Why Overstocking is Under-Performing

The Challenges of Inventory & Promotions Planning

With supply chains in disarray and brands nervous of disappointing customers by running out of products, overstocking is now a global phenomenon. Fulfilment 3PLs have found themselves struggling with the challenge of how to manage excess stock. But overstocking is an issue for brands too. So, why is overstocking happening and how can brands and 3PLs mitigate its impact in the future?

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The Cost of Overstocking

3PLs are running out of space. Whereas many industries had grown used to a 'just-in-time' approach to supply chain, global events of previous years have forced a rethink. Brands are compensating by filling warehouses with extra stock. But whilst storing more products can ease the issue of unreliable supply chains, it may also introduce a raft of other problems, both for brands and fulfilment providers.

More stock means more storage, which increases costs. This is potentially the biggest and most obvious disadvantage of a 'just-in-case' supply chain strategy. Surplus stock takes up valuable (and expensive) space in a warehouse that could be used for inventory with a quicker turnaround time. Not only is this a huge disadvantage to brands, as they have cost tied up in stock which isn't moving, but it also impacts fulfilment providers, particularly if no effort is made to increase order volumes and shift the stock more quickly. Furthermore, having too much stock in a warehouse can impact movement flows such as picking routes and storage set-up, and make fulfilment operations less efficient.

60% of respondents agree and **32%** strongly agree that redundancy (meaning excess capacity) and resilience in their company's supply chain are more important than speed and efficiency, signalling a major shift in strategy†.

There is also the issue of 'dead stock' to consider. If products have limited shelf lives, like beauty products or fashion items that might go in and out of season, brands must accept that having excess stock that doesn't sell may lead to high wastage – another drain on costs. Brands like ASOS have come up with a solution to clear backlogs of superfluous stock and reduce their waste and financial losses by partnering with a discount marketplace*.

* Source: https://www.theindustry.fashion/asos-partners-with-secret-sales-to-clear-excess-stock/

† Source: GEP – The Business Costs of Supply Chain Disruption

Too Much Stock: Why is it Happening?

Brexit and Covid-19 have caused major concerns for retailers and their supply chains. A shortfall of lorry drivers, closures of some of the biggest ports, red tape and other Brexit or lockdown-related issues have triggered major hold-ups. Then there is the impact of the war in Ukraine weighing down on brands and their supply chains, causing fuel shortages, lack of key resources for manufacturing as well as increased freight charges and container shortages.

As a result, there has been a trend of doubling-up on orders from manufacturers and suppliers to mitigate the risk of delayed stock. In turn, this has caused an 'overstocking' issue in warehouses across the UK and Europe, with the trend predicted to continue into 2023. **Find out more >**

To add to this, the boom in e-commerce did not continue on the steep growth trajectory seen during the pandemic once people returned to the high street to shop and physical retail began to open up again. Although ILG saw a 28% increase in order volumes during the 2022 peak period compared to 2021, and footfall on UK high streets is not yet back to pre-pandemic levels, online spending still declined. For instance, the online share of clothes and footwear spending fell by 40% from pandemic peak to December 2022*.

* Source: https://www.drapersonline.com/news/retail-mired-by-hybrid-working-and-shrinking-online-spend?tkn=1

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Consequences of Discounting

Has this led to a need for brands to discount much heavier and earlier during peak seasons to clear excess stock from their warehouses? And what does this do to their brand image and reputation? The e-commerce environment, particularly during peak seasons, is now 'highly promotional' and even affects brands that don't have surplus stock to clear, as they are pushed to discount deeply to keep up with shoppers' expectations. Inevitably, this is impacting brands' bottom lines.
Find out more >

"Reacting to market trends or keeping up with competitors are understandable and natural trends for brands. However, without collaboration with 3PLs on forecasted order demand (and returns) over a defined period, sales can start with challenges due to the need to quickly increase temporary labour and bespoke training. Collaboration between brand and 3PL is absolutely crucial in delighting end-users in these instances."

Glenn Woodhams, Operations Director, ILG

Excessive discounting can make life difficult for 3PLs too, especially during peak season when consumer demand soars and brands are keen to capitalise on Black Friday and Christmas spend trends.

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"2022's overstocking challenge led to a significant rise in discounting – even over the Black Friday period, IMRG noted a 78% uplift in live campaigns during the first two weeks of November, highlighting that promotional periods are not just increasing in frequency but duration as well. While discounting provides retailers with a short-term fix to moving stock, if sustained over time, consumers are trained to avoid shopping during full-priced periods.

It's therefore important that when discounting, brands have a strategy behind this and construct the marketing message carefully. For example, over Black Friday, Goodhood limited their discounted offer to 150 uses, potentially basing this around stock levels (while also driving a sense of exclusivity with customers). While Zoe Foster-Blake from Bro-To Skincare, a brand that rarely offers discounts, actually spoke directly to the logistics challenge, calling out 'Supply chain maths' when promoting the brand's discount."

Emily Power, Head of Ecommerce, Reload Digital

Finding the Right Fix

3PLs and brands must find ways to mitigate the risk and disadvantages of having too much inventory. Short-term solutions such as off-site stocking are far from ideal. Not only does moving stock off-site increase the cost of storing excess inventory. It also delays getting orders out, as stock needs to be transferred between warehouses which can often be located in completely different areas of the country. This in turn can increase lead times for the end-customer, potentially damaging a brand's reputation. There may also be the issue of increased stock discrepancies which can arise when stock is held across two separate warehouses and systems.

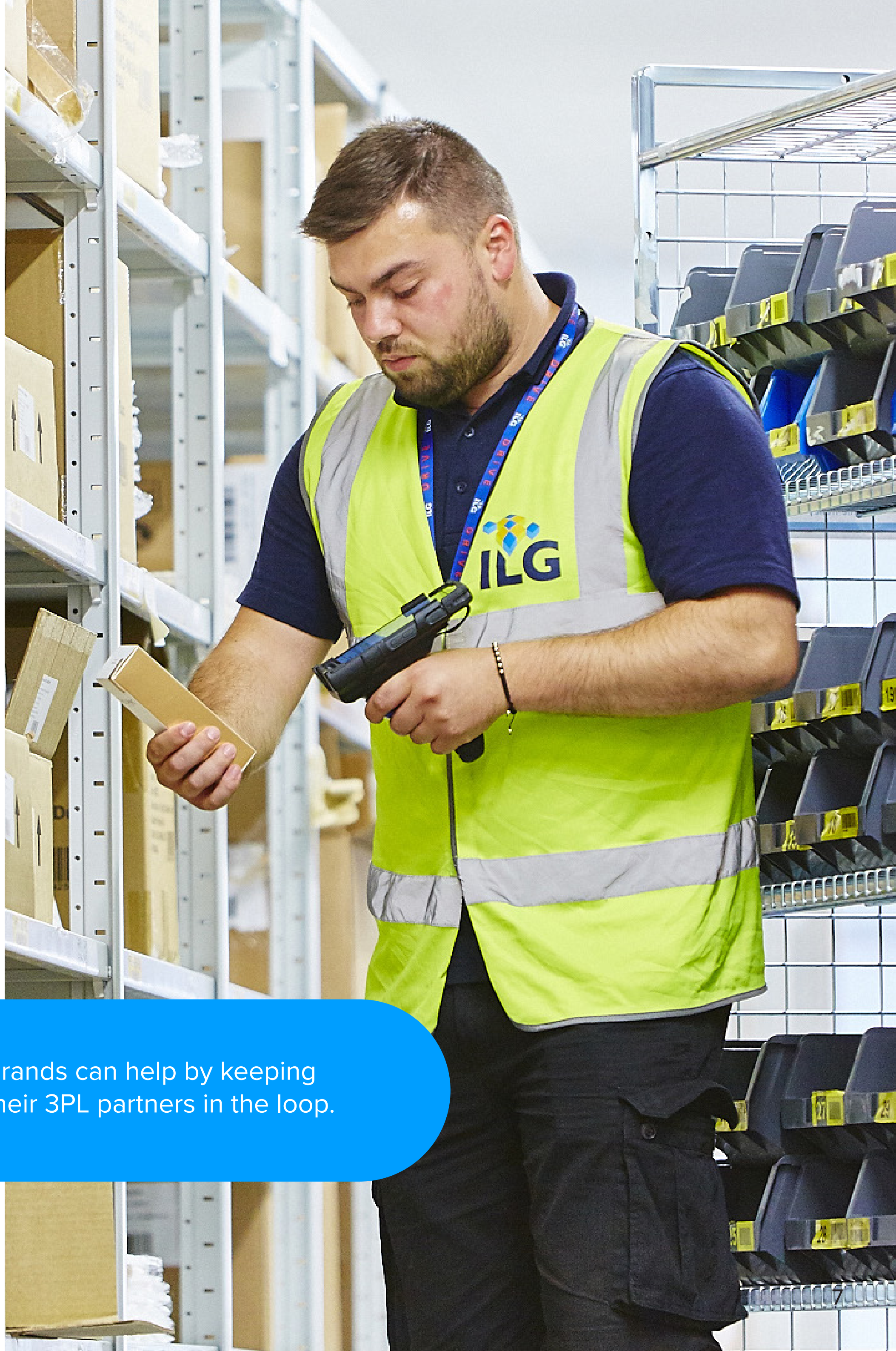
Opening new warehouses is another way a fulfilment partner can help accommodate client growth and mitigate these risks, but this is a longer-term option that requires significant planning and investment. New facilities cannot be opened overnight and, with warehouse space so highly sought after in the UK, come with high costs and long lead times. So in most cases, unless growth in inventory is reliably forecasted, this solution would not be feasible.

3PLs & Brands: Taking Control

3PLs can also help by controlling stock more efficiently with bespoke reporting and analysis. Knowing what stock is going in and out of the warehouse, what is selling well and what is not, can all help inform decisions on how much inventory is needed and when, hopefully reducing the need to have a huge pile of stock which may not sell.

Meanwhile, brands can help by keeping their 3PL partners in the loop regarding stock deliveries and anticipated shifts in consumer demand. By providing early warning and as much information as possible about the timings and discounts associated with specific products and promotions, fulfilment providers can predict demand, relocate products to optimise pick patterns and allocate resources to shift stock more efficiently.

Knowing exactly when stock deliveries and promotions are due, and timings of product launches and expansion into new geographies and retail networks also helps 3PLs to better control the 'stock-ins' and 'stock-outs'.



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A Future of Overstocking?

Overstocking trends are set to continue into 2023 with Gartner reporting that 43% of supply chain professionals are saying lack of inventory is one of the top concerns going into this year*. With this in mind, it is crucial that brands consider that a ‘just-in-case’ supply chain may not be the most efficient or cost-effective strategy to tackle the risk of running out of inventory. Now more than ever, demand forecasting and planning are crucial to help understand the true cost of stock holding and how to reduce the impact of supply chain issues more efficiently without compromising bottom lines.

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* Source: https://supplychaindigital.com/supply-chain-risk-management/nearshoring-happening-faster-than-expected-says-gartner

About ILG

Founded in 1990, ILG is a market leader in outsourced order fulfilment. With the latest tech, state-of-the-art facilities and expert, highly trained staff, we specialise in retail and e-commerce fulfilment for beauty, fashion and wellbeing brands. We employ over 500 people in the UK and EU, and serve over 350 customers worldwide, from fast-growth e-commerce businesses to high-profile retail brands.

About Reload Digital

Since 2009, Reload Digital has been growing multi-market consumer brands by helping them with ‘what’s next’ across eCommerce and Digital. With global offices, we work with established beauty, fashion and premium brands to drive profitable efficiencies by layering industry and multi-market expertise with channel specialists across brand and performance, creative and the customer lifecycle.

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