

DELIVERING IMPROVED SUPPLY CHAIN EFFICIENCIES

VALUE OPPORTUNITIES

- Increase availability of products in stores
- Reduce overall stock holding
- Manage increasing supply chain complexity and demand variability

TXT E-SOLUTIONS RESPONSE

- Demand Planning
- Production Planning/ Replenishment & VMI

RESULTS

- Retail supply chain collaboration
- Demand forecasting for the volatile market of cd's and dvd's
- Surplus stock reduced by 15%
- Returns down 20%

Corporate Profile

Entertainment UK (E.UK), part of the Woolworths Group Plc, is Europe's largest retail wholesaler of home entertainment products, supplying many of Britain's best known retailers with nearly a quarter of the UK's music and video, as well as supplying direct to the public via the internet, kiosks and catalogues. Entertainment UK's retail customers include Tesco, Woolworths, WHSmith, MVC, and Morrisons. Annual turnover is over £1 billion.

Supply Chain Context

The UK home entertainment market has many unique

characteristics, especially with regards to the retail supply chain. There's usually over one thousand new product releases a month, sales are highly seasonal and tend to be within the first few weeks of release, and there are a lot of winners and losers when it comes to knowing which CDs or DVDs to stock. Such short product lifecycles require accurate demand forecasting, and E.UK's exposure to any stock loss, not to mention lost sales in a £5.5 billion market, means that it is very important to get things right.

The E.UK Challenge

The company has been an innovator in the use of a vendor managed inventory model working on behalf of retailers to make sure that each gets the appropriate product selection, in the right quantities, at the right time. E.UK acts as an intermediary between entertainment suppliers (like Warner or Universal) and retailers aggregating products from multiple suppliers into single store shipments. However, it identified that the efficiency of its supply chain had substantial room for improvement, leading to rising returns and escalating distribution costs. This was partly put down to inappropriate functionality in certain

systems, so the company turned to TXT e-solutions, in a bid to introduce new forecasting and new replenishment software.

The choice of TXT

After assessing over 40 different systems, TXT were selected because they could provide the precise functionality for forecasting and replenishment planning required by E.UK. Competences and understanding of the retail sector's logistics were also key reasons in driving the choice.

The solution

Together with E.UK's market intelligence for predicting best sellers, and historical EPoS sales data for nearly three thousand stores, the TXT solution then comes up with as many as 100,000 store replenishment orders a day. To make sure that the shelves remain fully stocked and stores are automatically replenished, information exchange has to be fast with retailers and suppliers, and there's only a three-hour processing window each night for forecasting and demand planning. The initial forecast and allocation is a really critical process in such a highly seasonal and volatile market. This led to considerable intelligence and innovation within the underlying forecasting

engine, such as the use of historic profiles (mined from the data warehouse) and the simultaneous analysis of store seasonality, daily selling patterns, market seasonality, product clusters, and so on. TXT offers merchandise planning and replenishment solutions focusing on products with a very short lifecycle and sometimes no history. Under these circumstances, sales forecasts, allocation and replenishment management is carried out using techniques which are able to incorporate sales trends, store behaviour, seasonality as well as best practice forecasting capabilities. The initial allocation and the daily re-forecasting and replenishment allow them to determine the right product in the right store at the right time in a fast moving environment. Entertainment UK's vendor-managed inventory (VMI) initiative is aimed at maximising sales whilst controlling movements of stock up and down the supply chain. For most customers, VMI involves integration to both head-office and in-store back-office systems, so that everyone can effectively share trading data and get a single version of the truth. It utilises EDI (Electronic Data Interchange)

technology combined with TXT forecasting & replenishment systems to:

- Maximise on-shelf availability
- Minimise stock keeping costs
- Plan for seasonality fluctuations
- Provide regional and individual store focus
- Provide a pre-ordering facility

Benefits

Early tests during 2004 in a pilot customer revealed that not only were stock turns improved (typically by 25%), store returns levels fell by 20%, and store availability was maintained above 98%. Now that the technology has been fully rolled out, one customer's in-store inventory has since been reduced by approximately 23%, whilst in-store availability has remained strong. During its peak sales period at Christmas, E.UK sales rose by about 3%, while returns dropped by about 8%. Annually, a returns reduction of around 20% is anticipated and already well on target. The impact of this on the distribution centre and supply chain costs is significant, given that returns costs are about twice that of outbound. Pence per unit DC cost reductions have already been recorded.

Other benefits include:

- Faster communication of unexpected demand variances to suppliers
- Improved store availability through use of local trends at regional and store-specific level
- Improved customer activity planning, and in-store execution, through provision of the future inventory picture
- Earlier customer communication of upstream supply issues

E.UK has already seen significant bottom-line benefits driven from the advances made in reengineering its demand planning and forecasting processes with TXT. The project is proving extremely successful in a very competitive industry. E.UK is well on target to achieving its objectives of improving service with lower costs and lower inventories. Looking ahead to the future, the success of the project has encouraged E.UK to look at technology for incorporating the promotional impacts on stock management, given that advertising or a celebrity endorsement can have an enormous impact on influencing sales of music and DVDs.

“ Without TXT's advanced software it is clear we could not achieve the same level of success. Sales are up and supply chain costs down, thanks to the foresight and flexibility of TXT demand planning solution. ”

Phil Streatfield, Entertainment UK - Supply Chain Director