

## INVENTORY MANAGEMENT

# Intelligent Replenishment

*Linens 'n Things evaluates SKU-level sweet spot weekly*

**W**ith a merchandise assortment that approaches 30,000 SKUs and a portfolio of 380 stores across 45 states, Linens 'n Things potentially confronts millions of decisions about inventory replenishment every week.

Thanks to a mathematically based software solution piloted in 2002, Jeff Steinhorn, Linens 'n Things' senior VP and CIO, predicts the company will save millions of dollars in 2003 because of improved forecasting on SKU-level inventory replenishment.

"We conducted a pretty extensive test with several departments last year through a pilot with software provider 4R Systems," says Steinhorn. "Inventory counts as well as sales figures for 80 items in 380 stores were evaluated each week for each store. The system recommends an accurate replenishment quantity for each SKU based on its sales history, movement and specific algorithms."

"If the results of the pilot test are a true indicator, then expanding the process throughout our chain will create benefits in reduced stock-outs, which translates to a reduction in lost sales, as well as a reduction in the inventory investment required," he asserts.

The program, which was tested in the summer of 2002, has subsequently been implemented in a single department throughout all Linens 'n Things stores. By spring of 2003, the retailer plans to roll out the program to all of its 35 departments in every store, chainwide.

"Running the sales data through these algorithms will allow us to make weekly SKU-level, store-level decisions for replenishment on 30,000 SKUs in all of our stores," notes Steinhorn.

Admittedly, not every SKU in every store is evaluated each week, but Steinhorn speculates that there are peak weeks when the need for demand forecasting may approach that volume. Having the capability to drill down to store-level inventory forecasts on a per-SKU basis affords significant opportunities for savings.

"The trick to efficient inventory management is finding the sweet spot so retailers order enough to avoid out-of-stocks, but not so much that profitability is lost due to markdowns and close-outs," says Jeff Singer, CEO of 4R Systems. "As a forecasting and replenishment tool, our products provide a birth-to-death solution and are ideally suited to seasonal merchandise that has a short life cycle. The tool evaluates the full life cycle of each SKU and addresses the question of how much should be purchased from one-time buys to replenishment on a per-store basis at any given point in the SKU's life."

Although the system, which is being expanded to track every SKU throughout the Linens 'n Things chain, evaluates inventory levels on a per-store basis, the program is run centrally through the retailer's corporate database.

Daily sales trends are collected through each store's POS outlets and fed through Linens 'n Things' centralized data-

base. "From this centralized repository, the information is transmitted to 4R Systems at the end of the sales week and, within 24 hours, 4R sends a report that projects optimum replenishment for each SKU in each store," explains Steinhorn. "This forecasting tool is at the top of our list in terms of importance and the benefits we expect to receive." ■

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*Inventory forecasting is expected to save Linens 'n Things millions of dollars.*

"We achieved immediate benefits in terms of addressing out-of-stock items during the pilot program and, in this fiscal year, we expect savings to reach millions of dollars because of the improved forecasting," continues Steinhorn. "The program also allows us to identify hot-selling SKUs early in a promotion. We considered other software providers, but chose 4R Systems because of its relationship with one of our key vendors."



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