

Körber Supply Chain

A SKU-ed view of the future

The impacts of SKU proliferation on the entire supply chain and how the tide is starting to change



When it comes to SKU proliferation, the biggest concerns that arise are usually fulfillment-related, i.e. order complexities and sizes, and manufacturing overheads. All of these are valid and genuine challenges, which require serious innovative efforts to overcome. But SKU proliferation poses even greater challenges, which touch upon every aspect of the supply chain.

Rampant proliferation, which has been prevalent ever since the term “horizontal differentiation” was coined in the 1980s, has been a consistent challenge. However, times are slowly, but surely, changing. Soon, manufacturers, retailers and logistics companies alike will be facing a new set of trials, brought about by a sudden change in tide: recent world events, and SKUs decreasing in number.

“SKU proliferation is seen as a way of keeping things fresh on the market. You put a new thing out there to re-energize the market. It is a tool that brands use to stay ahead of their competitors. But it isn’t sustainable, or good for retail execution.”

Derek Curtis
VP Sales Retail Execution & TMS

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What is SKU proliferation?

SKU (stock-keeping unit) proliferation is used by brands to increase the number of products (i.e. SKUs) that they offer to customers, accommodating for a range in tastes and requirements.

It began in the 1980s when The Campbell's Soup Company approached leading psychophysicist Howard Moskowitz, hoping that he would help them find the one "perfect" spaghetti sauce recipe for their struggling Prego brand.

What he found was that there wasn't one "perfect" recipe which would satisfy all discerning tastes. Prego went on to develop different types of sauce, to be sold alongside their existing line. It was a big success, and a new level of consumerism was born: horizontal differentiation. This in turn, evolved into SKU proliferation, and widespread variety in product lines in every sector.

On the surface, this seems like a good thing. Consumers, arguably, enjoy variety and this helps the brands remain competitive. But it has had a considerable impact on every aspect of the supply chain.

Impact on manufacturers

Mass production is efficient, but it doesn't mean SKU proliferation is always the best solution. While it is simpler and more cost-effective to only produce one generic item, it will only suit the tastes of some, and will leave that brand vulnerable, allowing the competition to clinch the sale. Producing smaller batches of different items, on the other hand, is more expensive and will eat into the manufacturer's profits.

“When you add layers of complexity for picking and you have two that look almost the same, errors increase. We have technology that helps with this, of course, but sometimes human nature takes over.”

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Impact on warehouses

Storage

Having hundreds of different variations of products to distribute is a big risk in terms of space and storage. If one variant of an item goes out of "fashion" when there are still units to be sold, those units will take up a huge amount of space until they are sold – which may never happen.

Accuracy in picking

When a picker is faced with two items that look almost the same, this leads to problems. Smaller quantities of similar-looking products in greater numbers and in denser locations means that unless appropriate technology is used, there is a higher risk of mis-picks, which would result in costly returns and even lost custom.

Efficiency in picking

Proliferation means individual products are more spread out on the warehouse floor. This means it takes longer to pick full pallets, no matter how many people you have available or how cleverly the space is organized.

Impacts on retailers

UPC disparity

Traditionally, one SKU would mean one UPC (universal product code). However, in the case of seasonal products, retailers often use one UPC for each seasonal product associated with a package, but with a separate SKU for each seasonal. With more seasonal codes being generated under one item, the greater the potential for inventory inaccuracies.

The alternative is for the distributor to assign an item code for the package type to the corresponding supplier UPC, using this same item code for each seasonal. However, this option does not provide inventory visibility on a particular seasonal item.

Shelf space

Retail shelves are, ultimately, finite in space – just like the stores themselves. Furthermore, capacity on the trucks and other distribution devices is limited to the volume and variety of products they can hold too. SKU proliferation can erode the ability to have the bestselling products in bigger quantities, which can impact overall sales.

How is it changing?

Thanks to retailers now taking a more research-based approach, with more targeted marketing and products designed with the consumer in mind, SKU proliferation is actually going down. This is partly due to manufacturers recognizing that 80% of sales are made from “core products,”¹ and that less space on the shelves for these products will negatively impact sales.

What does this mean for the supply chain?

In the same way that warehouses must prepare for sales increases in order to thrive, a decrease in SKU proliferation is also worth preparing for. Proactive warehouses, and retailers, might be able to take advantage by gaining efficiencies in the warehouse, and on the shelf.

Due to recent world events, the importance of the supply chain has never been more apparent in the eyes of the consumer. Consequently, flexibility and adaptability have never been more important to the supply chain, where even positive changes need to be factored in. While decreasing SKUs presents an opportunity, only supply chain logistics providers with robust and adaptable systems will react proactively – and reap the rewards.

“Rather than just making as many variations as possible, retailers are asking more questions. What would be appealing to the customer? What does that person actually want? Then they come up with one targeted product, as opposed to several less targeted ones. They are becoming much more deliberate in their product line introductions, which has resulted in a much more restrained approach.”

Derek Curtis
VP Sales Retail Execution & TMS

Could Körber’s versatile solutions help you maximize the benefits of a reverse in SKU proliferation? Contact us to find out:

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¹<https://www.conveyco.com/sku-analysis-sku-proliferation/>