Availability Transformed: OSA for Retail

On-Shelf availability: the steps retailers need to take for better in-store efficiency

If we believe the most recent – and comprehensive – study of global out-of-stocks, then retailers are currently running at an average rate of +8%. This is a figure that has remained largely unchanged across the past 20 years.[1] In simple terms, this equates to store shelves being empty for 28 days per year or the equivalent of every store closing its doors for an entire month.

These figures are typically defined by gaps, but not all availability gaps are created equal - something many measurement tools do not take into account. If milk, chicken fillets and carrots are missing that might only be three items, but they represent a potentially significant availability problem as they are high demand, high velocity items; if they're not there many customers stand to be disappointed.

Retailers often believe that if the shopper is faced with an out-of-stock scenario they will likely buy a substitute item, but that is not always the case. In their global study of out-of-stocks, Corsten & Gruen assess that at least 36% of cases result in shoppers abandoning their purchase or defecting to another store.[2] It's not just a lost sale though; as this scenario could lead to a shopper deciding never to come back – so it is the lost lifetime value of that customer that is potentially at stake.

As global grocery retail feels the squeeze from multiple disrupting factors, sales and margin growth is increasingly hard to come by, but there is a real opportunity to deliver value to the business and its shareholders. Retailers, suppliers and customers all recognise the problem – if the product isn't on the shelf then the shopper has no chance to buy it.

Why has there been so little progress?
The opportunity is clear, so why has there been so little progress across the past two decades?

Progress can be hindered by the sheer complexity of the issue at hand. Hundreds of stores stocking many thousands of products provide millions of opportunities for out-of-stocks to occur. It's often easier for suppliers and retailers to focus on agreeing another volume-driving promotion than to engage in delivering a sustainable improvement in sales through an improvement in availability.

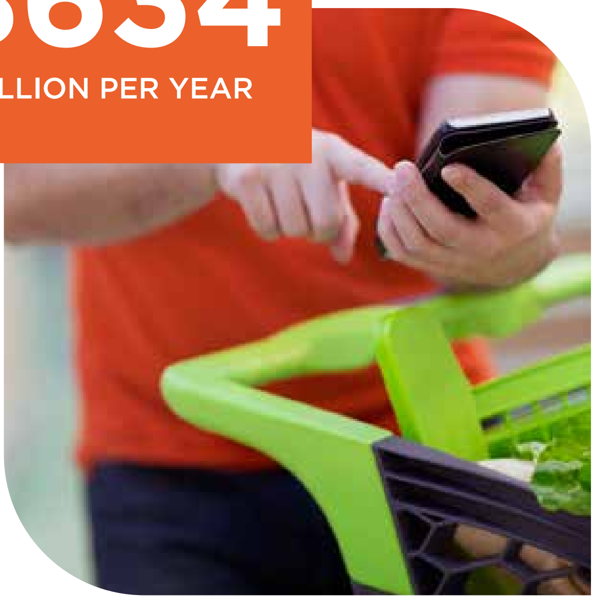
But the solution is relatively simple in concept: First, measure your availability performance to provide visibility, transparency and drive accountability for the results. Then, use this visibility to identify the key issues and make the major interventions required to ensure enough of the products that shoppers want to buy are stocked on the shelves where they expect to find them.

The retailers using this approach better than their competitors are already winning and the prize is huge. According to research from IHL Group, the cost to the global retail sector caused by problems with on-shelf availability is around $634 billion per year.[3] And across the past three years, Walmart was reported to have set its sights on addressing a potential $3 billion out-of-stock problem[4]; the momentum the retailer is currently enjoying suggests real progress is being made on addressing the fundamental challenge of availability within its store operations.

The cost to the global retail sector caused by problems with on-shelf availability

$634

BILLION PER YEAR



However, most existing measurement systems are ineffective when it comes to identifying the issues and can even be counter-productive in driving the behaviours required to make progress.

Using your sales data to help measure availability

Creating a sales-based measure of availability goes a long way to helping. In basic terms, this method looks at a massive set of sales data for every item in every store for every hour to understand what the store should expect to sell. If we take a fast-moving item selling in a Walmart store, say a single avocado, and it sells on average 20 per hour and suddenly there are no sales of that avocado through the checkout for one hour, then it would be safe to assume that something is obstructing that sale and it could mean that it is not on the shelf.

John Paul McNeil, COO of RI, explains, "A sales-based measure of on-shelf availability will identify if you haven't sold as much as you think you should have. We think that's fairly clear because we can see the history behind the analysis and we're tracking it at such a fine level. We can look at the sales data, look at what should have been expected from those items and stores, then provide retailers with a quantified lost sales opportunity."

With the introduction of advanced data analytics, our views on the measurement of availability have dramatically evolved into a management-by-exception-based approach, and a transition from more people and pairs of eyes in-store to optimising the productivity of the workforce. Using sales data, and your enterprise data, to assess availability can provide alerts and direct people to where there might be a problem and fix it quickly.

Paul Boyle, CEO of RI, concludes, "The proof is there. We have put data at the heart of the availability challenge within our clients and created a sales-based measure and tool, driving real, aligned action and value from top floor to shop floor. In one of our most recent implementations of this methodology we have seen our system deliver a directly attributed year-on-year sales benefit of 1.8%."

"And when we launch, we don't leave – our subject matter experts will continue to partner with our client to deliver even more value every day."

1 Corsten, Daniel & Gruen, Thomas. (2003). Desperately Seeking Shelf Availability: An Examination of the Extent, the Causes, and the Efforts to Address Retail Out-of-Stocks. University of St.Gallen
2 Ibid
3 http://www.businesswire.com/news/home/20150506005233/en/Research-Report-Retailers-Lose-1.75-Trillion-Revenue
4 http://retail.economictimes.indiatimes.com/news/food-entertainment/grocery/wal-mart-sees-3-billion-opportunity-refilling-empty-shelves/32889037