Information vs. Instinct
Transitioning from ‘gut-based’ decisions to computer-assisted ordering

In the past, many grocers were wary of computer-assisted ordering systems, and instead relied solely on gut instinct and experience to decide what products to order and when to order them. Still, ordering was a tedious process that ate up management’s time, as they manually checked inventory against sales, walked the aisles looking for “holes,” placed orders by phone or via multiple, antiquated handheld devices, and negotiated with suppliers without the benefit of accurate, real-time sales data.

Today’s computer-assisted ordering systems are winning over these retailers, as their data-based orders — many of which might have been counterintuitive to “gut” decisions — are boosting sales, enhancing inventory control, and freeing up managers to spend more time with customers.

Progressive Grocer reached out to dozens of independent grocers to see how they were making their ordering decisions, and for those who were performing data-driven ordering — what benefits those systems were delivering.

Retailers surveyed included supermarkets (85 percent), convenience stores (6.7 percent), drug chains (10 percent), with the remaining respondents percent divided among mass, club, specialty, gourmet and natural food retailers (multiple responses were accepted).

Of those surveyed, the types of inventory control software used was almost evenly broken into thirds. Thirty percent said they used an inventory control system that was integrated into their POS system, while 36.7 percent used third-party inventory control technology. Exactly one-third (33.3 percent) used only manual systems to control their inventory. Of these, more than half plan to or are considering using an integrated inventory control system in the future. (Table 1).

As far as the process of inventory control, more than half the retailers surveyed (55 percent) used manual processes. While they may have used technology to record and analyze their store inventory, their inventory decisions were not driven by computer-directed recommendations. Forty-five percent did use computer-assisted processes.

Not surprisingly, of those who are not using computer-assisted inventory processes, more than three-quarters (77.3 percent) said that their inventory wasn’t accurate.

Berkshire Co-Op, Great Barrington, Mass., has seen enhanced inventory control since deploying a computer-assisted ordering and inventory management system. “It helps you become more proactive and critical with your inventory, and it makes the overall process much easier,” says general manager Art Ames. “And because your buyers aren’t spending 5 hours writing one order, they have time to focus on things that might have otherwise been missed.”

In addition, the co-op grocer has seen a 7 percent drop in inventory and a 6 percent increase in sales for departments in which the system is used. It attributes this to the fact that orders are more accurate, there is less deadstock inventory taking up shelf space, and out-of-stocks are avoided.

Indeed, out of stock levels among those surveyed were much lower for those retailers that used computer-assisted ordering and inventory management. For example, of those reaching out-of-stock levels of 1 percent or less, only 14 percent of those surveyed were able to do so using manual methods, compared to one-third (33.3 percent) of those using automated systems. As the figure of out of stocks climbed over 4 percent, the percentage of those using automated systems experiencing these
levels was for the most part dropped to the single digit percentages.

Those grocers that automated the communication between the store and its suppliers also saw a boost in the accuracy of their inventory. Almost two-thirds (63.2 percent) of respondents had automated communication with their suppliers. And of those retailers who said they had accurate inventory, 84.4 percent were using such automated communications. (Table 2)

“We electronically transmit orders and receive invoices with our main supplier,” says Dylan Pedersen, Owner of 2 J’s Fresh Market, Great Falls, Mo. “I also receive price and cost changes through the system which helps manage prices on received inventory. By using this system, we are able to keep less inventory on hand but stock more of our top selling items. Out-of-stock items are no longer an issue for us.”

However, he cautions, when transitioning into computer assisted ordering system, your starting data must be clean to realize the greatest benefits; it’s a traditional garbage in, garbage-out situation. “It is critically important that you take the time to ensure everything is properly set up and your data is accurate,” he says. “But if you take the time initially, it provides significant time savings and inventory accuracy.”

That is not to say that retailers using computer-assisted ordering are not completely eliminating decisions based on long experience. Over a quarter (26.1 percent) of those respondents using computer-assisted ordering systems still used “gut instinct” for between 11 percent and 20 percent of the products on their shelves.

“It’s definitely a combination of human and computer intelligence that makes you successful,” says Berkshire Co-op’s Ames. “While we may miss items or order the incorrect item, an ordering system doesn’t know that there is a hurricane coming in next week and that you’d better stock up on water and bread. A large part of science-based ordering is helping you become more proactive and critical with your inventory, and it makes the overall process much easier.”

What it does help eliminate is a buyer’s personal influence on decision-making. For example, a buyer takes a Vitamin D supplement everyday because he believes it’s great and truly helps him. Because it’s personally important to him, he’ll also make sure that the shelves are well-stocked with it, regardless of whether or not it’s in demand. “There’s just too much room for personal influence, and most of the time, the person doesn’t even realize they are doing it,” says Ames. “Automation removes this influence and puts items on the shelf that customers are buying.”

Where automated ordering and inventory control really helps, is in its time-savings for retailers. Hours saved in receiving, price updates, and ordering among those surveyed ranged from 10 to more than 40 hours per staff member involved — hours which are then allocated to more value-added activities (Table 3).

### Table 2

| What kind of communication is there between your supplier/wholesaler and the store? |
|-----------------|-----------------|
| **Automated**   | 63.2%           |
| **Manual**      | 24.6%           |
| **Both**        | 12.2%           |

### Table 3

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<th>Time Saved on Inventory-processes Goes To:</th>
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<td><strong>Customer Service</strong></td>
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With the deployment of the ECRS DemandFill computer-assisted ordering system, Tampa, Fla.-based natural and organic foods retailer Rollin’ Oats Market & Café was able to streamline their buying process, free up staff for more value-added activities, and even boost profits.

“Our ordering used to require 40 hours or more per week prior to deploying the new system,” says Mike Asher, COO of Rollin’ Oats. “We would place orders via hand held equipment or pad and paper, and it required tracking down sales reps via phone. It also required staff to walk every aisle to determine which items were needed while at the same time assisting customers. And since assisting customers is always top priority, occasionally items were overlooked, which resulted in a lack of needed product or ordering too much of an item that wasn’t selling well.”

Now the retailer generates and transmits its orders in around 10 to 12 hours saving more than 20 hours per week that is now used for activities such as merchandising more effectively, planning promotions, and most importantly--sales and service. One of the biggest changes brought about by the system, according to Asher, has been a shift in the workforce. Rollin’ Oats is now able to hire less experienced employees and still continues to see growth. They are also less dependent on one or two individuals to place orders.

“We order over 80 suppliers via Gateway, ECRS’ integration that links the POS to suppliers,” says Asher. “This represents over 95 percent of our inventory, including frozen and perishable items. We automate with a variety of vendors from large national distributors to our local small-business suppliers via direct EDI connection, or e-mail and fax orders, through the Gateway. Roughly 90 percent of all auto-ordered items are DemandFill. We utilize a min/max or maintain constant level on slow-moving items which otherwise could be missed. DemandFill is definitely the preferred option, as it addresses the seasonality and trends of our inventory.”

As with any system that replaces manual efforts, the biggest challenge Rollin’ Oats faced was getting its employees on board with the new system, particularly experienced buyers used to outdated methods of ordering, such as walking the aisles with clipboards, using antiquated order machines, relying on sales reps to place orders and ordering by gut instinct. However, once they saw how science-based decisions, while seemingly counterintuitive, are often better for the business, they embraced the change and have seen the resultant growth. What also helped is the fact that buyers’ bonuses are tied to department performance, which improved using the new system, bringing larger bonuses to the buyers.

According to Asher, Rollin’ Oats has seen growth increase from 12 percent before the implementation to 20 percent since. “Profits have significantly increased, since we are buying better — purchasing items from the best priced supplier versus just whoever was available, and spending more time seeking deals and promotions. ECRS’ Catapult, Gateway and other systems have allowed me to add tens of thousands of dollars per year to my bottom line. Not only have we saved on the ordering side of the equation, but we run a full perpetual inventory which has seen tremendous benefits as well. Most importantly, we’re enjoying more face time with our customers.”

“When it’s deployed properly,” Asher declares, “You can’t afford not to implement this system.”

—By Joe Tarnowski
Automating the Science of Retail
So you can focus on the art

“Nobody likes to write orders and it takes hours, so commonsense says don’t make employees write orders for hours; let them do other things and actually enjoy their jobs. They want to be out mingling with product, and coming up with new, exciting ideas. If you can make employees more productive, your orders are more accurate, and your bottom-line is improving because of these changes then why not move forward?”

Art A., Cooperative Grocery GM (MA)

"ECRS solutions cut down the time spent managing inventory and vendors dramatically. Before ECRS, we were walking the floor and manually writing orders or using multiple hand held units supplied by the individual vendor. Direct orders were called in or faxed. With Catapult, orders are generated based on demand factors, and after approval, electronically transmitted to the supplier, even directs."

Haley R., Grocery and Vitamin Supercenter GM (FL)

“Our sales were up 10% in 2011 compared to 2010 because we consistently had product in stock. I attribute this business growth directly to implementing this system and new processes. Our Buyers are able to spend more time interacting with customers and have more time to work with vendor reps to get better pricing and develop stronger relationships.”

John G., Natural Grocery IT Director (CA)