

WHITE PAPER

Five steps for improved on-shelf availability

Despite the introduction of new technologies and years of collaboration between retailers and their suppliers, out-of-stock conditions remain at a stubbornly consistent eight percent, and at ten percent or more for promoted items. This represents an eight to ten percent revenue loss for retailers and manufacturers because products are not on the shelves when customers want to buy them, even though the items are often elsewhere in the store. According to a study by research firm IHL Group, as reported in the Wall Street Journal, out-of-stocks cost retailers approximately \$634 billion annually.

There have been a number of collaboration efforts between retailers and manufacturers in attempts to reduce the out-of-stock rates, most notably Collaborative Planning, Forecasting and Replenishment (CPFR). While these have shown some marginal improvements, the truth is that many of the problems are self-inflicted wounds. Retailers aren't getting the right products on the shelves consistently. Four key reasons for this are:

- Store replenishment procedures fail to recognize pending out-of-stock conditions and task associates with replenishing shelves on a timely basis
- In-store inventory counts are inaccurate, subverting the efforts of ordering and replenishment systems
- Corporate forecasting and assortment processes and systems do not adequately account for local demand
- Corporate space planning and planogram processes are not readily adaptable to local store footprints and demand

There is therefore a lot that retailers can do to get their own house in order for better on-shelf availability while they pursue collaborative supply chain efforts. Before we consider five steps retailers can take to improve their on-shelf availability, it is important to realize that time is of the essence because the scope of the problem is increasing due to the demands of omni-channel commerce.



The problem becomes more complex

In a simplistic way, the average eight percent out-of-stock rate relates to an eight percent loss of revenue. While this is substantial in its own right, there are actually larger issues to deal with. Various studies have indicated that when an item is not on the shelf when a customer wants to buy it, on the first occurrence the customer will substitute another item 70 percent of the time. On the second occurrence the customer is equally likely to substitute another item, make no purchase or go to another store. But by the third occurrence, 70 percent of the time the customer will go to a different retailer. It is not just the lost revenue from the original item that is at stake, therefore, but also the loss of future revenue streams due to lost brand loyalty.

The issue of lost revenue and brand loyalty becomes much more complex in today's omni-channel world. For example, if a consumer is shopping in your store and finds that the item they want is out-of-stock, they are likely to pull out their smartphone, find the item at a competitor and order it from them. It is no longer three strikes and you're out—you may lose them on the first occurrence!

It becomes even more complex and problematic when you move to omni-channel fulfillment options such as buy online / pickup in-store (BOPIS). A recent survey by JDA Software of over 1,000 consumers found that half of those who tried a retailer's BOPIS service over the preceding 12 months said they had experienced issues with the pickup, and 50 percent of those experiencing an issue say they will not shop with that retailer again. Thus, an out-of-stock in those situations could cost you a lost customer fairly quickly.

With the omni-channel shopping and fulfillment options proliferating and with consumer demands for ever-faster deliveries, the complexity of retail operations will only increase. This will put added stress on inventory processes and will heighten the pressure for better on-shelf availability. Here are five things you can do to increase your stores' on-shelf availability.

Five steps to improve on-shelf availability

While working with your suppliers to improve supply chain operations, get your own house in order by removing the barriers to on-shelf availability caused by less than optimal processes and systems. Here are five steps you can take immediately to remove the most common barriers.

Accurate Inventories—Most retailers do not have an accurate view of inventory in each store. They rely on a rough estimate of shipments to stores minus sales,

with occasional physical audits to try to account for lost, stolen or damaged goods and other discrepancies. Few are able to account for saleable returns in overall store inventory, either. Store logistics systems can help by automating receiving, accounting for movement and usage in-store, and by automating cycle counts so an accurate view of actual inventory can be maintained.

Replenishment—There are two important aspects to replenishment—getting the right inventory to the stores and getting the inventory on the shelves before out-of-stocks occur. This requires a combination of push-based allocation to push new products, promoted items and seasonal goods to stores and pull-based allocation to replenish each store cluster based on local demand. This dynamic allocation will get the right inventory into stores. From there, store logistics systems with task management capabilities must monitor shelf quantities and direct staff to replenish items before shelves are empty.

Demand Planning—Planning inventory for promotions, new product introductions and other merchandising plans must be tied to local demand. Otherwise too much inventory will be in some stores while shelves are empty in others. With omni-channel fulfillment in stores, demand plans must now also account for expected fulfillment of orders from other channels. More advanced demand planning systems are required to accurately forecast and plan for the many aspects of today's more complex store operations so the right inventory quantities and assortments will be available to match local demand for both in-store shoppers and in-store fulfillment.

Product Placement—Understanding local demand allows retailers to tailor shelf and floor space to match local buying habits. Store-based planograms can help ensure that enough space is allocated for fast moving stock in each store while slow movers are given minimal facings. Something as simple as a store-based planogram with proper space allocation can go a long way toward improving on-shelf availability. However, these are only practicable through automated planogram generation systems.

Automated Ordering—The final piece of the on-shelf availability puzzle is automated ordering. With the complexities of demand planning and push- and pull-based replenishment, store managers cannot be expected to accurately forecast replenishment needs. Automated ordering builds off of accurate in-store inventory counts and sales results informed by demand plans and replenishment strategies to create replenishment orders that are optimal for each store and reduce overstocks and out-of-stocks.

The time is now

The complexities of delivering on consumers' omni-channel demands for seamless and consistent shopping journeys will not go away, they will only become more complex. And as more retailers gear up to satisfy these demands, consumers are becoming even less tolerant of delivery failures. The time to transition planning and store operations to accommodate these increasing demands is now, or else you will be left behind as customers shift their loyalty to those retailers who best meet their expectations. The five steps outlined above will go a long way toward helping you make this transition and be one of the retailers gaining customer loyalty by having the products customers want on the shelves when they are ready to buy.

For more information on improving on-shelf availability, access JDA.com.



jda.com info@jda.com

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