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Title: Service Level Differentiation

Abstract: At the Stock Keeping Unit (SKU) level, a higher service level typically requires an increase in the average inventory value. At the assortment level, Service Level Differentiation can simultaneously boost the aggregate service level and lower inventory investment. So, the improvement potential is higher at the assortment level than at the SKU level.

Surprisingly, though, in our experience very few companies exploit this (fully), which may be related to the mathematical complexity of approaches in the literature. We discuss simple approximate approaches that are very easy to implement in e.g. a spreadsheet, and show using real data that they lead to considerable cost savings.