

Stock management systems

Waterstone's

Introduction

1. During 2005 Waterstone's stocked or sold [✂] titles. In the same year, Waterstone's stocked around half of the new titles published [✂].
2. Waterstone's stock management system, Phoenix v9, was introduced in 2003/04. It is designed to be 'a tool for the store team to use to maintain the best possible range offer and in-stock position fully tailored to their local market'. All information in this appendix on Phoenix v9 has been provided by Waterstone's.

New titles

3. New titles can enter a store in one of two ways:
 - (a) *Centrally selected.* The central buying team selects titles, not yet published, which are likely to be high sellers, and allocates an initial quantity of stock to each store. About 4 per cent of total new titles, but about 20 per cent of new titles stocked in any store, are involved. Reordering is done locally.
 - (b) *Locally selected.* The remaining 96 per cent are selected locally (about 80 per cent of new titles in any store). Waterstone's stated that there was no central guidance on this, beyond a subset of locally selected titles known as 'A' and 'B' grades. A grade titles are those that stores are recommended to stock from publication date, and B grade titles are those that some stores, generally with particular relevant genre strength, may wish to stock. The decision is made in bookstores. A and B grade titles together constituted less than 5 per cent of new titles stocked by Waterstone's last year.

Range management

4. Space and range are managed by subdividing all published titles into 248 different subject genres. Waterstone's stores are divided into six clusters of similar stores. Optimum space for each subject genre is decided by a model which considers relative genre performance for each store cluster and the known performance of each store. The space available determines the maximum number of titles of each genre which can sensibly be stocked in the store.

5. The range of titles in each genre is made up of core range, locally set range, and 'slow-sellers and dead stock'. 60 per cent of titles by volume are core range. It is stated that sales as low as three units in the UK market in a month can drive a decision to make a title core range. The level of sale for each title will generate a grading for that title which informs which stores will stock it. There are 28 grades: 12 English grades, 6 Scottish grades, 6 Irish grades, 3 Campus grades and 1 'Null grade'. Phoenix v9 matches grades of titles to each shop's particular genre grades and where they match, the title is listed as core range. One result is that no two stores have the same core range. In addition, there is a separate core range for Scotland. It has titles not relevant to the Scottish market removed and includes [✂] titles which do not generally appear in English, Welsh or Irish core stocks.

6. A subset of core range is 'supertier' which is a maximum of 750 faster-selling titles in the core range to be displayed face out.

7. *Locally set range.* About 27 per cent of titles by volume in a store are in this group. These titles, which are not core range or promoted titles, are selected by local booksellers and introduced into the store's range by them. (This can include titles which used to be core range, but which the particular store has decided to keep because it still sells sufficient quantities in that store.) In the longer run, these titles

will either generate sufficient sales to become core stock in a wider range of stores or be returned.

8. The remainder of the stock constitutes slow-sellers and dead stock. These can either 'fall out' of the core range through insufficient sales or be locally set range which does not generate the sales to achieve core range status. They may stay on the shelves for months until a question is raised by the system, often when a sale is made or a return sought, as to whether it should continue to be stocked. Slow-sellers are returnable, dead stock is no longer returnable.

Promotions

9. Waterstone's defines a promoted book as one which is given additional merchandising space in store to increase awareness and sales. Books can be selected for promotion by local booksellers or by the central buying team. However, only promotions selected by the central buying team are sold at a discount to RRP. Titles selected by booksellers are sold at RRP except when such titles are included in genre promotions (see paragraph 10(c)).
10. The central buying team promotions normally offer a price reduction to the customer though a discount or multibuy. The mechanics most often used are:
 - (a) Best-sellers: a range of new and best-selling books offered at a discount. In 2005 there were over [X] ([X]) such titles, with the majority ([X]) new titles, and the remainder ([X]) published before 2005.
 - (b) Multibuy: a range of titles new and old within a 3 for 2 or similar promotional mechanic. In 2005 there were [X] ([X]) such titles, of which more than half ([X]) were new titles and the remainder ([X]) published prior to 2005. All titles in a multibuy must be displayed in store and there is no local discretion. However,

different multibuy arrangements can be set up for different areas, eg Scotland, though again there is no local discretion.

- (c) Genre offer: a slightly different mechanic is the promotion of an entire section of the store, eg travel titles, for a limited period. Although the store benefits from centrally negotiated discounts and national marketing activity, it is the existing range in the store which is promoted.

Returns

11. This is highly automated with Phoenix v9 reviewing sales by title for each individual store, creating lists of titles which are either very slow selling or not selling. These are possible returns only; the bookseller at each store has to agree them before they are actioned. The system also generates request to publishers for authorization to make these returns.

Replenishment

12. Phoenix v9 automatically provides daily replenishment for slower-selling titles, though orders are amended locally if required.
13. Phoenix v9 recommends order quantities for review and amendment for topsellers (about 2 to 3 per cent of the range). However, the process is managed by the local store.

Benefits

14. HMV said that the Phoenix v9 system and the structures built on it have produced substantial gains to it, as follows:
- range increased by 5 to 10 per cent;
 - improved range and a reduction of 80 per cent in dead stock;
 - operational savings in time for front-line staff;

- higher availability in stocked titles (increased from 70 per cent in 2002 to 90 per cent in 2005); and
- improved returns.

Ottakar's

15. Ottakar's does not have as sophisticated a stock management system as Waterstone's. The lack of such a system, and the desire to implement one, was given as a reason why the Ottakar's management team wished to take the business private. Ottakar's business methods in relation to new titles, range management, promotions and related subjects may be summarized as follows.

New titles

16. New titles are assessed by the central team under a 'starring system' which rates forthcoming titles in terms of sales potential. Highly-rated titles appear in stores in predetermined numbers. Less highly-rated titles are the subject of central guidance rather than mandatory requirements. [X] Ottakar's stated that in practice local managers closely followed the guidance as well as the mandatory requirements.
17. A book would, after its period on promotion (characteristically two months but often longer), receive a core stock grading guided by its sales performance and move into core stock.

Range management

18. Core stock is divided into a system of genres which applies universally. This system operates at a series of levels: for example, books are divided into 'adult' and 'children', the 'adult' into 'fiction and non-fiction', 'non-fiction' includes 'sport', 'sport' includes 'football'.

19. All books stocked are given a grading from AA through to E. Books at the top end of this range are mandatory for each store. Lower down the range the bookseller may take a book if its store is big enough or there is a demonstrable need, taking account of any guidance on the Intranet by the central range department as to which types of stores should consider stocking that kind of book. [✂]
20. There is a separate core list for Scotland, which overlaps substantially with the national list but contains more books of a specifically Scottish interest. This list is also set centrally based on sales made in Scottish stores.
21. After core range and promotional and new titles have been stocked in a store a local manager can (within preset budget) buy other titles; this is stated to be a small percentage [✂] of stock.

Promotions

22. All promotions are controlled centrally. For instance, in 3 for 2 promotions, every book in the promotion and no other can be included in the 3 for 2 promotion. [✂]
There are centrally determined local variations in the 3 for 2 promotions. There may be a different 3 for 2 for large stores and small stores (though every 3 for 2 promotion in a small store will be offered in a large store) or for London or Scotland.

Returns

23. These are managed by local managers using the updated core stock lists received from Head Office. They check that they have what is recorded on the list and then (a significant manual task) check what they have in the store which is not on the list, its sales history etc, before, if appropriate, returning or destroying it.
24. [✂]

Replenishment

25. The replenishment process takes place via the Intranet. Store staff review their previous day's sales to determine which titles should be reordered. The decision whether to reorder a title is largely dictated by the following factors:

- the sales pattern of the individual title;
- whether it is a promoted title (identified by a promotional flag in the replenishment section of the Intranet); and
- the individual store's existing level of spend vs budget.

In certain circumstances, for example for particularly fast-moving titles or selected titles at Christmas, Head Office may order directly, overlaying local reordering in order to guarantee supply. Book deliveries typically take place on a daily basis, although some suppliers will deliver on standard days of the week.