



White Paper

Improving On-Shelf Availability

It Matters More

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Improving On-Shelf Availability

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ABOUT THIS WHITE PAPER



Improving On-Shelf Availability (OSA) has been a key focus within the Fast Moving Consumer Goods (FMCG) industry for many years.

Despite this, out of stock levels on the shelf still remain persistently high, and in today's challenging economic environment it is even more critical than ever for retailers and manufacturers to ensure that every product a customer wants to buy is available every time he wants to buy it.

Over the past few years, SymphonyIRI has carried out a significant amount of work with its clients to provide solutions that will enable retailers and manufacturers to measure and improve On-Shelf Availability through turning daily retail and supply chain data into actionable information.

This work has established SymphonyIRI as the leading expert in the domain. It has added years of valuable insights to what is a challenging business area.

The purpose of this white paper is to share some of these insights and client experiences as a way to help you to think through your company's current situation and future aspirations within the context of On-Shelf Availability best practices.

WHAT IS ON-SHELF AVAILABILITY?

On-Shelf Availability is the measure of a product being available for sale to a shopper, in the place he expects it and at the time he wants to buy it. It typically covers three key stages:

- ❑ **Shelf Availability.** The item is not on the shelf. There may still be stock in the store, but it is hidden, in a different location or still in the backroom.
- ❑ **Store Availability.** The product is not available anywhere in the store. It may however be stocked in the distribution centre or en route to the store.
- ❑ **Warehouse Availability.** The product is not available to order, as there is no stock in the distribution centre.

To be able to improve On-Shelf Availability, it is essential to understand just what is being measured and how. FMCG organisations typically measure availability in one or more of the following ways:

- ❑ at the point of distribution, at the store (typically the back room), and/or at the shelf itself.
- ❑ different methods are used to establish the level of availability – physical audit, inventory data reports or point of sales data analysis.
- ❑ one or more different metrics are used, such as the number of instances of an out of stock over a period of time, the number of unit sales lost, or the value of the lost sales.

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However, if used in isolation, each of these measures provides only part of the picture.

More specifically, measuring availability at the point of distribution or at the store level does not tell you what the shopper is seeing.

Physical auditing of stores typically only covers a small sample, and is expensive to maintain long-term, and using inventory data alone again doesn't cover what the shopper sees at the shelf.

Finally, measuring frequency of lost sales, or the number of units, or the value in isolation doesn't enable the end user to pinpoint where the most effective action can be taken.

CURRENT SITUATION

With the current economic climate, dramatically changing consumer dynamics, and a wider choice of routes to purchase than ever before, shoppers expect much more today.

They have many options open to them to meet those needs and where they are not met, this can have a dramatic effect on their loyalty to a brand or a store.

A research study by Gruen and Corsten (Guide To Retail Out-Of-Stock Reduction, 2008) observed that studies conducted as far back as 1992 showed out of stocks on average across developed markets as being around 9%.

Nearly twenty years later, with many billions having been invested in efficient factories, state of the art distribution centres and the ability to track stock by the second and minute until it reaches its final destination, recent ECR Europe research shows the situation has not really changed.

- Out of stock levels across Europe are still averaging at 8.3%
- Promotional lines are likely to be twice the level of stock lines
- Out of stocks are costing the industry at least €4 billion a year
- 20% of all out of stocks remain unresolved for more than 3 days
- There is only a 4% chance of buying all 40 items on your shopping list

Source: ECR Europe

ECR Europe has also determined the reaction of a shopper when a product is not available on the shelf to be as follows:

- ❑ 31% buy the product they need, but elsewhere (different store or online)
- ❑ 26% buy a different brand
- ❑ 19% still buy the same brand, but a different variant/size/flavour
- ❑ 15% buy the product at a later date
- ❑ 9% buy nothing

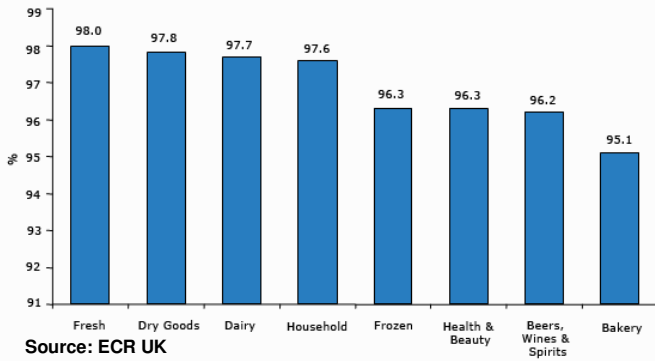
It should be noted that these figures are simply average benchmarks taken across all categories, and whilst some categories may have better figures than these, the actual results for a specific category can be significantly different.

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As an example of this volatility, the chart below shows the typical availability within the UK Grocery Market.

ECR UK Availability Survey - Product Availability by Category - One Year Moving Average



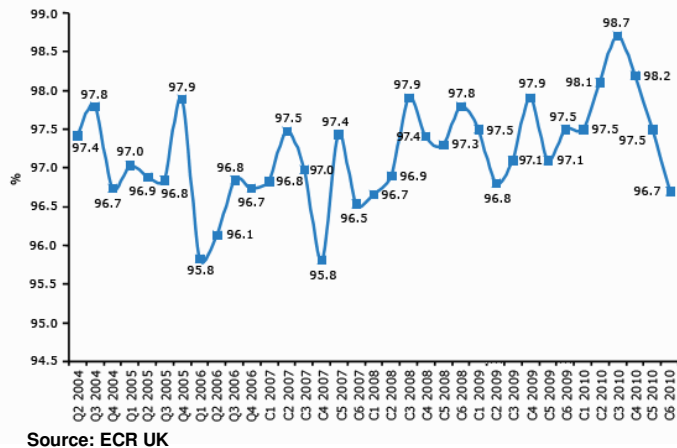
This shows that even in the best performing categories, 98% is the top level currently achieved.

However, as we can see, not all categories are achieving 2%, and even in those categories that do, the underlying information shows that this average figure can change dramatically.

Taking the second category, Dry Goods as an example, as shown below, whilst the rolling average availability for this category is 97.8%, the actual figures over time show a much different picture, with a high point of 98.7%, and a low of 95.8%.

Dry Goods

ECR UK Availability Survey - Dry Goods 2004-2010



Again, these figures are for all products in a very widely defined “super category” of Dry Goods, which will cover all ambient items from Cereals through to Hot Drinks through to Canned Goods. It also covers all stores, for a minimum of a two month period.

Our extensive experience with daily point of sales and supply chain data, and out of stock measurement shows large differences in On-Shelf Availability by individual category:

- Detergents - typical OSA of 95%, +/- 4%
- Food Products - typical OSA of 92%, +/- 7%
- Personal Care - typical OSA of 80%, +/- 17%

But also across other factor such as:

- Across different retailers, formats and fascia
- By the day of the week
- By the type of stock (full, partial, promotional)

When this analysis is taken down to an individual store, for an individual product, on a particular day, or even time of day, and compared against other products in the category, super category, or the whole store, the volatility is even greater in terms of peaks and troughs.

To add to the complexity, further research shows that the level of substitution between brands can reach as high as 75% in cases where the desired brand is not available on the shelf.

For instance, product/brand/variant substitution is lower on home care products (42%) than it is on fresh, or frozen products (63%). This is typically due to the urgency of the purchase and the shelf life of the products.

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Our research also shows that substitution of private label products (65%) is higher than that of branded items (53%). If shoppers are faced with repeated out of stocks at the same store, they are increasingly likely to migrate permanently from that store.

While the stakes are high for retailers in terms of postponed purchases and loyalty to the retail banner, manufacturers bear the most risk. In any case, reducing out of stocks is a win-win investment for both retailers and manufacturers to retain shoppers and support store / brand loyalty.

WHY IS THIS IMPORTANT?

The case for collaborative or independent action on out of stocks is clear.

For manufacturers,
a 3% increase in OSA
equal a 1% increase in sales

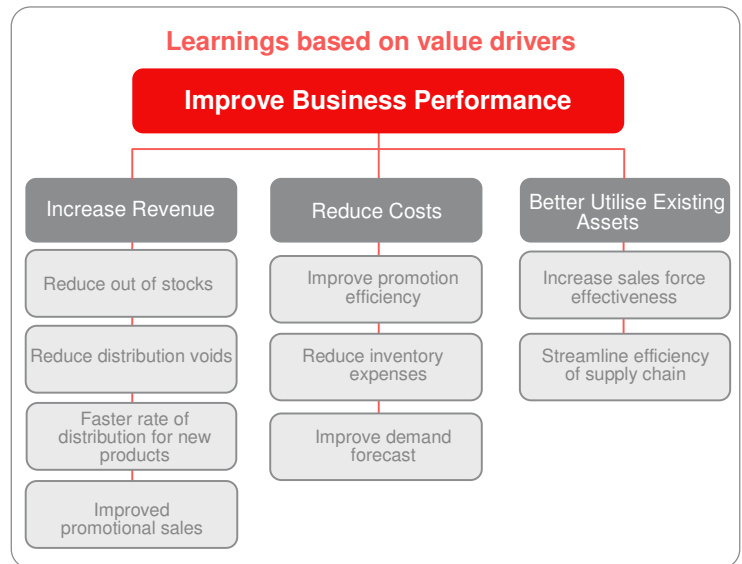
For retailers,
a 2% increase in OSA
equal a 1% increase in sales

Source: ECR Europe

SymphonyIRI's client experience shows that the use of daily data and On-Shelf Availability measures need to be aligned with key business value drivers.

Whether your initiative is highly focused within one business function or unit, or is more broadly based, best practice is to link project activities with measureable cost, revenue and cash flow objectives.

The diagram below summarises some of these value drivers and can serve as a framework for your own project.



Our experience shows that clients that focus on a number of key objectives have been able to generate the most important improvements in performance internally and with their retail customers.

SymphonyIRI has extensive experience in partnering with leading retailers and manufacturers in increasing On-Shelf Availability. Some examples of these types of projects are given below.

Reduce Out of Stocks

Even a basic approach to systematic measurement of out of stock levels and lost sales can yield significant tangible results.

For instance, when comparing test and control stores in one project we found that our client was able to reduce lost sales from out of stocks by two to three percentage points without significant changes to systems or existing business process.

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Sales Force Effectiveness

Field sales force teams armed with out of stock exception reports have become a strategic resource to department and store managers.

These targeted insights give field sales the ability to pinpoint and solve availability issues quickly and efficiently.

The schedule of store visits doesn't change, just the end result and the realisation that the manufacturer is equipped with resources to solve problems and improve store sales.

Reduce Distribution Voids

Distribution voids at store level can be pinpointed and quantified through the integration of point of sale and retailer ranging data.

This approach has enabled our clients to target stores where the product should be listed (based on the retailer agreements) but is not.

Our clients' experience is that delivering these insights on the basis of sell out data is usually more accurate and less expensive than traditional physical audits and has the additional advantage of easy integration with other data sources for a 360 degree view of retail execution.

Promotional Sales and Inventory Management

The effectiveness of promotions can be dramatically improved through the evaluation of previous promotional out of stock rates and tight management of inventory levels at depot and in store.

One of our clients has used this basic approach to reduce out of stocks and double promotional sales on their national promotions.

New Product Launches

With daily visibility into store sales, one of our clients is now able to track in-stock positions of newly launched products.

Based on extensive SymphonyIRI research in this area, we know that the best performing 10% of new products:

- ❑ Account for about 35% of total sales of all new products.
- ❑ Maintain superior distribution levels of around 70% (vs. 30% for the worst performers).
- ❑ Maintain price, outsell competitors and grow the range over time.

Using SymphonyIRI solutions, our client was able to turn around their performance on new product launches from worst to best in their division.

Improve Demand Forecast

Forecast accuracy and management of product availability in heavily promoted categories is a long standing challenge.

Best-in-class manufacturers are now rolling out processes and systems to automate forecasting based on retailer sell out data.

These demand-driven forecasts either replace or are reconciled with forecasts based on shipment history and in some cases are used to drive the retailer's order management process.

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COLLABORATION

Many causes of out of stocks are shared by both retailers and manufacturers, so a joint approach to improving performance is practical.

Studies by ECR Europe and numerous pilots have shown that collaboration, and tools to support a joint process, reduce out of stocks most effectively, for example:

- With retailer-manufacturer collaboration using software tools and systematic measures, out of stock projects delivered the best results – improving out of stock performance by 62%
- Projects without collaboration delivered still interesting, but lower improvements of 23%.

Our experience is that defining the extent of collaboration can be a significant challenge for out of stock initiatives due to the limited amount of time retailers have to devote to the issue.

In this case it is even more important for a manufacturer to offer solutions that are proven, operational and that can deliver insights and business benefits without much direct involvement by the retailer.

THE BARRIERS

There are still significant number of barriers in achieving these benefits.

In order to document these barriers, and be able to propose approaches to each one, ECR Europe, working with SymphonyIRI have created an On-Shelf Availability Assessment Tool.

This diagnostic tool offers a methodology to assess where your business is against current best practice in the FMCG industry.

This best practice has been drawn from the hands on experiences of leading retailers and manufacturers across Europe, as well as input from SymphonyIRI.

Welcome to the ECR Europe On-Shelf Availability Self Assessment tool



On-Shelf Availability has been on the agenda for the CPG industry for many years and there are numerous best practice guides, methodologies and tools to implement OSA programmes in companies. However, average out-of-stock rates across the industry have not improved over these last years. The 2008 global study by Gruen and Corsten shows that the current average out of stock rate is still 8.3%. However, in face of the economic slow-down, **OSA remains one of the main non-innovation-led growth engines for the industry.** Experience by leading companies has indicated that each time we improve OSA by 3%, we can deliver at the minimum an additional 1% growth.

This Diagnostic Self Assessment Tool contains what the industry believes are the key barriers that exist in addressing OSA. By using this tool and the associated case studies will enable you to take steps in your own organisation to overcome the last remaining barriers that exist to maximise OSA and improve consumer satisfaction.

Where this Assessment Tool suggests that you should collaborate with other companies, please make sure that in the context of collaboration with competing enterprises, the boundaries of antitrust law are fully observed, and in case of doubt, please obtain legal advice in this respect.

The information contained within this workbook has been compiled with contributions from supply chain practitioners and advisors in the following organisations:

Not only will the tool allow you to understand where your organisation currently sits, but will also provide information and case studies outlining how other organisations have overcome the barriers they found in improving On-Shelf Availability.

The creation of this tool has determined there are three key barriers to success:

- Business mindset
- Data availability
- Organisational structure

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Each of these barriers is covered in more detail below:

1. Business Mindset

The first step in improving On-Shelf Availability is ensuring that the value of any improvement has been identified, communicated and accepted by the whole business, and that the business case for action has been established.

Our experience is that an On-Shelf Availability initiative will typically involve the following stakeholders:

- Sales / Commercial Director
- Customer Development Team
- Retailer Merchandising, Category Management and Buying Organisation
- Supply Chain at Retailer and Manufacturer
- Retail Store Manager and Retail Operations
- Field Sales Force and Field Agency
- Information Technology

2. Data Availability

It is then essential to ensure that the relevant data is available, and manageable, and for all these stakeholders that the information is structured and flows directly to those individuals who need it, and is in a format that is useful to them.

3. Organisational Structure

This mindset and information then needs to be embedded into the everyday roles of the business as the value can only be captured if the appropriate actions are taken based on the information and insights.

THE SYMPHONYIRI APPROACH TO OVERCOMING THE BARRIERS

Retailers and manufacturers need new tools and methodologies to gain a clear understanding of their out of stock and inventory management issues and to enable them to prioritise the key actions for their business.

SymphonyIRI has assembled some examples of capabilities our clients have required for their On-Shelf Availability initiatives. Think of these as options on a menu to consider for your own project.

On-Shelf Availability Analytics

- Zero sales
- Full and partial out of stocks
- Out of stocks during promotional periods
- Out of stocks with cannibalisation
- Seasonality and traffic factors
- Lost sales value
- New product filtering
- Promotional product filtering

Exceptions Reporting

- Field sales exceptions reporting
- Regional sales exceptions reporting
- Supply chain exceptions reporting

Root Cause Capture and Analysis

- Integration of out of stock measures with FMCG/Retailer supply chain data
- Own and shared root causes
- Automated allocation of root causes
- On-line entry of root causes
- Integration with shelf planning software

Planning and Retailer Collaboration

- Demand-driven forecasting
- Store-level order recommendation
- Vendor managed inventory

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To be able to truly identify, understand and take appropriate action to improve On-Shelf Availability, we need to know which products are out of stock, in which stores, and be able to identify this fast enough so that the information is useful, not just interesting.

To do this, we need to know the On-Shelf Availability for every SKU, in every store, on a daily basis.

Whilst this approach has been considered in the past, the two key issues have been around the availability of the necessary data, and the solutions and technology required to firstly host, and secondly analysis the data in the time required.

These issues can be overcome as the availability of daily demand data increases. More FMCG companies, both retailers and manufacturers, than ever before have access to daily store sales data.

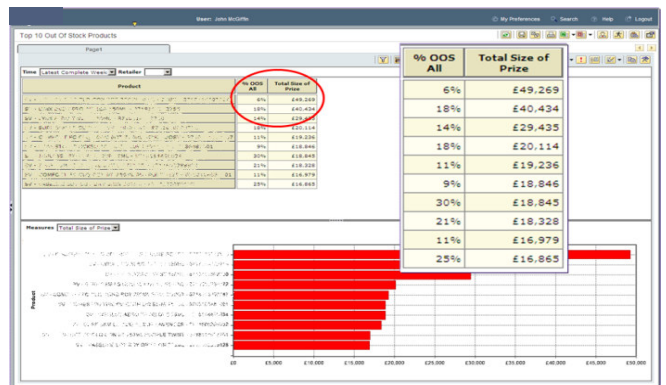
The investments in supply chain processes ensures the inventory data is available, and solutions, services and advanced analytics from partners like SymphonyIRI have been developed to automate and simplify the management of this data and deliver intuitive insights to the business quickly.

The key to effective management of out of stocks is identifying those products and stores that will provide the largest return. Pareto's Law certainly applies in this context, in that focusing on the top 20% of the offending items and stores will provide 80% (and often more) of the benefit.

Secondly, a simple analysis of daily, store specific point of sales data can provide accurate measures of the On-Shelf Availability situation.

This level of accuracy of this insight can be further refined by the inclusion of inventory data and validated through existing field based reporting and auditing.

The example below shows how measuring of a single metric may not provide the full picture.



In this exception report, the Top 10 out of stock lines for a retailer with 400 stores, over a particular week are displayed.

If only the actual number of instances were considered, the top out of stock product would be number seven, which was out of stock in 30% of stores. However, as this item was a lower value, slower moving item, it's Lost Sales Value was only £18,845, or £157.00 per store.

This should be compared with the top product, which, despite only being out of stock in 6% of all stocks, has a Lost Sales Value of £49,269 8211.5 or £2,052.00 per store.

This same approach can be taken to quickly and simply identify other rankings, such as the worst performing stores, all stores by a regional manager or field rep, or all stores serviced by a particular distribution centre.

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SUMMARY AND RECOMMENDATIONS

Every company takes its own journey to get to best in class levels. We have assembled the following recommendations that you can use in planning your own On-Shelf Availability initiative.

- ❑ Carry out an assessment of your own capabilities via the ECR Europe On-Shelf Availability Assessment Tool (<http://ecr-all.org>).
- ❑ Start small and expand to other customers, divisions and geographies as the business case supports it.
- ❑ Invest in getting the data in one place, cleaned, systematic and with reliable measures.
- ❑ Agree on a simple set of measures and communicate these across the business.
- ❑ Make your project operational and action oriented.
- ❑ Deliver insights for specific business users, not more data faster.
- ❑ Insights are good but insights that drive action will deliver sustainable business benefit.
- ❑ Invest time to get your process right.
- ❑ Keep the process simple for your own organisation.

Overall, On-Shelf Availability remains a vexing issue for both retailers and manufacturers, but in a relentlessly competitive battle for each shopper's spend, the rationale for attacking out of stocks has become even more compelling.

Based on available data, systems and know-how from partners like SymphonyIRI, industry leaders are moving forward with their initiatives aimed at resolving many of the challenges OSA raises.

Adoption of best practices in the field is expanding across regions as FMCG retailers and manufacturers are encouraged by their own results and proof points from other leading companies.

There are many challenges along the way but with a step-wise approach based on a solid business case and support from key stakeholders, any manufacturer can get started today, build momentum and make continuous improvement in On-Shelf Availability part of day-to-day business.

About SymphonyIRI Group

SymphonyIRI Group, formerly named Information Resources, Inc. ("IRI"), is the global leader in innovative solutions and services for driving revenue and profit growth in FMCG, retail and healthcare companies. SymphonyIRI offers two families of solutions: Core IRI solutions for market measurement and Symphony Advantage solutions for enabling new growth opportunities in marketing, sales, shopper marketing and category management. SymphonyIRI solutions uniquely combine content, analytics and technology to deliver maximum impact. SymphonyIRI helps companies create, plan and execute forward-looking, shopper-centric strategies across every level of the organization. For more information, visit www.SymphonyIRI.eu

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