



Mastering the "Long Tail" of Demand



Tackling "Long Tail" Inventory

For most businesses, the long tail is growing. They are dealing with a far greater variety of stock keeping units (SKUs) and slow moving items with lumpy, unpredictable demand patterns. This is making inventory management more difficult.

The result is that inventory mixes are wrong. Some products are being over served. Others are being under served. It creates a significant opportunity to improve both the top and bottom line.

What's causing tails to grow?

- **Product proliferation** – Most industries are introducing more products and product variants, decreasing the average sales per SKU.
- **More frequent replenishment and more granular forecasting** – More frequent deliveries mean shorter time periods. The demand pattern for a "fast mover" (no zero demand buckets, relatively stable demand) in monthly buckets becomes more variable at the weekly level, and "lumpy" at the daily level.
- **A total supply chain focus** - Companies who used to be focused on keeping big regional distribution warehouses stocked are now minimizing out-of-stocks further downstream, often at the demand end point. Demand is increasingly disaggregated, increasing variability and the number of slow moving SKUs.

Meanwhile customer service expectations are higher – whether measured by "perfect order fill rates" or "moment of truth" retail shelf product availability, industry standards and expectations have been steadily rising, making the problem much more challenging.

Even in a branded "fast moving" consumer packaged goods company, the long tail can consume as much as 80% of the SKUs and nearly half of the revenue, especially when replenishment control frequency is daily, not weekly.

A Sampling of Long Tails at Major Companies:

Consumer Packaged Goods
74% SKUs 52% Revenue

Electronics
85% SKUs 44% Revenue

Specialty Retailer
96% SKUs 71% Revenue

Automotive Aftermarket Parts
98% SKUs 62% Revenue

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The Bottom Line - Misaligned Inventory

Demand variability is creating an environment that traditional enterprise systems can't handle. The inventory mix and service levels across the network gets out of whack so that it doesn't reflect business objectives. The bottom line business impact is simple. The tail consumes lots of working capital, without delivering the desired service levels.

- **Problem #1: Lumpy Demand** - In the tail, demand is lumpy, so demand variability is very high and demand probability distributions are highly skewed.
- **Problem #2: Traditional Systems Weren't Designed for the Tail** Most forecasting and inventory management systems handle fast moving products at the head of the demand curve, but don't work well in the tail. As AMR Research notes: "If the products have a skewed distribution and it is your desire to meet a higher service level, then the deterministic technologies of APS and ERP are not designed to meet your needs."
- **Problem #3: The Bullwhip Effect** - Once the inventories are out of line and out-of-stocks occur, the situation requires extensive manual orders that often over-react and create overstocks, adding lots of inventory that accumulates in the tail. Meanwhile the faster movers in the "head" are underserved. Working capital is shifted from active stock to slow and even dead stock.

What it Takes to Win in a Long Tail Environment

Winning in this challenging environment is simple to articulate, but harder to execute. Companies with long product tails need:

- Accurate demand and inventory models to support reliable service level and inventory management
- Highly disciplined processes to reduce bullwhip behavior

We can help. Our customers will tell you they achieved ROI within 6 months, while creating a supporting business process and ramp plan.

How to Learn More

Email longtails@toolsgroup.com for your **free copy of the AMR Research note: "Of Long Tails and Supply Chains"** (January 4, 2008)

Excerpt: "The deterministic, replenishment logic traditionally found in advanced planning and scheduling (APS) technologies are not a good fit for the long end of the tail... Bottom line, in this scenario, traditional inventory techniques—safety stock logic based on normal demand distribution — just don't work."

Case Study

One of our customers is a world-leading consumer goods company. Despite multiple strong brands, about 1/2 of their SKUs and more than 1/3 of their revenue was coming from long tail demand. Their enterprise systems couldn't properly manage their long tail inventory to reach the aggressive service levels they desired. In less than 6 months, they were able to increase service levels to 99+% while reducing inventory by more than 25%.

For more than 30 other case studies in a wide range of industries visit www.toolsgroup.com.

About ToolsGroup

With more than 180 implementations in 31 countries, **ToolsGroup** offers the most widely deployed demand-driven inventory optimization solution available today. Our customers improve short-term forecast accuracy and correctly set safety stocks, achieving up to 99+% customer service levels while significantly cutting inventory. We challenge you to a "long tails" assessment that can tell you how much savings potential is in your supply chain.

Visit our web site: www.toolsgroup.com or contact your local office to learn more.

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