

Simple Stock Replenishment Rules

Many retailers struggle to put in place stock replenishment processes that work. The result can be very costly; out-of-stocks, missed buying discounts, and increased handling costs.

Replenishment of everyday lines is a completely different job to buying products for a sales promotion or selecting new product ranges. These three different jobs can (and should) be handled entirely separately, so that each can be carried out with maximum efficiency and accuracy.

The three major variables that impact on setting rules for replenishment of regular lines are:

1. The lead time between placing an order and it reaching the shelf
2. Volume-related discounts
3. The available shelf space

In a simple model, where none of these factors is significant, your computer system only needs to have sufficient sales history to be able to forecast the expected sales for the next month.

How Often?

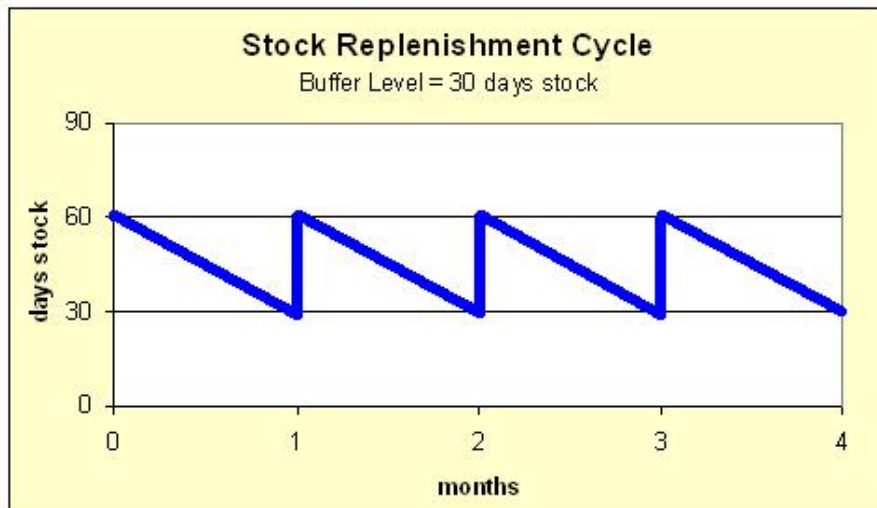
Because you pay for stock monthly, it is most efficient to place orders once a month. Any more frequent replenishment (e.g. weekly or fortnightly orders) duplicates the amount of effort required to order, receive, check and price stock. Any less frequent means that you are not taking full advantage of the suppliers' storage and monthly credit terms.

When doing monthly orders it really shouldn't matter what time of the month the orders are placed. Simply divide your direct suppliers into four groups and follow a weekly cycle so that orders are prepared for each group once every fourth week. This spreads the workload of preparing, sending, receiving and unpacking orders evenly across each month.

How Much?

Deciding how much replenishment stock to order is simple. It only requires you to decide on the minimum (buffer) stock level. This is the level of stock that will be on the shelf at the end of the order cycle, just before the new order arrives. This minimum should never be less than 30 days stock, but can be higher if your shelves need more to look fully stocked.

If your buffer level is 30 days, and you order monthly, your maximum stock level will be 60 days. Everything should be topped up to this maximum level. This means the average will be 45 days stock (providing 8 stockturns per year). If your buffer level of stock is 60 days and you order monthly you will average 75 days stock-on-hand and 5 stockturns, and have a maximum of 90 days stock on hand.



These simple rules are easy to implement – and make it easy for staff to know how far away the next order is at any time. If a sudden sales peak occurs and you need to top-up on stock mid-cycle, the quantity to order can quickly be estimated.

By putting in place strict rules for the minimum stock level and frequency of orders and automating this process, your skilled buyers can now devote their time to organising promotional deals and selecting new products – both areas which require more of the art of retailing, than the science.