Why Do You Still Have Out-of-Stocks?

A New Approach to Solving an Old Problem

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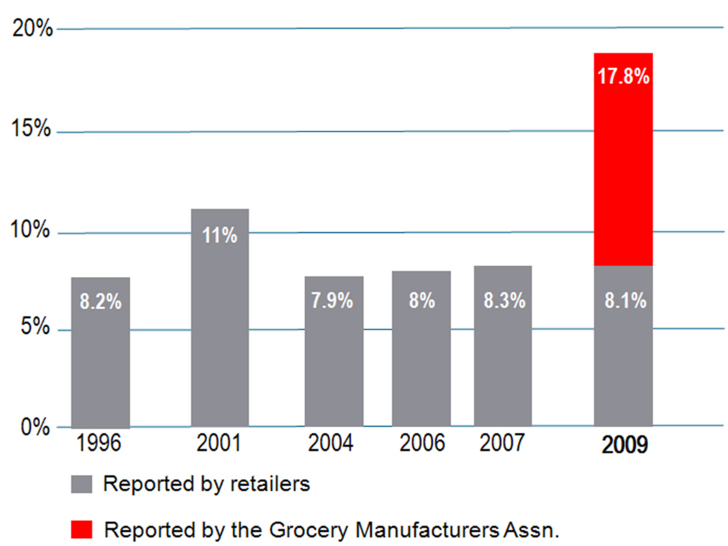
The Out-of-Stock Paradox

For the past 10-plus years, I have been going to my local grocery store to buy a major brand of diet cola. Time after time, there's a four-foot hole in the soda aisle where the diet cola should be. In 10 years, computers have become many times more powerful, the data on consumers and inventory significantly more granular, and the software algorithms to process this data more sophisticated. So how is it possible that the retailer and the consumer products company have not figured out that the store needs to order more diet cola?

The data suggests that my experiences are not unique. The out-of-stock (OOS) rate has changed very little over the past decade—and at least one recent study suggests it may be even worse than the industry has previously been aware (see Figure 1).

Figure 1. Out-of-Stock Levels Have Changed Little Since the Turn of This Century, and According to Some Studies, Is Far Worse than Retailers Report



Sources: *InfoWorld*, 2001; *Chain Store Age*, 2004; *Retail Technology Quarterly*, 2004; Gruen and Corsten, 2007; *Supply Chain Digest*, 2009[1]

Retailers and consumer products companies have long recognized the significant opportunity associated with more effective product flow and reduced out-of-stocks. An in-depth, worldwide study of retail OOS noted that "…when confronted with an out-of-stock situation, 21 to 43 percent of consumers will make that purchase at another store, while 7 to 25 percent will not buy the item at all."[2] The same study found that a typical retailer loses about 4 percent of sales due to having items out of stock. That's a $1 billion miss for a $25 billion retailer.

So what can retailers and consumer products companies do differently to make a dent in this seemingly intractable problem?

Time for a New Approach

An OOS is essentially a misalignment among the customer, the retailer, and the consumer products manufacturer—a failure to get the right product to the right place at the right time. The product-flow process is complex, with numerous stakeholders and decision points involved in forecasting, planning, and execution. Additionally, time and distance barriers challenge today's increasingly global retail landscape. New collaboration approaches and tools are changing the ways people work together and provide an opportunity to improve alignment among stakeholders and decision makers.

The Cisco® Internet Business Solutions Group (IBSG) has identified impact zones centered on innovation, knowledge sharing, decision making, and complex execution where collaboration will transform core retail processes and performance. A major area of opportunity exists in product flow and related out-of-stocks (see Figure 2).

Figure 2. Collaboration Impacts Innovation, Decision Making, Knowledge Sharing, and Execution, Which, in Turn, Affect the Entire Retail Value Chain

Source: Cisco IBSG, 2010

Opportunities for Improvement

There are several activities, both pre- and in-season, where alignment is critical and collaboration impact zones provide opportunities to improve in-stock performance.

Preseason

Today, retailers and their branded suppliers spend significant preseason time and effort deciding on merchandise assortments and doing line planning, financial planning, forecasting and so forth. These processes generally follow a sequential calendar that often begins a year or more out (depending on product category). This is a time when numerous retail functions and decision makers must collaborate across a wide variety of topics, including past performance, promotional strategies, competitive positioning, new product innovations, pricing, fixtures, and store-flow strategies. All four collaboration impact zones—innovation, decision making, knowledge sharing, and execution—are present in these processes. The collaboration opportunity is to reduce time required for the overall process by bringing remote stakeholders together more efficiently and effectively.

In-Season

Once product has begun to flow into distribution centers and stores, the focus shifts from planning to execution. Day-to-day monitoring and resolution of problems within execution activities tends to be data-intensive and highly automated. At the same time, revisions of current and near-term plans involve multiple decision makers and are time-sensitive—once again hitting on all four collaboration impact zones. A key driver of increased performance is speed to react to key trends across store networks. Collaboration tools can bring stakeholders together more quickly to resolve issues and also reduce the time it takes to implement any resulting actions at the store level.

What Can the Retailer Do?

In many cases, large consumer products companies have colocated resources near the merchandising functions of their large retail customers to improve alignment in planning and execution. All too often, these resources are used as "translators" for the real decision makers that reside back at the home office. By implementing better collaboration tools, retailers and consumer products companies can have more direct and efficient interactions among the stakeholders. In addition, there is an opportunity to replace today's sequential processes with processes that are more parallel and iterative. Here are three key collaboration capabilities retailers should evaluate to improve the speed, alignment, and overall performance of product-flow activities, including reducing out-of-stocks:

- **Expertise/Presence:** The key to bringing decision makers together is understanding who they are and if/when they are available. Mobile devices coupled with presence allow near-real-time, on-demand access to critical expertise. Today's collaboration tools can quickly connect the store, regional buying office, and vendor so they can revise plans to capitalize on trends and minimize out-of-stocks.
- **Rich-Media Video:** The quality (and, therefore, the effectiveness) of video communication has increased dramatically in the past few years. Today, you can have a video call between retail merchants and product specialists to review products iteratively without being held hostage to onerous travel schedules.

- **Community:** Enterprise social networking tools provide an opportunity to bring together key stakeholders involved in a process. This takes knowledge sharing to a whole new level, as the collective wisdom of the group can be tapped. Additionally, resolutions to issues that cause out-of-stocks can be rapidly and effectively communicated across time and distance barriers as well as company borders. For example, adjustments made to market signals can be rapidly communicated to other parties that are similarly affected. The time to resolution across the store network can be reduced, improving in-stock on a broad scale.

Conclusion

We are seeing rapid innovation in tools that redefine the ways humans collaborate. Complex, multiparty activities that cross time and distance barriers are now transforming as collaboration is applied to the impact zones in these areas. There is a major opportunity to improve the flow of product, from concept to consumer, enabling retailers and their consumer products partners to make a significant dent in the seemingly intractable problem of out-of-stocks.

For more information about improving merchandising and logistics through collaboration, please contact:

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Endnotes

1. Figures derived from multiple sources: "It's in the Data: HEB Fights Out-of-Stocks," Ken Clark, *Chain Store Age,* June 2004; "Improve Out-of-Stock Methods at the Shelf," *Retail Technology Quarterly,* July 2006; "To Retail Out-of-Stock Reduction," Thomas W. Gruen and Dr. Daniel Corsten, Grocery Manufacturers Assn., 2007; "Just How Big Is the Out-of-Stock Problem in Retail?" *Supply Chain Digest,* January 2009.
2. "Retail Out-of-Stocks: A Worldwide Examination of Extent, Causes and Consumer Responses," Thomas W. Gruen, Daniel S. Corsten, Sundar Bharadwaj, CIES, Food Marketing Institute, Grocery Manufacturers of America, 2002.
3. According to Claire Schooley, author of "Generational Workforce Strategies: Suggestions for Coping," Forrester Research, 2008, Gen Xers are those born between 1965 and 1979, and Millennials are those born between 1980 and 2000.

More Information

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