Out-of-stock losses cost retailers billions

By Gareth Pearson

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Retailer's in-store out-of-stock rate continues to cost billions in lost revenue, with global studies showing the rate has remained unchanged at 8% over the past 10 years.

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Research reveals that the out-of-stock rate costs retailers around 4% of annual revenue and the manufacturers around 2.5%. Surprisingly, this rate has remained static but what's even more surprising, is that the majority of problems occur in the last few metres of a product's journey to the store shelf.

Only 30% of out-of-stock issues arise between the factory and the store site, whereas 70% of problems result from on-shelf activities getting product from the store site or warehouse onto the shelf. When there's no stock on the shelf, customers will either substitute the brand, cancel the purchase or buy from another store.

Contributing factors

The primary contributors to the in-store component include problems with data accuracy (including inventory management and point-of-sale data), inaccurate forecasting and ordering caused either by problematic computer algorithms or human error and replenishment problems. Shelf capacity, shelf installation and shelf management are the three main contributors to on-shelf out-of-stock rate where 70% of the problems occur.

The loss in actual revenue to the retailers and manufacturers is the hard fact of the out-of-stock rate but a less quantifiable - but no less important - consequence is diminished customer loyalty. Repeated experiences of out-of-stock situations will impact negatively on a customer's store experience, resulting in brand equity being eroded. A further consequence is the increased labour costs of in-store personnel serving customers. For example, a packer who is constantly distracted by shoppers looking for out-of-stock items may not seem like a problem when seen in isolation, but when that situation is extrapolated across thousands of stores, it becomes a big issue.

Shelf out-of-stock problems can be caused by numerous factors, including a breakdown of in-store processes where agreed systems are not implemented correctly, inadequate category management, staff shortages and training shortcomings and insufficient measurement processes and monitoring. Promotional activity and trading peaks such as month-end and holidays can also result in temporary stock imbalances.

No single solution

There isn't a 'one-size-fits-all' solution, but there should be a greater focus on category management, where 20% of the fast-moving products contribute to 80% of turnover. Faster lines must be given priority and everyone involved in on-shelf activities from the store manager to the shelf packer must know what they're supposed to be doing and why. Stores that present significantly higher out-of-stock percentages also need more rigorous investigation. Effective tracking and measurement of products is also vital.

In today's highly competitive retail landscape the costly problem of out-of-stock needs urgent attention and retailers should investigate solutions that are available.

ABOUT GARETH PEARSON

Gareth Pearson, CEO and shareholder of BMi Research (www.bmi.co.za), is a market research specialist with particular focus in the industrial and FMCG markets in various sectors, including the retail market. He serves as a member of the South African Institute of Packaging's Regional Committee and is involved with the South African Packaging Council. Gareth was responsible for the merger of BMi Foodpack and Adcheck Research during 2008. Contact Gareth on tel +27 (0)11 615 7000.

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