

# Wholesalers combat zero tolerance in the supply chain

**TODAY, WHOLESALERS ARE FOCUSED ON HOW THEY CAN REDUCE THEIR INVESTMENT IN INVENTORY. FORECASTING AND DEMAND PLANNING APPLICATIONS PROVIDE VISIBILITY INTO WHAT LIES AHEAD, AND THAT CAN HELP WHOLESALERS IN THE SHORT AND LONGER TERM.**

In any industry, compelling value propositions add up to hallmarks of success. In wholesale distribution, these include reliability, customer service and pricing. But when wholesalers aren't able to provide immediate value, they can find that customer patience wears thin quickly.

So what gets in the way of providing value in wholesale distribution? Most frequently it's the inability to balance stock levels with service levels. Hold onto too much inventory, and you end up paying for items that collect dust in the warehouse. Stock too little inventory, and you won't be able to keep up with customer requests. Sometimes wholesale distributors end up with both problems: holding excess stock of items customers don't need.

That's where today's forecasting and demand planning solutions come in. With these solutions, small and mid-sized wholesale distributors can amplify value propositions—while cutting unnecessary operational costs.

## Forecasting and demand planning work hand in glove

As retailers and manufacturers face their own challenges in speeding products to market, wholesale distributors are under increased pressure to perform, according to Richard Vaccaro, president and CEO of Valogix, an inventory-planning software company.

"Most of the major retailers and large industrial companies have pushed the requirements of inventory stocking back to the wholesaler distributors," he says. Yet many of these wholesalers, he adds, still rely on manual planning processes incapable of meeting demand for multiple items in real time.

So how do forecasting and demand planning capabilities help address this problem? "A forecast is really an estimation of what the future demand might look like—and it's usually based on a statistical model, algorithms that can use historic demand to calculate the



future," Vaccaro explains. "Demand planning is a little more broad. It's the lead time to get the items to the vendor, and also how long it might take to plan."

Using forecasting and demand planning applications together, Vaccaro says, provides increased visibility into customer expectations—which gives wholesale distributors more control over their own destinies. "They are able to look at some numbers that have some meaning to understand what the expected demand will be," he says. "That then gives them the second benefit—I call it the inventory flow and control. They are better able to understand what's going to be available, when it's going to be available."

## Delivering more replenishment capabilities

Statistical analysis tools form the backbone of many forecasting and demand planning applications—which allow distributors to make inventory changes on the fly. For example, individual products can have particular forecasting models assigned to them that cover historical sales patterns. This allows wholesale distributors to see when particular items should be bought and stored, so as not to be left short on stock when demand is likely to change.

These tools can even detect market trends and incorporate this data into models of how well items have fared in the past so that distributors can adjust stock levels and pricing.

All this information can be fed into automated replenishment tools that come with many forecasting and demand planning applications, so that wholesale distributors can up the ante on their value propositions—and reduce operational costs. Many forecasting and demand planning applications can create models that show all the costs associated with storing, buying and shipping—as well as identify the best buying strategies.

### More information boosts customer satisfaction

Ultimately, Vaccaro suggests, understanding customer needs decreases costs associated with holding too much inventory. So how do these solutions work in the field? Vaccaro talks about a relatively small industrial distributor in the automotive and heavy vehicle industry. This distributor, he says, had done most of its planning manually, which meant that a replenishment plan for the company's entire inventory would typically take 12 days to complete.

But while the planning process took place, the market didn't stand still. As a result, the company found itself frequently out of stock and taking back orders. Predictably, this reduced the distributor's value proposition, because customers couldn't understand the reason for backlogs.

"There is something going on that we're calling zero tolerance in the supply chain," Vaccaro explains. "Customers expect you to perform on cue—with not only the inventory, but the information around that inventory."

But when the automotive supplier used a forecasting application, Vaccaro says, the results were immediate. "They were able to reduce their back orders in just three months by over 70 percent," he recalls. "They were also able to identify and reduce their dead stock—stock that was sitting there not being used—by over 60 percent."

Much of this was made possible, Vaccaro says, by sharing customer demand planning information with vendors and customers. "Being able to predict better demand streams also allows them to be more timely with their vendors and understand when to take advantage of a deal and when to say no," he says. "And being able to do that allowed them to secure better pricing, better shipping discounts—so they actually had an increase in profits," he says.

### The economy makes the case for forecasting and demand planning

For many smaller wholesale distributors, being profitable is difficult in today's fluctuating economy. Forecasting and demand planning solutions can help lower overall costs. Wholesaler inventory is frequently funded by suppliers and banks. But when wholesaler sales drop and inventory stays in warehouses longer, suppliers and banks demand payment of inventory and loans before goods can be sold, adding to carrying costs. Forecasting and demand planning applications can help.

Cutting operational costs—as Vaccaro illustrates with his wholesale example—can be achieved by reducing back orders with forecasting and demand planning solutions. When the right inventory is available, wholesale distributors can send off complete orders, which eliminate the expense associated with making multiple shipments to satisfy a single customer request. Cutting down on back orders also reduces long-standing wholesale transaction costs found in space, people and equipment.

And to simply sustain sales, it helps to understand that customers are also feeling the economic pinch. Retaining customers calls for improving lead time so customers can in turn meet their own goals—and more advanced forecasting and demand planning solutions incorporate a number of business processes to meet deadlines. Not surprisingly, this can go a long way in customer retention.

Forecasting and demand planning applications can also help identify new levels of service, which increase the value proposition. Providing discounts based on volume of business, for example, can increase customer satisfaction, while a flexible pricing model—based on what the demand planning system says is possible through vendors—can also help.

Plus, some of these solutions can recognize situations where a wholesale distributor may be able to provide value-added services to particular customers. Consignment sales are one such opportunity. In these situations, a vendor or customer hands over to a distributor the shipping and management of goods typically managed in-house. Or, they may be opportunities for wholesale distributors to provide and manage private-label or house-brand products for retailers.

### Take stock of vendor solutions

A number of software application vendors now provide these capabilities, along with statistical analysis functions for better replenishment. Ideally, though, these solutions should be able to increase the value proposition. Questions to consider asking when investigating these providers include:

- **Is the vendor solution designed for small and midsized wholesale distribution operations?** What may be appropriate for a large distributor may require a great deal of up-front hardware and training costs, as well as a high degree of hands-on management. Look for vendors able to work with existing systems and able to provide solutions that require minimal upkeep.
- **How much experience does the vendor have in delivering forecasting and demand planning solutions?** While globalization is changing the way wholesale distribution works, many of the essential operational challenges are perennial. Some forecasting and demand planning packages include best practices honed in a range of distribution environments.
- **How much background in the wholesale industry does the vendor have?** Forecasting and demand planning often intersect with other business technologies such as customer relationship management (CRM), enterprise resource planning (ERP) and supply chain management (SCM). But wholesale distribution has its own particular challenges that cannot be solely addressed by these solutions. It is important, however, to make sure that vendors under consideration either offer CRM, ERP and SCM solutions or have close alliances with vendors of these solutions.

So how does this all add up? According to Vaccaro, using forecasting and demand planning solutions can provide small and midsized wholesale distributors with dramatic results in the short term as well as the long run.

"It will give them agility, it will give them flexibility, and it will give them long-term profitability," he says. "And those are hallmarks of successful, stable companies that can really move as times and demand change in a global economy." ●

Learn more by going to:  
[ibm.com/expressadvantage/forwardview](http://ibm.com/expressadvantage/forwardview)