CLOUDX SYSTEMS

# Inventory Management and Omni-Channel Fulfilment



## INTRODUCTION



Let's look deeper at how businesses are looking at inventory management, a field that's seen some big changes recently. It's a fascinating area, especially for businesses trying to keep up with the fast-paced market today. The challenge? Keeping the right amount of stock based on demand with just enough to cover contingencies while providing a robust omni-channel customer fulfillment service level that drivers customer satisfaction. This balance, when achieved, is a game changer for business flow, efficiency, and customer satisfaction, while reducing costs and increasing profits.

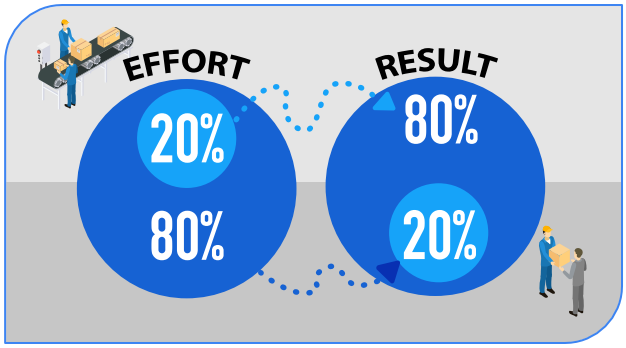
A business' primary focus used to be on whether it had enough products to meet customer demand. That's changed. The rise of omni-channel strategies along with global growth and demand have changed the dynamics of sourcing and inventory.  Customer expectations have changed, delivery methods have grown, and global reach has never been more, well, reachable. This change means that the old ways of managing inventory just won't get the company the balance of product availability and cost management anymore.

This is where modern inventory techniques and omni-channel distribution strategies come into play. They're like the superheroes of the business world. Omni-channel distribution is all about giving customers a seamless delivery experience regardless of how they shopped or where they are.  Techniques like the Pareto Principle, Just-In-Time inventory, and advanced data analysis help keep costs down while making sure customers get what they want, when they want it.

By blending these modern methods with a smooth, all-around shopping experience, businesses can keep up with today's market. It's not just about following a trend; it's about staying competitive and efficient. This approach helps businesses adapt to the fast-paced digital world, keeping customers happy and costs in check.

As we explore the ins and outs of inventory management and omni-channel distribution, we'll look at different techniques, real-life examples, and the challenges businesses face. It's all about finding the best ways to manage inventory in today's exciting, ever-changing business landscape.

## UNDERSTANDING THE PARETO PRINCIPLE




The Pareto Principle, commonly known as the 80/20 rule, is a principle that finds frequent application in various fields, including inventory management. It suggests that, typically, 80% of effects come from 20% of causes. In a business context, this could mean that a large portion of sales or profits often comes from a relatively small fraction of products or services. When thinking of this principle in modern business, however, we find that B2B type of businesses, like industrial manufacturing, assembly-based manufacturing, and B2B distribution typically have a very strong relationship to the "80" and the "20". The closer one is to a traditional global customer, versus a business customer, the more likely the 80% becomes closer to 70% or 75% and the 20% of the cause, or cost, or benefit, will expand to 30% to 35%. This is due to the large assortment of options and products most companies provide to consumers today. Retail and consumer-based industries are typical of the kinds of businesses this affects. In today's omni-channel world, these businesses focus not only on gaining improvements, because even a 65%/35% focus can improve inventory performance very effectively, new approaches to managing assortment, like value added services, kitting, and light assembly, help to move the relationship to the 80%/20% relationship seen in other industries.

### Traditional Application of Pareto Inventory Approaches

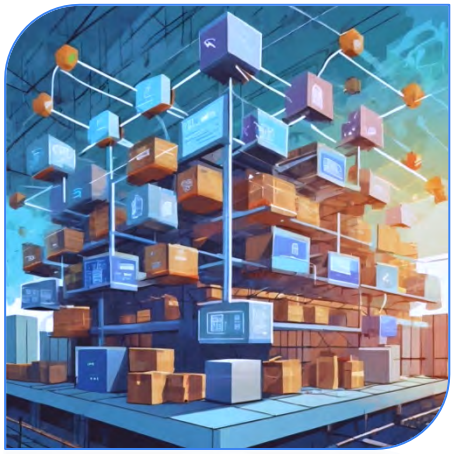
**Basic Application in Inventory**

The Pareto Principle is the primary tool for driving cost improvement. By identifying and focusing on the top 20% of products that drive business and customer satisfaction, businesses can optimize inventory. This approach involves prioritizing these key products, ensuring their availability, and aligning the rest of the inventory in support of these top performers. It's about recognizing which items are driving the most business and giving them the attention, they deserve to maximize efficiency and profitability.

**Business Value of Pareto Principles**

Many businesses use the Pareto Principle to improve their inventory. For example, a clothing retailer found that 30% of its styles make up 75% of sales. By focusing on these, they reduced excess inventory while satisfying customers. A tech company also learned that a few products bring in most revenue. Focusing on these, they cut inventory by 35%. Both companies, despite different industries, saw better inventory management, lower overall inventory costs, and reduced carrying costs.

# CREATING INVENTORY EFFICIENCY IN RETAIL AND OMNI-CHANNEL DISTRIBUTION



Omni-channel distribution is a strategy that has become essential in today's retail landscape and continues to be an option in B2B businesses, especially distributors. It's about offering a seamless experience to customers, regardless of the channel they choose to use to buy. It also enables valuable distribution strategies like, click and collect, direct to consumer delivery, multi-order consolidation with multi-channel delivery, and Vendor Managed Inventory and other store replenishment techniques. Specialization often enables focus on the key processes that drive efficiency, and, for companies that distribute product, this is critical.

Most small and medium business have channel-based ordering capabilities that might be part of a single or multiple order systems.  integrating those systems seamlessly into a Warehouse Management System capable of enabling and driving Omni-Channel fulfillment provides businesses the most flexibility in creating and driving customer fulfillment that is effective, efficiency, and drives satisfaction.  Using Omni-Channel fulfillment inventory techniques, businesses can achieve centralized inventory visibility of total inventory with the flexibility to grow and change their distribution and inventory to drive customer satisfaction and cost management while achieving cost efficiencies.

## Omni-Channel Fulfillment Inventory Management Strategies

Three techniques emerge to help drive omni-channel inventory management and efficiency. These are core foundations on which we build order and fulfillment visibility, receiving and put-away material efficiency, inventory management processes, and pick, pack, and ship optimization methods. The core foundations are:

**Centralized Inventory Management:** Managing inventory in a unified manner across all channels and locations ensures visibility across fulfillment channels, the ability recalibrate inventory routing and more.  That might mean a single instance of the inventory or could include distributed inventory locations that are available for fulfillment order routing.



**Real-Time Inventory Tracking:** Realtime inventory tracking enables businesses to monitor inventory levels as they change in real-time. It's essential for maintaining accurate stock levels across various channels and helps prevent issues like overstocking and stockouts.

**Trending Data Analytics:** Data analytics that help create demand and supply trends, alignment of supply and demand timing, and the ability to analyze inbound and outbound channels for areas of optimization can provide deep insights into customer buying patterns, inventory turnover rates, and supply chain efficiency. This information can be used to predict demand more accurately, optimize stock levels, and make informed decisions about product placement and replenishment.

These techniques should be considered as entry requirements into an effective omni-channel fulfilment environment. Where order is the currency of commerce, inventory is its blood, and it must flow effectively and well for the business to be healthy.

## Advanced Omni-Channel Inventory Practices

While basic inventory techniques will help manage operational inventory efficiencies and cost, businesses must look past basic efficiency to the new generation of services and capabilities that reduce inventory costs while improving the management of inventory assortment and complexity, unique fulfillment services, better demand alignment, and other cost savings techniques. These advanced practices include:

### Value Added Services

One of the most effective ways to help businesses drive efficiency and differentiation is through value added services. Value Added services (VAS) offer flexibility and management of fulfillment options for both consumers, B2B fulfillment, store replenishment and more. Value added services include a wide variety of additional services that are done at the distribution level that creates additional revenue, loyalty value, or efficiency for the business. These services include a range of options including:

**Pricing, Labeling, Tagging** – This category of services are usually provided for merchandise going to retail outlets and can include adding pricing, labels and other specific information based on the specification of the situation

**Packing, Repacking** – This category includes services related to how the products are organized upon receipt or package compliance type of services. For instance, repacking items from bulk packaging to "totes" or other standardized package can aid in manufacturing efficiency. Similarly, organizing clothing into simpler packaging for ease of unpacking and adding to store shelves can be a VAS.



**Inserts, Bundling** – This category includes additional documentation, like material data sheets or coupons, and bundling of items together as part of shipment preparation.

### Kitting Services

Another type of value-added services is a Kitting Service. With kitting, the company fulfills multiple products or packages of products together as part of single order. This is often related specifically to different components that the business wants to combine to create a discounted price to drive greater demand or something similar. This technique affects receiving, inventory, picking and packing processes creating more efficiency and flexibility in delivery without having to carry as much inventory.

### Light Manufacturing / Simple Assembly Services

A close cousin of Kitting is the light manufacturing service that some system providers enable. The concept is similar in that its intent is to reduce the amount of inventory held, the difference is that with light manufacturing, the company stores product final assembly components that are easy to add using "snap in" techniques along with cosmetic choices, like colors and finishes. Products are finished in the light manufacturing area with the specific customer choices for features and finishes being "picked" and then assembled into the final product before being shipped to the consumer. Doing this enables the company to dramatically reduce the amount of finished goods they must store while enabling them the flexibility to of providing more options to consumers without significant cost increases.

### Returns Processing

A final advanced area that is becoming more important is the areas of returns. The return concept is applied in multiple ways in an omni-channel environment and can be a key differentiator in developing and maintaining customer relationships and cost efficiency. Returns approaches vary based on the mission but generally includes pre-authorization, material receipt and quality evaluation and disposition.

### Cross-Dock B2B Operations

Cross-docking is a logistics process where the distribution center applies “break bulk” principles to use the center to sort goods without holding them. This is done when the principal need is to reorganize bulk goods from many supply sources and organize them into a set of consolidated deliveries using the center as the sorting agent. In today’s modern environment being able to use a distribution center for individual order item delivery and bulk delivery is an important value to have in the operation.

## EXECUTING INVENTORY STRATEGIES WITH OMNI-CHANNEL FULFILLMENT



### The System Anchors Operations and Value

For businesses, inventory management is core to the Warehouse Management System that drives the Omni-Channel distribution strategy. For most successful companies, their system approach, choice, and execution will be the primary driver of success because of:

**Business Reliance:** Systems that hold inventory are considered “systems of record” and are critical to the business, its success, its auditability and more. Businesses today digitalize their processes through their system relying on the system to drive the business.

**Flexibility Needs:** Given the system drives the business, the businesses’ ability to change is, likewise, dependent on the systems ability to change. When the business must change, and the system cannot, it requires a new system which, on its own, is disruptive at a time when the business needs adaptability and flexibility.

**Integration Needs:** Similar to flexibility, most systems today are made up of the most effective system the company could find for a specific business area, like order management, product management, etc. While there are vendors that provide a single, monolithic system for the business, they often do not work well for supply chain execution functions, like omni-channel fulfillment because of fulfillment requires its own integrated ecosystem of complex partners, timing, and processes. Therefore, companies need strong integration capabilities in the platforms they choose.

## Defining System and Inventory Success

Creating the highest odds of success means understanding the business with the ability to communicate that to find the right solution. To do this, businesses need to think about the future flexibility needs while also considering their delivery model, i.e. will they do the operation themselves or outsource it, and the volume and complexity needs today and in the future.

By acknowledging these challenges and adopting appropriate mitigation strategies, businesses can navigate the complexities of modern inventory management and harness the full potential of these advanced techniques. To reduce risk, consider the following approach:



**Find the Right Partner:** Every business' pace of change, approach, and needs are different. Often, the system provider has services and support that can help companies plan and implement an effective system. Finding a business with extensive experience in operations and delivery is one of the best ways to glean best practices and operational performance. Some systems have both the systems provider and potential 3rd party service providers that can help. Where possible, choose a system provider that has a services group that has extensive operational experience in actual real-world situations consistent with the businesses need. That way, the company can ensure the advice, system, and ultimately, the solution, can deliver on the business needs.

**Develop a Business Case:** There are some situations where business value is secondary, and while inventory is the lifeblood of any product-based company, it also represents some of the greatest opportunity for cost management and profit optimization due to its size and value in the company. Using systems automation to drive cost management and optimization of inventory creates the savings that pays for the automation and adds profit to the bottom line. Taking the time to be deliberate about documenting the plan to achieve those savings is a major success driver that will create transparency and support of the initiative to achieve its goals.

**Consider Total Cost of Ownership:** A core consideration in selecting the right system provider and system for use is its total cost of ownership (TCO). As the company develops its business case, total cost of ownership should be considered. In this case the choice of enterprise software versus cloud software will have cost differences as will how the system provider prices the system. The company also needs to consider the useful life of the investment rather than the system. Historically, companies change systems about every four years. When we look deeper into this, we find that many companies will start with a system, then go to outsourcing, and then

go back to a system, etc.  When looking at the total cost of ownership, consider the real cost of switching and look put system providers to provide ways to eliminate this cost.

**Investing in Training and Change Management:** Effective training and change management practices are a key difference between success and failure.  It averages six to eight quarters for a business to full internalize the change associated with adopting most system technology. Ensuring the project is phased to make it effective to deliver and providing training and change management during the process is essential for success.

**Robust Data Management and Security Protocols:** Implementing strong data management policies and ensuring the solution platform has effective current safeguards as well as the ability to adapt and change, both in its architecture and in its policies and security capabilities, into the future.

## CONCLUSION

The integration of inventory cost saving strategies within omni-channel distribution is not just a response to market trends but a fundamental transformation in the approach to modern business operations.

This white paper has highlighted the pivotal role of innovative inventory management techniques such as the Pareto Principle, Just-In-Time inventory, and advanced data analytics in driving efficiency and customer satisfaction. These methods are essential in balancing the demands of a diverse and digitally driven consumer base, ensuring that businesses do not just keep up but stay ahead in the competitive market.

The shift towards omni-channel distribution reflects a deeper understanding of the evolving retail environment. It is no longer sufficient to manage inventory in isolation; a holistic, interconnected approach is vital for success. This necessitates an integration of sophisticated inventory methods with a seamless, multi-channel customer experience, ensuring businesses remain agile and responsive to changing consumer needs.

As businesses navigate this complex landscape, the emphasis on finding the right partners, developing robust business cases, considering total costs of ownership, and investing in effective training and change management is paramount. These factors will be crucial in ensuring the successful adoption and implementation of these advanced inventory management strategies.

Ultimately, the fusion of cost-saving inventory management and omni-channel distribution strategies is more than an operational necessity; it is a strategic imperative for businesses aiming to thrive in today's fast-paced, ever-evolving market. By embracing these innovative approaches, businesses can ensure they remain competitive, adaptable, and poised for future growth, all while maintaining the highest levels of customer satisfaction and operational efficiency.