

In Europe, retailers have been wrestling with the challenge of out-of-stocks for years. Yet gaps on shelves are still commonplace, disappointing customers and losing business at the same time.

A year ago, an Optimal Shelf Availability (OSA) study organised by Roland Berger Strategy Consultants for ECR Europe combined experience and learnings from 10 European retailers (including Safeway and dm), 27 European manufacturers and 20,000 consumers in 11 countries in a bid to find solutions to this thorny issue.

The study homed in on some central conclusions. The last few metres of the logistics chain are critical, for example. Even if product availability in the manufacturer's warehouse and the retailer's distribution warehouse is still around 98-99 per cent, availability falls by up to eight per cent on the way to the shelf. Products are often in the store warehouse but inattentiveness by store personnel means they fail to reach the shelf.

The problem is much worse in some

categories than in others. Top of the out-of-stocks list is women's hosiery with an out-of-stock rate of 32 per cent. Other major problem areas include short shelf-life products such as fresh ready-made meals (18 per cent out-of-stock rate) and seasonal products such as ice cream (10 per cent out-of-stock rate), where demand depends on the weather and is therefore hard to predict.

Inventory gaps for promotional articles, on average 12 per cent, are above the European average of 7-10 per cent. This is all the more annoying because many customers are tempted into the store by precisely these heavily advertised products. Worse, product availability in Europe is lowest on Friday and Saturday, the days which account for the highest sales.

Yet, the study also showed that high levels of availability do not necessarily mean small gaps in inventory. On the contrary, the retailers with the largest gaps in inventory also had the largest stocks in the store, while product

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## Rooting out out-of-stocks

CONFERENCE PREVIEW

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Out-of-stocks irritate consumers and create financial losses for retailers and their suppliers. But new tools are being developed, and progress can be made

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availability was highest at the retailer with the lowest inventory levels.

#### Customer reactions to out-of-stocks

So how do customers react when their buying intentions are frustrated by out-of-stocks? Thirty-seven per cent of those surveyed decide to buy another product size or a similar product from the same brand family. Twenty-one per cent leave the store. Consumers mainly choose other brands when they are looking for products that can be easily substituted, such as beer, frozen food or toilet paper.

However, if customers are looking for very differentiated products that they have planned in advance to buy and have great confidence in, such as diapers or cosmetics, they normally leave the store if the exact product is not available. The departure rate rises the more often customers are disappointed. If, for example, they look for a particular product and it is not there on three consecutive occasions, there is a 70 per cent probability that they will do all their shopping elsewhere in the future.

The financial consequences of this are dramatic. Conservative estimates put financial losses caused by out-of-stocks at €4 billion for retailers in Europe. This figure only includes loss of revenue due to the annoyed customer's decision to buy nothing at all. Losses suffered by the

manufacturer when the customer decides to buy another brand are not included. Yet manufacturers and retailers are hit equally hard by out-of-stocks.

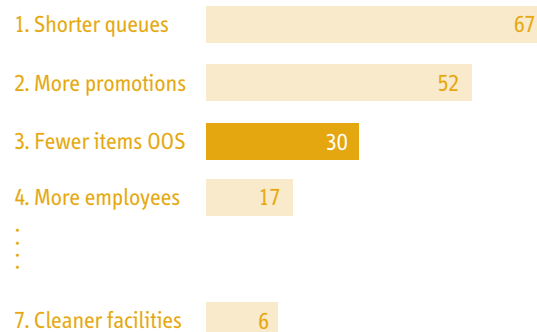
Retailers who think that gaps in inventory hit manufacturers first of all, because customers switch to other products, could not be more wrong. They argue that customers can always choose another product and thus the retailer's sales are secured. The OSA study proves the opposite: customers tend to go to another store rather than buy another product. And often they do not return. When a lost customer family equals a loss of €7,500 a year this is a serious loss.

#### Seven factors for better product availability

However, the OSA study also shows that if the right action is taken, product availability can rapidly be increased, leading to improved profits. One participating retailer boosted availability of laundry detergents by just one per cent and gained additional sales worth €10 million. How can such improvements be achieved?

The participating companies identified seven levers connecting to a coherent consumer-centric business system, which needs to be applied in a holistic manner. These levers directly relate to the identified root causes and highlight the

#### Consumer needs [%]



importance of more co-operation within the FMCG supply chain. The tools, some still in development prior to the Barcelona conference, have now been refined. More information on these refinements will be made available at this year's ECR Europe conference in Berlin.

ECR Greece, for example, will report on the successful introduction of Collaborative Store Ordering (PCSO™). Under this approach retailers and suppliers share information – sales data (POS), store assortments, stock level in the store, promotional activities, out-of-stock alerts and so on – and collaborate on a daily basis in order to support the store replenishment process via the ONIA-NET collaboration platform.

The model uses the web to bring together suppliers' expert opinions with the unique knowledge of store managers. So far, this tool has enabled stores to improve on-shelf availability by nearly 50 per cent. The ultimate objective is to eliminate out-of-stocks, while maintaining optimum levels of stock throughout the supply chain.

Retailers represented by ECR France have meanwhile refined the indirect measurement system. This system works by using POS data to identify atypically low sales or no sales, which are equated with partial or total stock-outs. Another

aspect of this approach is the involvement of a third party or service provider that specialises in information provision. This approach provides management with a performance measurement tool on a daily basis.

As is the case with other ECR projects, these projects are showing that it is possible to optimise systems in co-operation with market partners. However, companies should be wary of overestimating short-term successes: the crucial task is to maintain high levels of performance. This is a challenging goal, especially considering the fact that tackling out-of-stocks involves more or less the entire company.

