

Why Creating Order Out of Chaos Remains Retail's Holy Grail

Orridge Hosts Second Stock File Accuracy Forum

Chaos theory is a much maligned and neglected branch of mathematics based upon underlying patterns and deterministic laws, where order is recognised as replacing what was thought to be random and unrelated states of disorder. Better known as hummingbird or butterfly theory, these previously unknown inter-relationships or dependencies are viewed through the prism of the rapidly flapping wings of an insect or tiny bird in one part of the globe causing hurricanes in Havana or tornadoes in Texas.

In the retail world of fragile global supply chains, such interdependencies are more pronounced. The humming engine of a west-bound container vessel navigating the troubled waters of the Red Sea is drowned out by the screaming sound of Houthi missiles launched against commercial shipping from Yemen which in turn is a result of a wider Middle East conflict between Israel and Hamas in Palestine's stricken Gaza Strip.

This wider turmoil is consequently creating stock shortages in stores from Stevenage to Stockport, forcing vessels to travel the long way around the tip of Africa and the Cape of Good Hope, adding weeks and additional costs to scarcer consumer goods which impacts prices, wages, and inflation in the same way that Russia's invasion of Ukraine increased the cost and control of Europe's energy. What seems like unrelated disputes in one corner of the world suddenly become totally relatable issues in terms of higher costs, inventory accuracy and management, and on-shelf availability (OSA).

In turn, the flapping wings of panic caused by this state of affairs generate loss of consumer confidence and reputational damage which in the febrile world of retail can lead to loss of sales, closure of stores, and the ultimate depletion of high streets in unprofitable towns or unfulfilled cart journeys on online platforms.

Holy Grail

Stock file accuracy (SFA) remains the Holy Grail of retail because of its ability to stabilise the unstable in an uncertain world. SFA improves business insights, efficiency, and productivity as well as saving almost unfathomable ocean-depth levels of cash and ultimately boosting customer satisfaction and brand loyalty simply by virtue of having helicopter view transparency of what is on the shelves in terms of, for example, size, style, and colour—all factors determined by strong supply chains and even stronger supplier relationships.

Orridge

To this end Orridge, one of Europe's leading independent stocktaking and supply chain specialist organisations, hosted its second Stock File Accuracy (SFA) Forum meeting on 20 February 2024.

Bringing together a number of businesses, the Forum meeting saw representatives from leading brands in the fashion, hospitality, DIY, and food services sectors discuss the wider SFA and OSA challenges agenda.

Although the legacy of COVID-19 is still being felt across the retail space, the meeting focused upon more present existential issues including the flapping wings of the recruitment and retention challenges and the rise in the living wage, and the increased presence of the environmental, social, and governance (ESG) agenda around sustainability where it was felt that SFA is felt most acutely.

"Stock accuracy has a key role to play in terms of ESG in that getting it right could mean no longer having to generate multiple journeys to get the right item to the customer," according to one of the major retailers at the event which was held in Hertfordshire.

"Today, it's about a cultural shift as many customers have the ability to better check stock levels through the technology in their own hands," said another delegate.

Many of the delegates had increased their stock counts to improve accuracy and provide a more dynamic environment for inventory adjustment and replenishment in light of perennial stock loss and shrinkage challenges from organised criminality to opportunistic theft, much of which has been in part facilitated through the widespread introduction of technology including self-checkouts where social engineering scams have been brought to bear.

Many Unhappy Returns

Many of the businesses present reported increases in refund and return discrepancies, resulting in a major focus on their reverse logistics protocols which often create "over-stretched warehouses". Here, greater use of artificial intelligence (AI) is increasingly playing a role in terms of optimising the return so that the retailer can identify the best location to send it to in order to obtain the best re-sale value, thus reducing margin erosion.

Here, the overriding mantra is the acronym of "KOW"—"keep it out of the warehouse". This means returns to stores provide the best or least-worst option in an omni world where a typical sale involves the online purchase of four almost identical items—they differ only in size and colour—and results in three likely to be returned.

Here SFA is further compounded by acronyms such as BORIS (buy online return in store) where inter-store stock transfers have become the daily norm for cash and time poor consumers, a post-pandemic legacy that has hung around longer than COVID itself.

Survey Findings

At the last SFA Forum held in Watford in November 2022, Orridge conducted a survey among retailers which revealed that 100 per cent of respondents agreed with the statement: "stock accuracy in stores is causing availability issues and lost sales", with 66 per cent "strongly agreeing" with the sentiment.

The exercise was repeated at the February 2024 event, with 56 per cent of respondents "strongly agreeing" with the sentiment this time around, a discrepancy that could be linked

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to businesses conducting more regular counts throughout the year.

All agreed that high levels of inventory accuracy were key to running a retail and supply chain business efficiently and that having the stock without the knowledge was as problematic and could result in unfulfilled sales and dissatisfied or lost customers.

At distribution centre (DC) level, pick accuracy was a KPI for most businesses, with almost 90 per cent of respondents confirming that they measured it and acted on the feedback.

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“Customers don’t care about shrinkage, but they do care about availability and what they want being in the right place, which is why there is still work to be done in terms of process as attitudes continue to evolve towards more ethical practices,” said another delegate.

The majority of businesses reported that they provide up-to-date performance information to stores and that was widely shared with management influencers of stock accuracy.

Forum Objectives and Take-Aways

The objective of the Orridge SFA Forum is for it to be an open discussion where retailers can freely explore the subject and share best practice with their industry peers.

One of the key take-aways from the round table discussion is the widespread acceptance of the fact that maintaining an accurate, dynamic, and real-time stock file is not only in everyone’s interest, but it is also actually everyone’s responsibility. From the top of the organisation to the shop floor and throughout the supply chain, SFA is a collective obligation.

By democratizing the process, far-reaching and frequent counting protocols help shine the all-important light on the creeping behaviours that drive discrepancies and highlight the long shadows created by shrinkage, whether it’s maliciously or non-maliciously driven.

Once again facilitated by John Wilson, executive editor of *Loss Prevention Magazine Europe*, delegates were given the opportunity to hear about other attendees’ experiences and methodologies for stock counting and how they reconciled inventory and availability.

Diverse Debate

The diverse discussions ranged from the trials and tribulations of RFID to AI-driven “shop and go” stores, to the greater opportunities for colleague and customer dishonesty to drive losses. This included the growth of wardrobing, one of the fastest rising trends in first-party fraud which involves

buying fashion items and wearing them with the intention of returning them for a full refund at a later date.

This trend, legitimised through social media platforms and influencers, is not recognised as criminal by those involved, a narrative also driven by the cost-of-living crisis, which was another subject of discussion for delegates. Likewise, the conversations also explored stores playing catch-up on their OSA because of technology-driven greater customer awareness through their own smartphone inventory searches, a technological development that the retail sector has put into the hands of the customer to better enhance their experience.

From the frequency of counts that today go beyond the annual regulatory audit to stockroom discipline and good faith receiving (GFR), sustainability, and the cost of doing business, delegates engaged in a whistle-stop tour of the challenges that kept them awake at night and got them out of bed in the morning.

Partnering and Praise

Matt Cull, company stock control manager at Brewers Decorating Centres who teamed up with Orridge to support the FSA Forum, said: “We partnered the event as it is a fantastic opportunity to network with other industry leaders encountering very similar issues—it was almost like a therapy session!”

“The ideas and discussion topics covered provided incredible food for thought for all, and a challenge to the “we’ve always done it that way” mentality.”

Phil Wilson, head of supply chain services for Orridge, said: “As a business we have the privilege of working with some of the biggest names in retail, hospitality, and supply chain and their generosity with their time and input helped make this, the second stock file accuracy Forum, another runaway success in terms of insight and thought-provoking conversation.”

“As with the first event in 2022, the discussions around the table revealed a huge appetite to collaborate and share best practice on the topic of stock file accuracy and on-shelf availability in stores, online, and in the supply chain.”

“Stock file accuracy is often seen as a rather dry subject, but the dynamic nature of discussions in the room provided proof, if proof was needed, that it is the inventory data that is the differentiator that drives the business—it is front and centre of supply chain transparency.”

“With ongoing conflict disrupting international shipping lanes and supply chains and the continuing cost-of-living challenges, retailers have had to make every sale count, and optimising stock file accuracy and on-shelf availability is the all-important differentiator between thriving and surviving,” he continued.

“I want to thank everyone involved in the success of this event, as the knowledge imparted takes the discussions forward and informs better solutions and decision making in the future.”

On a linear level, stock file accuracy and on-shelf availability provide the rudimentary elements of a mathematical numbers game that has to add up and provide the solid foundation or accurate snapshot of where a business is at any given time, what has brought it there, and what it may need to do to correct its onward trajectory. On a more existential level, ensuring that SFA and OSA count provides the beating hearts or flapping wings that drive the actions and reactions that create the calm out of the storm of chaos theory. To register interest for the next Forum, email contact@orridge.co.uk ■