVER

How Princess Auto Ltd. is using the Flowcasting planning process to significantly improve in-stocks and profits while unleashing a new omnichannel fulfilment model.

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Background

Princess Auto Limited (PAL) is a national hard goods retailer with 45 stores located from coast-to-coast, selling a wide variety of products, targeted to help their customers—the “figure-it-outers”—do, fix and make things. For anyone who’s shopped at PAL, customer service is legendary—based on a set of principles entitled “Royal Service” in which, among other axioms, “no sale is final”.

In keeping with Royal Service, members of the leadership Team, led by CEO Geoff Frodsham and Senior Vice President Customer Experience Ken Larson, realized that to compete and grow in the rapidly changing retail environment, they would need to improve their supply chain performance; specifically in-stock and inventory productivity.

Retail out-of-stocks have been a burden and a major source of customer dissatisfaction, with many industry surveys confirming that retail out

of stocks average 8 per cent during regular business periods and climb to more than 15 per cent during promotional periods. What’s worse is that these numbers have not changed for decades. At the outset, Princess Auto was not immune to the malaise plaguing the retail industry as a whole.

Implementing the flowcasting process

To address these challenges with out-of-stocks, the company became one of the first retailers to manage their business using the flowcasting process and supporting solution (from JDA Software). Flowcasting is a planning process that utilizes store level time-phased forecasts of consumer demand (e.g. how much you will sell and when, by item) over a 52-week planning horizon and then calculates resulting upstream replenishment, purchasing, and supply plans over the same horizon, as depicted below:

UNDERSTANDING CONSUMER DEMAND



Retail Store



Retail Distribution Centre



Manufacturer Distribution Centre



Manufacturer Plant



Raw Material Supplier





IMPLEMENTING FLOWCASTING

To implement flowcasting, here are some important guidelines:

- Executive understanding, support and commitment is important
- The effort should be largely about changing business processes, paradigms and behaviours—a focus on change management is important. This necessitates time spent educating executives, planners, merchants, operations and merchandise suppliers
- Walk before you run: cross-functional process labs, prototypes and pilots can help teams internalize the education and new processes and gives them the opportunity to provide input and suggestions
- A software solution is needed that has the capabilities required. PAL used a solution from JDA Software—the leading provider of flowcasting technology
- Process coaching and support to help people ingrain the new ways of working and unlearn the old

As sales happen, daily, the entire retail supply chain is recalibrated. If sales are happening faster in one store for a particular item, then its next planned replenishment is automatically moved forward to ensure that the item does not go out-of-stock. If sales happen at a slower rate, then future planned replenishments are pushed out—keeping store inventory in check. The effect of these daily ‘course corrections’ are then immediately and automatically recalculated into the plans for the rest of the extended supply chain—from the store shelf all the way to the supplier.

Benefits

The Flowcasting process has measurably and significantly contributed to the following benefits:

- An increase of greater than 6 per cent in the in-stock rate across all products in all stores, regardless of the planning scenario (e.g., including promotional periods, new products, new stores, etc.)
- Increased same store sales
- Improved inventory turns at stores and DCs
- Improved inventory flow to the store shelf, resulting in a significant reduction in backroom inventory and congestion at most stores
- Reduced costs throughout the organization as a result of using the projections for planning and flowing inventory to the shelf

Improving collaboration and control

The flowcasting process has given Princess Auto the capability to manage their business to a single set of numbers—whereby all groups, including suppliers, are driven by a common forecast of consumer demand and each department’s plans are the translated version of this forecast into actionable information with which to improve service, cost and productivity.

Internal collaboration between merchandising and supply chain teams has vastly improved since they are now speaking the same language: sales. Promotions planning and performance is a key area where improvements materialized. Merchants and demand planners collaborate and agree on a sales forecast. And for situations where there is potential upside sales benefit, they can also agree and plan, independent of the sales forecast, an inventory flow plan to potentially realize the sales.

Flowcasting has also improved collaboration with vendors, by simplifying the information shared and expectations. 52-week projections of product purchases (i.e., planned purchase orders) are shared with their vendors in the form of a supplier schedule and refreshed on a weekly basis so the vendors have visibility to see future requirements and plan accordingly. The vendors use these projections to plan raw materials and production and are adhering to the concept of “silence

is approval”—that is, if they see something in their schedule that looks odd, they contact their respective analyst and figure out a plan before resources and orders are committed—otherwise, they are expected to supply.

Finally, the process has also allowed senior management to gain unprecedented control of the business. The unit projections in flowcasting are converted into capacity and financial projections, enabling retail sales and operations planning—giving the executive team the forward-looking ability to compare projected actuals to plan and make any future course corrections as necessary.

Omnichannel planning and fulfilment model

Flowcasting has also allowed Princess Auto to pilot a new model for omnichannel fulfilment. Rather than supply online demand from a central warehouse, they are leveraging their new capabilities of consumer demand planning at store level and are fulfilling online customer purchases from the store.

Initially, the pilot is a few strategically located stores. However, the vision is to utilize most, and perhaps all, stores to fulfill online demand. The following outlines the new consumer-driven, integrated, omnichannel planning model:

Some of the sales in the store will be through the cash register, some by customer pick-up and still others by shipping from store to home. Regardless of the customer acquisition method, it's still a sale and contributes to the supplying store's sales history. The process is agile and flexible, and recalibrates the entire supply chain daily, based on what is and isn't selling, in addition to new strategies and tactics agreed upon by management. The result has allowed them to consistently achieve in-stocks approaching 98 per cent, even during promotional periods—a marked improvement over the industry average of 86-92 per cent.

This new model combines the best of integrated planning and store level fulfilment to move as close as possible to the customer, thereby significantly reducing customer order cycle times and last mile fulfilment costs. And, most importantly, it allows them to be in stock—when and wherever required by their customers.

About the Authors

Mike Doherty is a retail supply chain educator and consultant, co-author of *Flowcasting the Retail Supply Chain*, and Co-Founder of Demand Clarity Inc. Demand Clarity helps retailers change their planning processes to become consumer-driven and integrated, based on the principles of flowcasting. Their client, Princess Auto Ltd, was an early adopter of the flowcasting process. Visit them at www.demandclarity.com.

Ken Larson is Senior Vice President, Customer Experience at Princess Auto Ltd. (PAL) and is responsible for delivering and improving the Guest Experience. Mr. Larson was the Executive Sponsor of the flowcasting implementation and helped instill the thinking and a new mental model for planning within the organization.

To learn more, please contact Mike Doherty at mhdoherty@demandclarity.com to receive a free electronic copy of the book.




A profitable omni-channel model that also obliterates out-of-stocks?

Being in-stock in the consumer connected, any-channel world you compete in, requires two things:


1. A consumer driven, integrated planning process
2. A robust, agile, competitive end-to-end operating model

Together, Demand Clarity and Supply Chain Alliance are the proven catalysts to help you profitably stay in stock: whenever, wherever.

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