How The Vitamin Shoppe Answered the Inventory Question

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Jason Scheffer
Director of Inventory Management, Vitamin Shoppe
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Jason Scheffer is the Director of Inventory and Supply Chain Solutions at The Vitamin Shoppe. In this role, he is responsible for the purchasing and allocation of products along with the Inventory systems to support The Vitamin Shoppe’s service level, inventory turnover, and supply chain efficiency targets as they continue to open stores throughout the country. In addition, he manages the Supply Chain Solutions Group which is responsible for driving supply chain costs reductions and service improvements throughout the The Vitamin Shoppe network.
Rich Tannenbaum is the Vice President of Supply Chain Management for The Vitamin Shoppe. In this capacity, Mr. Tannenbaum is responsible for inventory management and replenishment, distribution, and transportation of all products available to Vitamin Shoppe retail and direct customers.
Safe Harbor Information

Part of our discussion today may include forward-looking statements. These statements are not guarantees of future performance and are inherently subject to risk and uncertainties. Actual results might differ materially from those projected herein. The words “believe,” “expect,” “plan,” “intend,” “estimate” or “anticipate” and similar expressions, as well as future or conditional verbs such as “should,” “would,” and “could,” identify forward-looking statements.

You should not place undue reliance on these forward-looking statements. We refer all of you to our filings with the Securities and Exchange Commission, including our annual report on Form 10-K and quarterly report on Form 10-Q for a more detailed discussion of the risks and uncertainties that may have a direct bearing on our operating results, our performance and our financial condition.
Who is The Vitamin Shoppe?

• Leading specialty retailer and direct marketer of nutritional products based in North Bergen, NJ

• We sell vitamins, minerals, nutritional supplements, herbs, sports nutrition formulas, homeopathic remedies, green living products, and health and beauty aids to customers located primarily in the United States

• The Vitamin Shoppe conducts business through more than 440 company-owned retail stores, national mail order catalogs, and websites

• Public company traded on the NYSE under the ticker symbol VSI
Business Challenge in 2007

- Accelerating store growth
- Poor service
  - Store In Stocks were around 85%
  - Direct Backorder had peaked above 20%
- We did not have the right inventory in the right places
  - Inventory Turnover had remained flat for several years – 3.0 turns
- Supply Chain organization
  - Our DC was beyond max capacity
  - Speed to market was not a focus
Our Definition of Success

- Improved service
  - Store In Stocks greater than 97.0%
  - Direct Backorder less than 2.0%
- Improve our inventory productivity
  - Inventory turns greater than 4.0 per year
  - Lower cycle time to stores
- Develop alignment of supply chain goals and metrics to support future company growth and business initiatives
How We Approached the Inventory Challenge

- We broke the problem into four buckets of issues
  - Systems
  - People
  - Operations
  - Inventory Accuracy

While we bucketed the issues, one of the most important factors was recognizing that all of these areas were dependent upon success in the other areas. We would not achieve our definition of success without improving all of the areas.
Inventory System Options

1. Status quo
   • Utilizing current system for replenishment
   • Manually determining vendor orders and store inventory levels using basic WOS logic

2. Modify the current system’s replenishment module

3. Implement a traditional replenishment system
   • Time and resource constraints

4. Partner with a third party to implement an outsourced replenishment model
   • 4R came highly recommended by an internal resource that had worked with them previously
Who is 4R Systems?

- Work with a variety of retail clients from those with staple items to short-lived fashion items
- From a systems perspective - outsourced replenishment
  - Clients send sales and sku data to 4R and they send back the optimal inventory levels to utilize in your ERP system
- Promotion and markdown add-ons to drive profitability throughout the lifecycle
- The solution “profit optimizes” inventory levels throughout the DC and store network
  - The key is matching supply with demand profitably
  - System balances lost margin and inventory carrying cost in order to set inventory levels that deliver maximum profitability
What is “Profit Optimized Inventory”?

Answer: inventory level that minimizes holding cost of inventory plus lost margin from stock-outs
Pilot – 3 Months

PROGRAM

- The pilot program included 30 stores
- Inventory – right place at the right time
  - Assortment depth
- Prepared the stores
  - Shelf space and expectations

MEASUREMENT

- Established a set of control stores
- Developed an agreed upon measurement template
- Issued the scorecard weekly to the business

For credibility, it was critical that the Inventory Team did not measure the results. Finance was an independent third party that did not have “skin in the game”. 
Pilot Results

- Realized significant sales growth in the pilot stores
- The pilot stores contributed more margin
- Reduced out of stocks by more than 40%
- Realized an increase in average ticket and UPT in the pilot stores
- Increased our Inventory Dollars
  - The “Bubble”
- Estimated payback of <2 years
4R Company-Wide Rollout – 6 Months

- Product Category focus
- Go / No-Go decision points
- DC Parameter rollout
  - Utilizing the same system/process for the DC and stores is critical to gaining efficiencies and driving results
- Completed the rollout from start to finish in 6 months
  - Too conservative!!!
Additional Benefits

- Demand and purchase order forecasting
  - Vendor purchase forecasts
  - Inbound DC labor planning
  - Cash flow planning
- Vendor performance tools, such as Lost Sales and dynamic lead time calculations
- Weekly team meeting with internal resources and 4R team
  - Progress tracking and accountability
  - Utilize 4R’s knowledge
- Review business results and discuss future team goals
  - Listening to the customer
Inventory Team Organization Alignment

- When the system discussion began we also began evaluating the structure of the inventory team
  - Buyers
  - Allocators (Store Planners)
- The blame game
  - Shared responsibility

Challenge: to create a structure which allowed the team to be successful while ensuring that accountability was clear
Inventory Team Process Changes

- Elimination of manual processes
  - Store Planner
  - The vendor ordering process was reduced from 8 hours per day to 15-30 minutes
- Conversations with the Store Operations group changed dramatically
  - Education of the DMs and SMs
- Trust within the team
Creation of Inventory Manager Role

- The IM role was a combination of the Store Planner and Buyer positions
  - Entire supply chain responsibility
- Transition to vendor performance and business process improvement
  - New item introduction
  - Vendor fill rates and on-time shipments
  - Vendor lead time reductions
- The conversations required a higher level of business acumen and understanding
Supply Chain Alignment

- Alignment of goals on service and speed
- Supply Chain PMO
- DC Team looked to reduce WIP and decrease the time from demand creation to pick and ship
  - Weekly labor schedule
  - Labor planning for seasonal peaks
- The Transportation team adjusted the carrier network to drive better service
  - Receiving windows for the stores
Inventory Accuracy

- Bad data in, bad data out
- Zero scan process
- Physical inventory feedback showed stores were 60% accurate
- Store inventory accuracy has improved 23% in the last three years
  - Top inventory accuracy stores rewards at our annual conference
- Focused DC initiative to improve picking accuracy to 99.8%
  - Continued focus on the remaining 0.2%

Based on industry research and internal experience, we have established 85% as our world class benchmark that we are looking to achieve.
Supply Chain Improvements

- Store Out of Stocks have been reduced by over 80%
- Direct Backorder rate has been reduced by over 75%
- Company Inventory Turnover is up 10%, while supporting growth in assortment
- Vendor to DC PO shortages have decreased by 40% in the last 18 months
- On Time Shipments to the DC have more than doubled
- Vendor Lead Times have been reduced by over 10 days since we started
- Vendor performance improvements have significantly improved the DC in-stock, while reducing inventory by over 30%
- DC to Store Lead Times have been decreased by a full day
Questions
The Retail Leadership Summit

An Aberdeen Group Executive Leadership Summit