

# Learning to LOVE Your Inventory Plan

BY MATT KONKLE

Retailers have a paradoxical love-hate relationship with their peak season. For most, peak volumes coincide with fourth quarter holiday shopping, when it's not uncommon for 80 percent of the year's orders to come in at once. Scaling a retail operation to process five times its average order capacity is no small feat. For two months of the year, many retailers nearly break their backs to accommodate the seasonal business that will help sustain them through the other ten months. If last year's fourth quarter pushed your business to the brink, now is the time to learn how to build a better inventory plan for 2011.

## Forecasting Order Volume

Forecasting is the first and most crucial step in inventory planning. You'll never strike the right balance between adequate staffing and maximized resource utilization with a random estimate of peak order volumes.

How accurate was your forecast last year? Which sales and marketing channels met expectations?

Learning which programs maximize revenue and profitability will inform your decisions and dramatically increase your ability to forecast and manage your peak season more effectively in 2011.

Remember that your financial and order volume forecasts for your peak season may not enjoy the one-to-one ratio they share in nonpeak times. Aggressive pricing promotions, shipping offers and other holiday incentives will likely translate to more units per order without a proportional increase in average order value. This is a fair

trade-off to win seasonal business, but it may demand more order processing resources than your top-line revenue estimates indicate.

## Personnel Planning

This is where the rubber meets the road for your forecasting effort. Labor accounts for up to half of the total cost associated with every order delivered. Balance becomes the name of the game for your personnel planning. Thoughtful anticipation of labor requirements can make or break the bottom line of any retail business.

With a confident order volume forecast and a realistic estimate of your workers' productivity, you should be able to approximate your staffing needs. In addition, creating an atmosphere that welcomes the peak season is something that can benefit morale and productivity during the busiest time of year. Interoffice contests or special incentives can go a long way to getting



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holiday season

your team through the toughest time of year. A less stressful environment for your staff will only boost productivity levels.

### Warehouse Setup

Undoubtedly, you've already established an efficient work flow for pick and pack in your warehouse. However, there could be cluttered and disorganized areas that are tolerable day-to-day, but become a serious detriment during times of high activity.

Optimized warehouse organization and layout is one of the few ways you can improve your labor productivity/cost equation without souring your workforce. Products must be easily accessible and arranged throughout the warehouse in a logical manner for order picking flow. Aisles must allow adequate room for your staff to navigate around one another, and they must be clear of overflow merchandise. This means designating secondary overflow pick locations for excess inventory in stock.

If your warehouse is disorganized, don't be afraid to seek advice from an operations planning expert. Engineering the proper warehouse layout and work flow is critical to maintaining efficiency during your peak season.

### Value-Added Processing

Order packing is often more complex and time consuming during peak volume periods, especially if you offer gift wrapping as an option to your customers. You'll need an efficient way to integrate this additional step in the packing process without slowing down the flow of nonwrapped orders. What direct and

indirect costs are associated with providing these types of services? Do they drive incremental revenue? Should they continue next year? Think about the impact of these services now, and make changes while business is moving at a slower pace.

### Inventory Management

Managing back orders and evaluating stock levels are also critical to customer satisfaction and, in the end, overall revenue during your peak season. Set up a cross-docking method for such products, matching incoming inventory from your vendors with unfilled pick tickets at the shipping station. Effectively juggling inventory levels to ensure proper stock rotation and capital requirements will be critical to the success of your next peak season.

### Freight Management

Shipping later into a holiday or peak season can be a huge competitive advantage for retailers. Understanding carrier requirements and costs can dramatically affect bottom lines and overall customer satisfaction. Communicate regularly with your carrier(s) to learn what's working for other retailers. Leverage alternate shipping methods to decrease costs or increase revenues by getting orders to customers before Christmas. Lastly, manage marketing efforts around free shipping offers. Identify which offers make the most sense as they relate to freight costs during high-volume shipping peaks.

### Vendor Management

Managing your vendor relationships starts with communication. Planning

for peak-season volume well in advance gives your vendors plenty of notice before you place orders for large quantities of inventory. By reaching out early, your vendors will be able to better ensure the product availability you need. Treat your vendors like the business partners they are, working together for peak season growth.

When preparing for your busy season, remember that many retailers have gone before you and have valuable lessons to share. Ask other retailers of similar size and resources how they overcome peak volume demands. There are many sources to consider, including retail associations, trade publications or even outsourced business service providers, to help grow your business. Networking to learn from others is something every good retailer does to maximize time and effort.

Retailers shouldn't hate the most exciting and productive time of year for their business. With some insightful evaluation, careful planning and strategic decision making, you can look forward to the results of an efficient and profitable peak season in 2011. What's not to love? **ROI**



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