# Consumer Goods: Taking Stock of Out-of-Stocks

In-store out-of-stocks can be disastrous – affecting both revenue potential and customer brand loyalty. When equipped with the right tools, though, manufacturing and supplier sales reps can work with retailers to improve their inventory practices and minimize the risk of out-of-stocks.

White Paper

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According to research from RIS News and IHL Group, retailers lose an estimated $93 billion annually when customers are unable to find the products they're seeking[1]. But it's not just the retailers who suffer from out-of-stocks; manufacturers and suppliers miss out on revenue as well. And with the global rate for out-of-stocks at 8.3 percent, a staggering one out of every 13 items that a consumer plans to buy will be out of stock[2].

Out-of-stocks have long been a problem in the consumer goods industry and, while other areas of supply management have improved over the years, surprisingly little progress has been made with out-of-stocks at the point of purchase. Aside from the immediate loss of revenue, out-of-stocks at the point of purchase create other issues such as a negative customer experience, which leads to decreased brand loyalty.

The study from RIS News and IHL Group also showed that retailers could increase their store sales by an average of 3.7 percent just by improving shelf-stocking procedures. Moreover, an internal review conducted by Wal-Mart suggested the retailer could increase its sales by $5 billion by better stocking its shelves. With retailers and manufacturers alike missing out on significant revenue due to out-of-stocks, and suffering from the long-term impact on customer loyalty, both parties have much to gain by reducing out-of-stocks as much as possible.

## *What Causes Out-of-Stocks?*

In order to fix the problem and reduce out-of-stocks, one must understand what out-of-stocks are and why they occur. Key to identifying the causes and effects of out-of-stocks is recognizing that most instances occur on the store level. According to a report from the International Journal of Logistics, only 10-30 percent of out-of-stocks stem from problems with the upstream supply chain. The vast majority, 70-90 percent, result from in-store operations on the part of the retailer[3].

In-store out-of-stocks can be divided into two main causes: store out-of-stocks and shelf out-of-stocks, both of which have serious repercussions for the manufacturer.

Store out-of-stocks occur when a retailer is completely out of inventory of a particular item. This results from errors made in order or demand forecasting. Common causes for store out-of-stocks can include:

- Product data accuracy – Retailers may rely on inaccurate data when forecasting and ordering, ultimately resulting in a mismatch between availability and everyday need or extra requirements during promotions.
- Ordering and inventory accuracy – A store's perpetual inventory (PI) system can result in phantom inventory whereby items are incorrectly considered to be in the store, delaying automated reordering.
- Demand forecasting accuracy – When demand forecasts differ from sales forecasts, out-of-stocks are likely to occur. These can prevent accurate insight into true demand, creating an ongoing occurrence of out-of-stocks.

Shelf out-of-stocks result when sufficient inventory is in the store but fails to appear on the shelves. Common causes of shelf out-of-stocks include:

- Store and shelf replenishment – Often times, store replenishment is too infrequent to keep up with demand, resulting in certain items not being restocked on the shelf even though sufficient inventory is in the store.
- Shelf space allocation – When items are given the same amount of shelf space without regard to individual demand, fast moving items aren't restocked quickly enough.
- Item management – Poor shelf-stocking practices, such as covering holes, hiding products and inaccurate shelf-tagging all contribute to out-of-stocks.

## *Effects of Out-of-Stocks on Manufacturers*

Regardless of the cause, out-of-stocks negatively impact the manufacturer. Aside from the immediate loss of revenue when a customer is unable to find the product on the shelves, out-of-stocks have a definite impact on customer loyalty, potentially driving customers away from the brand.

According to a study conducted by the Food Marketing Institute (FMI), 31 percent of customers will go to another store to find an out-of-stock item, and 19 percent will buy a substitute item from the same brand. That means the remaining half of all customers who encounter an out-of-stock situation will either buy a different brand (26 percent), delay their purchase (15 percent) or not purchase the item at all (9 percent).[2] Continued instances of out-of-stocks can lead to customer dissatisfaction, and when customers switch to a different brand, they might never come back.

Aside from the effect on customer loyalty, increased instances of out-of-stocks can be disruptive to the entire supply chain. When stores are completely out of inventory, the manufacturer may have to make a special unscheduled shipment to the retailer to replace inventory, impacting delivery schedules and causing further disorder throughout the supply chain.

Out-of-stocks can also be disastrous during special promotions if stores are unable to keep up with the increased demand. Unfortunately, promoted items account for the most common instances of out-of-stocks, and the out-of-stock rate during promotions often exceeds 10 percent. When stores aren't prepared to deal with the increased demand of promoted items, the impact and ROI of special promotions are drastically lowered.

## *How to Solve the Problem*

Regardless of how out-of-stocks are caused, reducing this damaging occurrence requires manufacturers and retailers to work more closely together. With increased collaboration throughout the supply chain, both parties can work towards the common goal of making their products readily available to consumers.

But in order to achieve this, companies need a robust CRM solution to facilitate their relationships with retailers. StayinFront Consumer Goods is a leading consumer goods CRM that allows organizations to manage those relationships with greater visibility, adaptability and efficiency. The solution also enables them to measure and drive activity at the store, thereby mitigating the risk of out-of-stocks and reducing its negative effect on the bottom line.

To increase the effectiveness of in-the-field sales reps, StayinFront Consumer Goods can be deployed on a number of devices and platforms. For instance, StayinFront EdgeCG® is a cloud-based, SaaS consumer goods CRM that includes industry-specific functionality and analytics that can be accessed from a range of devices. With award-winning StayinFront TouchCG, teams have industry-leading retail execution functionality on iPhone, iPad and Android™ devices, further revolutionizing the way field forces perform key in-store activities.

In addition to reducing instances of out-of-stocks at point of purchase, StayinFront Consumer Goods helps manufacturers identify opportunities to sell more, ensure price compliance, improve communications and measure and drive in-store activities. By using such a tool, manufacturers have a system in place that ensures their products are placed on the right shelves at the right prices and at the right times.

[1] Buzek, Greg (2008), "How Much are Out-of-Stocks Costing You?", IHL Group.

[2] Gruen, Thomas W. and Daniel Corsten (2008), "A Comprehensive Guide to Retail Out-of-Stock Reduction in the Fast-Moving Consumer Goods Industry", Grocery Manufacturers of America, Washington, DC.

[3] McKinnon, A.C., Mendes, D. and Nabateh, M. (2007), "In-store logistics: an analysis of on-shelf availability and stockout response for three product groups", International Journal of Logistics: Research and Applications, Vol. 10 No. 3, pp. 251-68.

***About StayinFront***

*StayinFront is a global provider of the world's most innovative relationship management solutions. From SaaS CRM and on-premise CRM to mobile CRM access in the field using Android™, iPhones and iPads, its ground-breaking software offers rich functionality, fast deployment and easy-to-use tools that increase sales force effectiveness. StayinFront has been selected as a strategic partner by many of the world's top life sciences, consumer goods and business-to-business companies, improving efficiencies in over 65 countries and more than 25 languages.*

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