

Six steps to on-shelf availability



Poor on-shelf availability is a cardinal sin in retailing. Out-of-stock situations can have a damaging impact on sales, profitability and customer loyalty. When faced with an out-of-stock, at least 40 per cent of shoppers do not make a substitute purchase and if this occurs just a few times, many will not return. Here are six steps to improving on-shelf availability. RUTH LEAK

On-shelf availability is a business-critical issue for retailers. Across all retail formats in Europe, grocery out-of-stocks average eight per cent, and figures well over 10 per cent are not uncommon. Performance in general merchandise and fashion is often much worse with results of 20 - 40 per cent of SKUs out of stock at any one time not unusual.

This has a direct impact on sales. Studies show that, when faced with an out-of-stock, at least 40 per cent of shoppers do not make a substitute purchase. The longer term effects can be even more damaging. Many shoppers take a 'three strikes and you're out' approach: if you are out-of-stock three times in a row they will not come to you again, for that item at least.

Despite its importance, availability is not dealt with effectively by most retailers. Contrary to popular opinion, poor availability is rarely caused by inadequate overall stock levels – indeed, experience shows that availability problems are most often found in retailers with high levels of inventory. The issue is not the total amount of inventory held but making sure that it is the right inventory, held in the right place at the right time. Availability problems are nearly always a symptom of underlying inefficiencies in the end-to-end value chain which is why most 'availability initiatives' fail or only achieve short term results. By addressing the symptom – poor availability – rather than its underlying causes they can only achieve improvements at the expense of making something else, usually inventory levels, much worse. Many retailers have been through a repeated cycle of focusing on availability improvement one year, and a drive to reduce inventory levels the next.

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There are many potential reasons for poor availability on shelf, and it is clear from looking at them that to raise inventory levels to address availability is unlikely to have a sustainable effect.

It is also clear that this is not an issue owned by a single function. Successful availability programmes are likely to reduce overall inventory levels, resulting in sustainable improvement, and are organised cross-functionally – the focus for the business as a whole, not one team selected from a list of 'candidates'.

Six key areas need to be addressed in the design of a successful improvement programme:

Step 1: Measurement: Examination of common causes of availability lead immediately to the first area where excellence is required: measurement. It is difficult to improve things that cannot be measured and there seem to be more definitions and measures of availability than there are retailers. It is critical to ensure that the measure adopted reflects the availability the customer wants, is

'Availability improvement should be addressed as a co-ordinated programme of activity, not as a single project'

clearly understood and consistently applied. The most common, customer-oriented and best understood measure is the 'one-zero' approach. If one or more examples of a certain SKU (at the style, size, colour, flavour level) are available on the correct shelf or fixture, the store is in stock and is given a 'one' for that SKU. If not, the store is out-of-stock and the count is 'zero.' Although this measure is not suitable for all products in all retailers, it is simple and easily understood.


It does not however address the question of sets, where a customer is likely to want multiple examples of the same SKU say, a set of dinner plates, or related SKUs such as the bowls to go with the plates, or a matching skirt and jacket. These situations require more sophisticated measures which are beyond most retailers.

Due to the labour required for in-store shelf counts of availability, retailers often use their stock file to

Step 2: Setting Availability Targets: Efforts to ensure precise, consistent measurement of both availability and stock file accuracy should be focused on products that are stocked and replenished over a significant period. For 'when it's gone, it's gone', short life-cycle and some promotional items, there is no requirement for high stock file accuracy or high average availability. These products start with high availability and decline over time. Retailers expect this and so, more importantly, do their customers. These product categories require different availability KPIs, focused on launch availability rather than average availability over time.

Different product categories fulfil different retail functions and address different consumer needs within the range. They also have different demand profiles and different expected lifetimes. They should, therefore, have different availability targets which, where appropriate, are time-phased over their lifecycle.

Step 3: High Level Accountability and Sponsorship: Availability programmes must look for and address root causes and not ignore them by raising inventory. Successful programmes require time at the outset to diagnose where the problems lie, understand the inter-connections and prioritise resources. Availability improvement should be



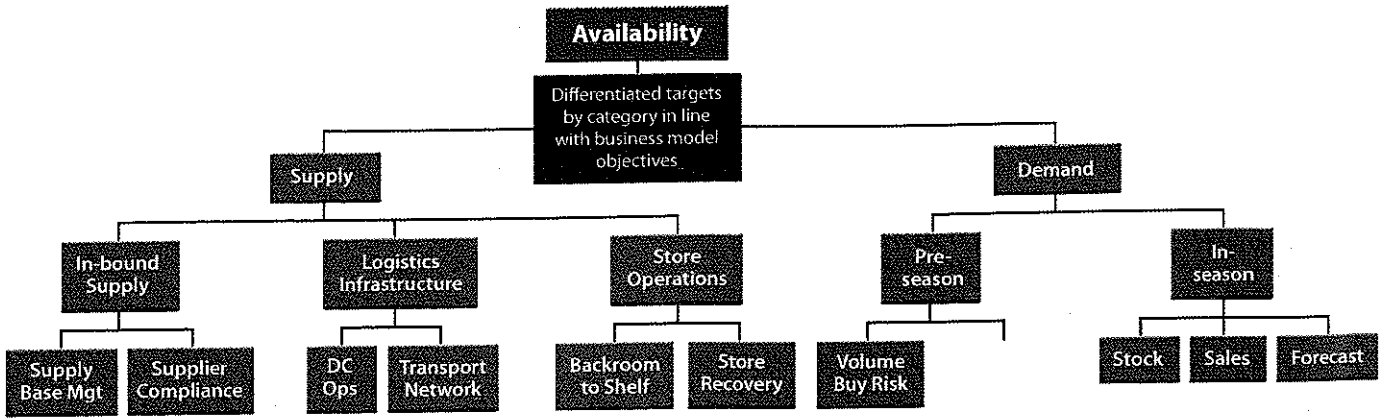
OUT OF STOCK

measure performance. The accuracy of the stock file is therefore critical. Poor levels of accuracy lead to a false view of stock availability and affect the replenishment and re-order systems which use this information to make decisions.

If the stock file is used to measure availability (or indeed to drive replenishment, one of the processes involved in ensuring availability), the accuracy of the stock file itself must be measured in parallel. Old-fashioned measures of stock file accuracy that concentrate on net financial gain or loss as a measure of shrinkage are not effective in driving availability. A high level of stock file accuracy at the individual SKU - style, size, colour, flavour - level is required. In general, replenishment systems need a SKU level stock file accuracy greater than 95 per cent in order to ensure that the correct replenishment decisions are made. This requires disciplined processes and physical stock checks. If the stock file is not accurate, this in itself can be a significant cause of out of stocks - and there are a number of steps along the way where data can become corrupted.

addressed as a co-ordinated programme of activity, not as a single project. Many availability initiatives fail through a lack of visible leadership alignment and sustained focus. The CEO and top management team need to act as strong, public advocates of the initiative and carry out active sponsorship roles in their own functional areas. Sponsorship is particularly important in encouraging cross-functional working. Top management should be held accountable for outcomes on the same metrics. No single head of function can be individually responsible for the availability problem, or its solution.

Step 4: Cross-Functional Alignment: Availability is a complex, cross-functional issue with roots that spread right across the extended supply chain. There are numerous boundaries and break-points along the supply chain that can cause problems. Improvement can only be made through effective cross-functional management. Many software vendors claim to have the 'silver bullet' for solving availability problems. Experience is that the right tools, deployed as part of a wider



cross-functional change programme can add significant value, but they are never the 'solution' in their own right. Looking at a hierarchical picture of the causes of availability, it is abundantly clear that any isolated attempt to resolve issues on a sustainable basis will fail at the outset:

Step 5: Focus where the money is and balance the short and long-term: The availability-focused organisation ensures that it develops the highest competence where it matters most. This will depend on the balance of different product types in the range.

For example, a grocery retailer whose products are predominantly stock-up, destination products that are on-shelf all year should concentrate on becoming excellent in inventory efficiency (while reaching threshold competence in other areas). This means developing first class competence in store-level forecasting, allocation and replenishment processes and systems. Conversely, a value fashion retailer whose business is based predominantly on opportunistic promotions should focus on excellence in product flow (efficient and cost-effective logistics network design, DC and store operations).

Initial diagnoses usually reveal that most retail businesses have several, often inter-connected, issues contributing to poor availability. These issues need to be prioritised not only in terms of return on investment, but also in terms of speed to payback.

To be sustainable, availability programmes must have a good balance between short-term paybacks – typically in areas that do not require the kind of infrastructural changes associated with the logistics network and IT – and medium/long term ones – those that do. Striking a balance between the two allows early benefits to fund infrastructure investment and builds confidence in the change programme itself.

Step 6: Embedding the Changes: Successful programmes ensure that new behaviours and ways of working are embedded into the culture through rigorous updating of individual and team objectives,

ABOVE: Both the supply and demand sides of the organisation have a contribution to make to overall availability – it's not an issue that a functional approach can resolve

BELOW: Availability issues can form a vicious circle, leading to a cycle of poor (and potentially worsening) performance

processes and procedures, education, training and refresher training. This appears to be a hurdle. With the success of quick-wins, many forget to plan for long term sustainable results and neglect to change procedures, re-train people and ensure that the new methods become the new way of working. New initiatives should be monitored closely to understand the cross-functional impact they may have on the supply chain and its capability to deliver the availability retailers and their customers want.

On-shelf availability is a business-critical issue for retailers but despite its importance it is not dealt with effectively by most. The lack of quick-fix solutions to deliver long term benefits puts many off.

Increasing availability using the six steps ensures that underlying supply chain efficiency is improved, providing sustainability and often a reduction in inventory – the opposite of many unsuccessful availability programmes. But the biggest benefits are to the top line, as studies indicate that a one per cent improvement in availability potentially results in a 0.5 per cent increase in sales – not bad in these days of tight margins. ●

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