

Supply Chain News Bites - Only from SCDigest

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Supply Chain Graphic of the Week – Opportunities in The Long Tail

Throw the Pareto Principal Out - Increasing Focus on How to Optimize Slower Moving Inventories

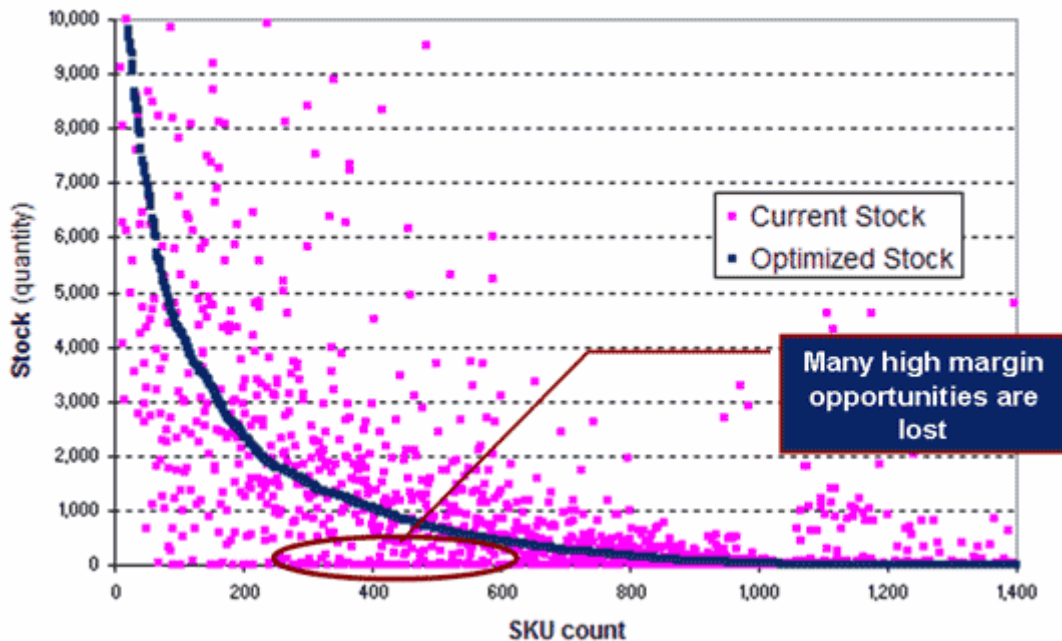
By SCDigest Editorial Staff

Of late, an increasing number of companies are taking a hard look at the so-called "Long Tail" - a term popularized by Wired magazine editor **Chris Anderson** in a 2004 article and later book. His premise is that the Internet had enabled companies like Amazon.com and NetFlix to profit from carrying and selling large numbers of slow moving items.

The concept is now being applied to many industries, as an increasing number of them are finding the Pareto Principal no longer applies. The top 20 percent of SKUs are not driving 80% of revenues, as it typically did in the past. SKU proliferation, micro-marketing, etc., now means a much higher percent of revenues - and potentially profits - is coming from the Long Tail.

The chart below, taken from a recent web seminar sponsored by ToolsGroup and moderated by SCDigest's Dan Gilmore, shows an analysis of optimized inventory levels for one consumer goods company by individual SKU, and plotted by level of SKU activity.

Optimized Stock vs. Current Stock



Source: *ToolsGroup*

As can be seen from the graph, this company, like many, carries too much inventory on many of the Tail items, but is also under stocking and missing profit opportunities through out-of-stocks in many others.