

Stock Management for Fast Moving Consumer Goods

Traditionally, the typical stock policy for FMCG has been “stack ‘em high, sell ‘em cheap”. Therefore not a great deal of care is needed in managing stock levels, simply keep the shelves full, and by correctly positioning the price, these items will continue to move, and continue to generate relatively low rates of return. When this works well the low profit margin is offset by the number of sales, combined with a low ordering cost, to generate sufficient profit.

However, as customers hold back their spending given the uncertain financial climate, does this strategy still apply?

Certainly a greater focus on the amount of stock held is necessary, and to a degree, the extended ranges and additional choice that many retailers offer is now more likely than ever to become a noose around their neck. The big issue here is that consumers are now used to, and demand, the levels of choice to which they have become accustomed. The downside to the retailer is that they have never had so many different items to closely manage. Tight stock control over a large range requires additional attention in order to avoid an over or under stock situation. Added to this situation is the current unpredictability of the market. New rules are required in order to generate accurate forecasts, and it is probably true to say that not many retailers can whole-heartedly predict what their customers are going to do next. Building stock for the current Christmas Peak is a classic example :

- Do I base my stock levels on my Long Term Forecast – probably not as this is now looking far too aggressive?
- How about basing it on my short term actual sales information – this may work, but what’s to say that my customers have had enough of being careful, and are going to spend as they always do for Christmas?

Add to this the many developments in sourcing, which generally entail long lead times, and this year’s peak really does become a bit of a guessing game. We are already experiencing retailers discounting far earlier than in previous years.

So where does this lead us, and how do we now apply much tighter control to ensure stock levels are correct? Many predict that we will see a peak like no other – empty shelves being offset by shelves full of discounted stock, with only those retailers who truly understand their customers having a respectable Christmas. However, if the financial crisis is maintained over a longer period, focus will turn back to stock teams and their supporting systems, to micro-manage stock levels to a degree never previously experienced. Demand for shorter lead times will also be required, which will ask demanding questions of current global sourcing networks.

We could just be on the edge of a Supply Chain revolution.