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RETAIL EVOLUTION

How Sephora is optimising its supply chain to eliminate out of stock incidents and minimise over stock costs.

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RETAIL LOGISTICS EVOLUTION

Sephora has experienced tremendous growth in the Middle East market over the last five years and is now turning to innovative technological solutions to ensure its supply chain remains water-tight against the oil-price storm.



↑Sandeep Walia, head of supply chain for Sephora Middle East.

↑Sadi Abdel Kariem Hassouneh, director, Middle East & Africa, Slimstock.



↑Sephora in Dubai Mall store alone sees five times more sales than some of its entire national European markets.

If you fail to plan, then you're planning to fail," this was the comment with which Sandeep Walia, head of supply chain for Sephora Middle East, opened our interview about the retailer's new partnership with inventory optimisation experts Slimstock. *Logistics Middle East* has a particular affection for pithy quotes, so we knew right away this was going to be an interesting story.

When the high-end beauty retailer came to Slimstock, it was facing a unique challenge, according to Sadi Abdel Kariem Hassouneh, director, Middle East & Africa, Slimstock. "It had experienced extremely rapid growth over the last five years that would require new state of the art demand planning, forecasting and inventory optimising tools for end to end collaborative planning," he told *Logistics Middle East*. "On top of this, it had also launched omnichannel retail operations, with two new online stores and a number of new stores across the region." As a result, Sephora's GCC supply chain operations had become more complex and required an upgrade from a systems and process point of view.

"We have several million SKU-Location combos and in the last five years that has increased five times over," explains Sandeep Walia, head of supply chain for Sephora Middle East. "To put that in perspective, our Dubai Mall flagship store alone now sees five times more product sales than some of our national European markets."

To keep up with demand and ensure 'on shelf availability' of its products, Sephora had expanded its workforce and 3PL arrangements, but found this wasn't providing optimal efficiency. "We had been using old-fashioned supply chain planning processes that were time consuming and labour intensive, they were also inaccurate and couldn't be adapted to changing market dynamics," says Walia. "Our teams currently spend a lot of time doing store transfers or express shipments to ensure that there is on-shelf availability, which increases supply chain costs, and we needed a partner that could help us overcome these issues."

So during the first half of last year, Sephora Middle East undertook a major market analysis of inventory partners, ultimately preferring Slimstock's inventory experts and automated inventory optimising solution 'Slim4'. "By investing in this planning technology we'll be able to execute our logistics operation more efficiently," says Walia. "Slim4 is an automated forecast and demand planning tool that utilises multiple algorithims to ensure the availability of every SKU at every store and distribution centre. This automated statistical modelling through Slim4 will enable us to cut down on supply chain costs by as much as 25%."

"What Slim4 does specifically is it imports the customer's demand data and it sorts it out in terms of normal distribution, seasonal distribution, lumpy distribution, one-off spikes, and creates a forecast using the appropriate algorithm for each specific distribution pattern. The system then automatically calculates buffer stock, optimal stock on hand, plans for any events or promotions and for a retailer, the presentation stock as well. It also takes into account economic order quantities, so for example if the usual order volume for Chanel No. 5 is 200 units, but

> ***"WHAT SLIM4 DOES SPECIFICALLY IS IT AUTOMATICALLY IMPORTS THE CUSTOMER'S DEMAND DATA AND CREATES A FORECAST USING THE APPROPRIATE ALGORITHM FOR EACH SPECIFIC DISTRIBUTION PATTERN, IT THEN OPTIMIZES THE STOCK LEVELS AND CREATES THE ORDER ADVICES."***
>
> ***SADI ABDEL KARIEM HASSOUNEH, DIRECTOR, MIDDLE EAST & AFRICA, SLIMSTOCK***

IMPLEMENTATION OF SLIM4 IN A COMPLEX SUPPLY CHAIN

According to Hassouneh, the implementation has been done over the course of the last three months of 2017, with Sephora planning to go live with Slim4 in early 2018. "Sephora found Slimstock from Gartner's magic quadrant where we were labelled as a challenger because of, and I quote, 'our domain expertise, excellent references and customer satisfaction'," says Hassouneh. "Slimstock has done more than 100 system implementations in 2017 globally on time and within budget and its typically done in three phases, the first is developing a logistics blueprint of the client, the second is training and the third is optimisation so that Slim4 does exactly what they need it to."

Slimstock also has local hotlines that clients can use to get dedicated technical support as they come to grips with the system. "This is why we have 20 offices globally, we believe at our core that we need to be where our clients are if we are to provide the highest quality of products and service. Also, each region has its own specific supply chain issues and the more local our experts are, the greater their understanding of what the customer is going through."



Sephora prioritises on shelf availability against overstock complications. Slim4 mitigates the chances of both.

FAST FACT

25%

EXPECTED COST SAVING FOR SEPHORA'S ME SUPPLY CHAIN WITH SLIM4.

there's an economic order quantity of 400 pieces it will calculate that into the order form and when its time to order it will show up in the planners' daily tasks."

"All of this automation leaves the user free to focus on what's important, the unusual demand patterns and how to plan for them. This is what we call management by exceptions and this is where we know planners in the region, (like Sephora's) need to be focusing their time," adds Hassouneh.

So what previously required a dedicated team of more than a dozen supply chain management professionals several hours to research and plan will now take just a few minutes with a few clicks of a button, according to Walia. "This solution is a good fit for Sephora's operations because as a retailer we face three key challenges, that are often at odds," he says. "First, we want to ensure maximum on shelf availability of products, so we want to eliminate out of stock, but we also want to avoid overstock, and at the same time we want to reduce express loads that are costly and free up supply chain staff for more value added tasks and not repetitive tasks that could be automated and be updated on a minute by minute basis."

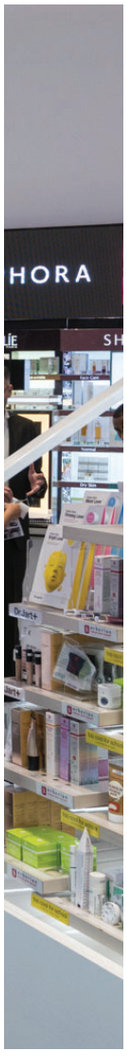
Across the Middle East, he adds, the general tendency is to employ more labour when demand goes up, but this isn't necessary if you have the right automated technologies. "It's not just hands we need its brain as well," he says. And it's in Sephora's ambitious expansion plans that

OUT OF STOCK VERSUS OVERSTOCK

For a retailer the main focus is eliminating out of stock, or reducing it as much as possible because it carries a financial implication. According to Sandeep Walia, head of supply chain for Sephora Middle East, this is not only because the retailer loses revenue from that lost sale, but also because it undermines brand loyalty and could lead to a lost customer.

"We want to keep availability at 99% and we can only do this cost-effectively with Slim4, because what retailers do is they will over stock instead, which drives up logistics costs, but is the better of two evils. In addition, when in-store stock begins to run low earlier than expected, you have to pay for an express delivery, which increases transport costs."

So Slim4 will reduce the risk of out of stock by increasing availability and will also pick up on all the spikes in the past sales behaviour of a product to avoid overstock. It brings down Sephora's supply chain costs on both ends.





Slim4 will forecast demand for every product in every store.

> ***"ALL OF THIS AUTOMATION LEAVES THE USER FREE TO FOCUS ON WHAT'S IMPORTANT, THE UNUSUAL DEMAND PATTERNS AND HOW TO PLAN FOR THEM. THIS IS WHAT WE CALL MANAGEMENT BY EXCEPTIONS AND THIS IS WHERE WE KNOW PLANNERS IN THE REGION, (LIKE SEPHORA'S) NEED TO BE FOCUSING THEIR TIME,"***
>
> ***SADI ABDEL KARIEM HASSOUNEH, DIRECTOR, MIDDLE EAST & AFRICA, SLIMSTOCK***



During 'seasonal' demand spikes, accurate forecasting and supply chain planning is more important than ever.

the Slim4 solution really packs a punch.

"If Sephora is opening a new store, such as their new outlet at La Mer Beach, they can simply copy the demand profile of a particular store, such as the JBR branch, and apply it to the new store," says Hassouneh. "The system then creates the initial stock levels and then adapts to the unique demand dynamics of that location on a day-by-day basis." According to Hassouneh, the system adapts daily for every SKU within every location. This data is then displayed on a user-friendly dashboard with all the calculated information, little flags where attention by the user is needed and tasks that the user is required to do broken down by day, week and month. The beauty behind these dashboards are that we can customise them to the user to ensure that within 2 or 3 clicks they can analyse their entire stock at any level whether it be article, brand, supplier, category, store, country or even region."

For a retailer like Sephora, the most critical issue, the worst case scenario in any supply chain operation, is running out of stock of a particular product. "For a retailer the main focus is eliminating out of stock, or reducing it as much as possible because it carries a financial implication, not only in that you lose revenue from that lost sale, but also because it undermines brand loyalty and could lead to a lost customer," explains Walia.

"We want to keep availability at 99% and we can only do this cost effectively with Slim4, because what retailers do is they will over stock instead, which drives up logistics costs and has P&L implications, but is the better of two evils," he says. "So Slim4 will reduce the risk of out of stock by increasing availability and will also pick up on all the spikes in the past sales behaviour of a product to avoid overstock."

This attention to spikes in the past sales behaviour of a product is especially important in the UAE retail market because of the huge impact of Ramadan and 'Saudi holidays' demand phenomenon, adds Hassouneh. "During these holidays millions of Saudi Arabian nationals come to Dubai to shop," he explains. "Retailers stock up for this because of the massive spike in demand and Slim4 will help Sephora efficiently plan for and automatically execute the boost in inventory requirements during these events and subsequently bring the levels down after the events, ensuring that Sephora customers visiting the store will find the items they need whilst Sephora keeps their total inventory costs down."

"It takes seasonality and 'events' like promotions into account and analyses our future needs based on our turnover statistics from previous events of that kind. Ramadan for instance is the major sales event in the Middle East, we see a surge in throughflow of products during the month and it builds up gradually over the course of several weeks," says Walia. "Slim4 will tell us what needs to be shipped when to handle that demand."

The benefits for Sephora then are clear, but Logistics Middle East wanted to know how the retailer went about implementing such as huge change of processes into its regional supply chain operation. According to Walia, it wasn't such a major change afterall, which is a major part of the reason they chose Slimstock over other technology partners.

"The first thing we did last year was to get smart people on-board, supply chain experts with prior international planning experience in mature markets, who then built collaborative processes between departments and Slim4 will facilitate the execution of those new planning processes," he says. "We chose Slim4 over five other solutions



Sandeep Walia, head of supply chain for Sephora Middle East.



Sadi Abdel Kariem, Hassouneh, director, Middle East & Africa, Slimstock.

because Slimstock was the only one that was truly flexible and willing to understand our constraints and particular needs. The other partners were imposing their software on us, what I mean by that is we would have to significantly adapt our processes to their system."

According to Hassouneh, the implementation has been done over the course of the last three months of 2017, with Sephora planning to go live with Slim4 in early 2018. "Sephora found Slimstock from Gartner's magic quadrant where we were labelled as a challenger because of, and I quote, 'our domain expertise, excellent references and customer satisfaction'," says Hassouneh. "Slimstock has done more than 100 system implementations in 2017 globally on time and within budget and its typically done in three phases, the first is developing a logistics blueprint of the client, the second is training and the third is optimisation so that Slim4 does exactly what they need it to."

Slimstock also has local hotlines that clients can use to get dedicated technical support as they come to grips with the system. "This is why we have 20 offices globally, we believe at our core that we need to be where our clients are if we are to provide the highest quality of products and service. Also, each region has its own specific supply chain issues and the more local our experts are, the greater their understanding of what the customer is going through."

In this globalised economy of IoT and constant cyberattacks, however, it must be asked what security measures Slimstock has in place, considering the sensitive nature, and vast volume, of data involved. Sadi Abdel Kariem Hassouneh, director, Middle East & Africa, Slimstock, was unphased by the question. "The Dutch Ministry of Defence uses Slimstock," he quips, and indeed this does provide an indication of the integrity of the system, but according to Hassouneh, the more important question is how secure are the clients' servers or cloud partners?

FAST FACT

100

SLIMSTOCK HAS DONE 100 SYSTEM IMPLEMENTATIONS IN 2017 GLOBALLY.

> ***"OUR TEAMS CURRENTLY SPEND A LOT OF TIME DOING STORE TRANSFERS OR EXPRESS SHIPMENTS TO ENSURE THAT THERE IS ON-SHELF AVAILABILITY, WHICH INCREASES SUPPLY CHAIN COSTS, AND WE NEEDED A PARTNER THAT COULD HELP AS OVERCOME THESE ISSUES,"***
>
> ***SANDEEP WALIA, HEAD OF SUPPLY CHAIN FOR SEPHORA MIDDLE EAST***

"The system can be installed on the clients' local sever, via the customers cloud partner or Slimstock can host the system for the customer, but most clients install the system wherever their ERP environment is, so it's really a question of how secure their hosting environment is," he says, adding that, despite the characteristic reluctance of the regional logistics market to adopt new technologies, "now is the perfect time to be here in the Middle East."

Sandeep Walia, head of supply chain for Sephora Middle East agrees. "The market has taken a hit since the oil prices fell, but most companies are now looking seriously at optimisation and this is what Slimstock does. When you're experiencing slowing growth and a potential cashflow problem, this is when you need to optimise your supply chain," he says.

"We've seen this happen in Europe and North America. When companies are first getting established they're setting up warehouses and distribution networks, but these are logistics issues and supply chain management requires more than just logistics execution. "You need end-to-end demand planning and inventory optimising and this is what we're seeing happening more in this market, this is where Slimstock comes in."

As Walia mentioned at the beginning of our interview, if you fail to plan, you're planning to fail, and unlike many retailers, Sephora aims to transform its supply chain into a value adding partner that contributes positively to P&L. "We are deploying this software in Southeast Asia, but we'll go live with it in the Middle East first and then in March next year we'll begin integrating this system with our operations in Europe," he says.