

Argos Reduces Inventory and Optimizes Supply Chain Processes with an Integrated Retail Platform

COMPANY PROFILE

Argos Milton Keynes, UK

Argos is a unique retailer that sells general merchandise and products for the home from over 700 stores throughout the U.K. and Republic of Ireland, online and over the telephone.



HEADQUARTERS:	Milton Keynes, UK
FOUNDED:	1973
INDUSTRY:	Retail
REVENUE:	US\$745 billion
EMPLOYEES:	Approximately 33,000

COMPANY HIGHLIGHT

- Achieved more than a 50% increase in “goods-in” productivity for suppliers adhering to delivery guidelines in palletization and labeling
- Provided a world-class architecture for executing business growth strategies while reducing operating costs
- Streamlined stock level management to manage stock levels daily rather than weekly
- Replaced disparate legacy systems and multiple stock balances with a single source of truth
- Established exception-based work processes that allow focusing on supplier collaboration rather than data collection

Executive Summary

As part of Home Retail Group, the United Kingdom’s leading home and general merchandise retailer, Argos serves over 130 million customers annually through its chain of over 700 stores, as well as through its online Web store and over the phone. Argos is unique among U.K. retailers because its primary means of displaying merchandise to its customers is through a catalogue. This retailing model helps to keep overhead costs down, which in turn supports lower prices for customers and the value of shopping at Argos.

Argos’ customers have the choice of shopping at a retail outlet or placing orders over the internet or by phone. To service customers effectively in this multichannel environment, Argos must ensure that it stocks the right items at the right locations to meet customers’ needs. Optimizing inventory levels across its supply chain creates a significant challenge for Argos. The scale of its retail chain combined with the vast merchandise assortment it carries and the seasonality of its business creates enormous complexities for Argos’ planners.

Standing in the way of this challenge were a number of independent supply chain systems, some of which were over 15-years old and reaching the end of their economic life. Constraints created by these legacy systems hampered Argos’ ability to meet its ambitious growth plans for stores’ product assortment, inventory controls, and customer serviceability.

In 2001, Argos instituted its Replenishment and Core Operations (RACO) program that aimed to overhaul the legacy supply chain solution with a complete modernization of its inventory management processes and information systems. Argos selected Oracle Advanced Inventory Planning and Oracle Retail Merchandising System as the optimal solutions to support its goals. Through RACO, Argos was able to modernize its replenishment process leading to reduced inventory levels without disruptions to serviceability, benefiting both Argos and its customers.

An assessment conducted by Mainstay Partners, an independent consulting firm, evaluated Argos’ Oracle investment and documents the significant financial, operational, and strategic benefits achieved. Overall, Mainstay found that RACO will deliver a multimillion dollar benefit and a strong positive return on investment.

Oracle Products and Services

- Oracle Retail Advanced Inventory Planning
- Oracle Retail Merchandising System
- Oracle Retail Integration Bus

Project Background

In 2001, Argos recognized that improving inventory management was critical to better customer service. Many of Argos' items are sold at a rate of less than once per week making accurate inventory visibility absolutely essential. As a mass merchandiser, Argos also must manage a large amount of merchandise across its whole business. With a catalogue of more than 18,000 product lines released biannually and a footprint of over 700 physical stores, this equates to approximately 200 million pieces of inventory that need to be managed and tracked.

Given the seasonality of its business, with the Christmas holiday season having peak sales 200% greater than its annual averages for many items, anticipating future demand requirements was extremely difficult. Further complicating Argos' demand management challenges was the need to better manage the procurement of items with long lead times for a significant and growing portion of its merchandise. A strategic shift in its vendor mix was driving more of Argos' merchandise from domestic UK suppliers to direct imports accounting for approximately 32% of Argos' business today. Managing inventories for these items required planners to have an accurate demand signal for an extended time period and then matching that forecasted demand to existing inventory stock levels across its supply chain to make the right procurement decisions.

Argos' legacy supply chain systems simply could not support the new inventory challenges that the company faced. According to Will Smith, programme manager at Argos, "The legacy, mainframe-based merchandising and replenishment systems were developed many years ago and could not provide the level of sophistication we required in a multichannel business environment." Argos began a search for a leading-edge, robust merchandising and replenishment solution that would enable it to remain the leading non-food retailer in the U.K.

The Replenishment and Core Operations (RACO) Initiative

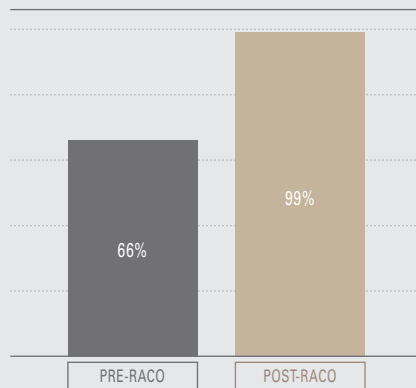
The RACO Initiative set out to increase Argos' replenishment capabilities and support stock management processes with "best of breed" technologies. One significant driver for selecting Oracle was that its solutions create a centralized hub of information to support standard, streamlined processes. With one centralized system, Argos management was able to work from a single view of stock levels, replacing the tedious, manual effort of aggregating and reconciling multiple stock balances from its disparate legacy systems. Oracle's solutions also enabled Argos to manage merchandise at a more detailed level by organizing it into item hierarchies such as sizes.

“Oracle Retail Advanced Inventory Planning is helping expose stock management process inefficiencies so we can better understand true service levels.”

MARTIN RODGERS, MERCHANDISE SUPPORT AND PLANNING MANAGER

Figure 1:
50% Increase in Supplier Performance

RIGHT FIRST TIME PRODUCT
AND PALLET PRESENTATION



Advanced Replenishment Capabilities

Argos’ single largest business impact from the Oracle applications that underpin its RACO system will be a dramatic decrease in inventory driven largely by more timely and accurate inventory information and decision-making capabilities, including daily reviews of stock activity. Argos’ legacy process required separate weekly store level reporting that was then aggregated to determine replenishment requirements. Inaccuracies and inconsistencies created by the manual interactions involved in this process required Argos to keep additional safety stock to manage acceptable serviceability levels for its customers.

In contrast, the RACO process uses Oracle Retail Advanced Inventory Planning to integrate daily store-level stock requirements with daily inventory information into a sophisticated planning algorithm to create a more accurate supplier and store distribution plan. Stock levels now follow forecasts and project ahead of demand requirements. Any corrections to inventory are also more responsive and timely because of the daily inventory views provided by Oracle. Over a three-year period, Argos expects these new capabilities to help the company reduce average stock levels by several percentage points or tens of millions of U.S. dollars (British pounds).

Argos was also able to improve its supplier management capabilities through its RACO solution by delivering a 50% increase in first-time compliance with Argos’ product and pallet presentation standards. This has produced an estimated 50% productivity gain in Argos’ distribution center receiving process.

Improved supplier management has also moved shipments from week-level shipments to day-level delivery windows allowing Argos to hold fewer inventories in its distribution centers. Visibility into new stock availability is now captured the day it arrives, which has added integrity to the supply chain process and also contributed to stock level reductions. The improvements in supplier management processes have also increased collaboration between Argos and its suppliers, which will enable Argos to continue to achieve incremental efficiencies across its supply chain well into the future.

Potential for Additional Benefits

To date, the majority of benefits captured from RACO have been driven by reductions in inventory. Argos, however, is anticipating that future enhancements will allow it to take advantage of serviceability benefits that, when weighed against inventory levels, can further optimize Argos’ business results.

In addition, continued improvements to stock accuracy, through RACO, should lead to increased stock availability at the store level reducing the frequency of incidents where customers must wait for their orders to be delivered to their local store from the

ROI Highlights

- Increased “goods-in” productivity efficiency by more than 50% with suppliers adhering to delivery guidelines in palletization and labeling
- Developed a world-class IS architecture platform to execute business growth strategies while reducing operating costs
- Streamlined management of store-level stock levels allowing Argos to manage stock levels daily instead of weekly
- Created a single source of truth regarding stock by replacing disparate legacy systems’ multiple stock balances
- Allowed exception-based work processes, allowing users to focus on priority issues and supplier collaboration rather than data collection

distribution center. Furthermore, additional distribution center efficiencies will be achieved by streamlining Argos’ order pick-and-pack processes through higher item availability and improved stock room management.

About the Case Study

This study is one of a series of investigations into the costs and business returns of IT investments, with a focus on Oracle technology and applications. It is intended to serve business executives and managers who are evaluating technology investment options.

Research and analysis for this study was conducted by Mainstay Partners, an independent consulting firm, and was based on interviews with officials at Argos, review of Argos financial and planning documents, and searches of industry literature. ROI calculations use industry standard assumptions regarding the time value of money.

Information contained in the publication has been obtained from sources considered reliable, but is not warranted by Mainstay Partners. Copyright © 2008 Oracle Corporation.