

Article

The Nightmare on Inventory Street

How Out-of-Stocks Hurt Your Business and How to Overcome the Issue



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GETTING IT RIGHT

C3 Solutions

If you are in the business of selling physical products to customers, not being able to fulfill demand means your business is failing. It's a stark reality and one that is particularly frightening in today's omnichannel e-commerce environment.

For companies in the grocery and food sectors, an out-of-stock (OOS) situation means customers will go elsewhere to shop; and 'elsewhere' means the competition gets the sale. With the thin margins that grocery operates on, every customer counts. It's hard to quantify the annoyance customers feel when their regular grocer fails to provide items they normally buy every week, but it frequently means they will leave to shop elsewhere.^[1]

And when they are shopping online it's even easier for the consumer to jump ship. A couple of clicks and they've moved on to the next website or mobile app, placing the order with the competitor who has the items the customer wanted.

If any of this sounds like an issue your business is facing, read on to learn some of the real-world effects of out-of-stocks for grocers and some of the ways you can reduce risk and keep those shelves full.



Why you should be afraid

Shoppers place product availability in their top three factors for deciding where to shop.^[2]

But with the consumer goods out-of-stock rate now averaging around eight percent, and promotional out-of-stocks at closer to 10 percent^[3] retailers are not hitting this target very well.

And when a customer can't find what they're looking for stores typically get three chances – the first time the customer will pick a substitute product, the second time they are equally likely to pick a substitute, make no purchase, or go to another store, and the third time it happens 70 percent of shoppers will buy the item elsewhere.^[4]

A 2012 study showed that these OOS situations can cost a supermarket five percent in sales.^[5]

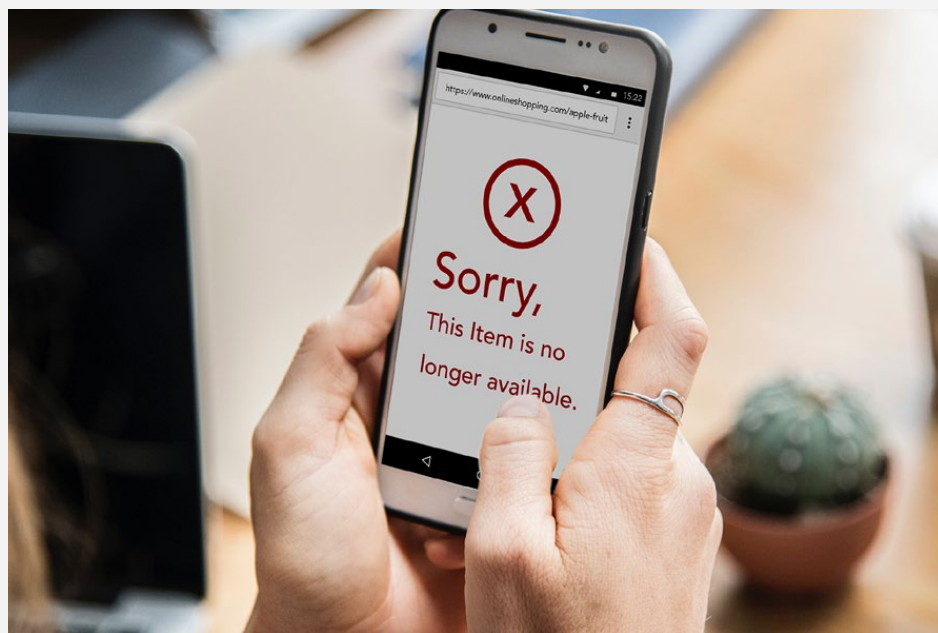


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Add e-commerce into the mix, and suddenly you are dealing with a new layer of consumer expectation and complexity. Expectations are being driven by Amazon (and its Whole Foods subsidiary), which is setting an impossibly high bar of convenience for consumers, with same-day deliveries for urban customers becoming the benchmark. Complexity is compounded by omnichannel solutions that mix inventories from store shelves and fulfillment centers. This makes it increasingly challenging to know whether an item shown as in stock to an online customer will actually be on the shelf when a picker comes through the store to fill a click-and-collect order.

Shopping cart abandonment is a statistic online retailers watch carefully. According to first quarter 2018 data, almost 76 percent of online retail carts are abandoned by shoppers before checkout.^[6] And almost a third (31 percent) of carts are left behind because the item sought is unavailable.^[7]

For online-only stores, the OOS rate is 15 percent, and out-of-stocks have an estimated annual cost to the consumer goods industry of about US\$22 billion.^[8]



Doing it wrong

Canada's largest supermarket chain, Loblaw, learned the hard way what happens when out-of-stocks get out of control. In 2006 the grocer had a serious customer service problem: their store shelves were empty. Would-be shoppers could wander the aisles and find shelf after shelf labeled with a yellow no-inventory tag.

It was as though the company's supply chain had simply stopped. Loblaw lost customers, sales and profits. Suppliers were not being paid, and order-management was in disarray. One supplier reported waiting three or four months to deliver an order because a warehouse was so backed up, while at the same time store shelves sat empty.^[9]

This mess cost the company tens of millions of dollars and set it back at least a year. Stock prices jettisoned 18 percent in a matter of 12 months.^[10]

As a result, both the president and the chair of the board stepped down.^[11]



Avoiding grocery gore

While the Loblaw case was severe, the company has since recovered and dramatically improved its supply chain operations as well as restoring its brand image as a retailer that shoppers rely on. Part of the reason for its success has been the careful implementation of numerous information technology tools that manage inventory and improve visibility, as well as controlling the transportation link of the supply chain.

According to the FMI/GMA Trading Alliance, five root causes are to blame for out-of-stocks, ranging from poor in-store execution, ordering and fulfillment, forecasting, manufacturing and category management and merchandising.^[12] For Loblaw, fragmentation of the network, legacy systems that didn't talk to one another, and warehousing that was focused on storage rather than flow were all swapped out for systems that are integrated and communicate to **eliminate data silos and provide visibility** into inventory location.^[13]

Many grocers are pursuing similar strategies today in order to manage their omnichannel operations in response to the **Amazon effect**.

Simply put, retailers need to have product available where and when customers want it. And that means using tools to predict demand, manage order flow and ensure that inventory is in place in stores and in fulfillment centers when it's needed.

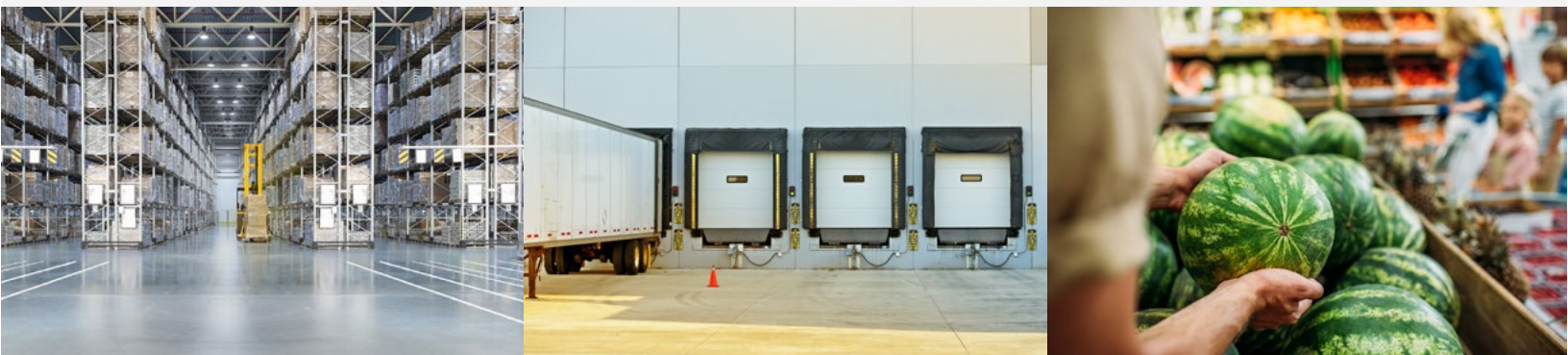


The horror of empty shelves

For this article we are going to look at the rise of an old technique—vendor-managed inventory – that is gaining new life in the omnichannel space as "order-to-shelf".^[14]

Modeled on the famed Toyota Production System (TPS) and also known as Just-in-Time in the manufacturing world, retailers are using it to manage faster turns and omnichannel demand by bypassing the distribution center and having suppliers deliver smaller quantities right to the retail location.

The objective is for the retailer to pass on costs of handling and storing product to the supplier, all the while keeping shelves stocked. But it doesn't always work as planned. Notably, even Amazon's Whole Foods experienced out-of-stocks across its network shortly after implementing an order-to-shelf system.^[15]



Handing off inventory control to a supplier is inherently risky for the retailer, with stock-outs being the primary ill effect. However, suppliers also run the risk of reputational damage when retailers are short of their brand name products. Both parties have a lot at stake in getting it right.

So how do grocers and their suppliers make this work? To properly execute order-to-shelf strategies, communication and transparency between the retailer and supplier are critical. Deliveries are now being made at a store level, in smaller quantities, and with greater frequency. The data that is shared between the partners must be transmitted cleanly, clearly and in a timely fashion.



Wake up from the nightmare

Along with sophisticated demand prediction tools that use algorithms to make predictions based on the reams of data now available across the retail supply chain, successful retailers are also looking at the places where they can apply practical real-world tools to ensure seamless inventory control.

You don't want to end up with a nightmare situation where a supplier can't deliver an order because the DC is too backed up. It comes down to fundamentals like managing the flow of goods through your facilities, by implementing smart systems to control activity in your yard and at your dock doors.

Dock scheduling systems are the glue that holds the entire operation together. Using our cloud-based technology, you can manage the arrival and departure of vendors' shipments at all of your retail locations.

Retail locations don't typically have the luxury of multiple dock doors to receive the numerous smaller orders that an order-to-shelf system requires. This increases the degree of complexity and the importance of making and keeping an appointment schedule for inbound trucks.

It's a big job for the retail store management to keep track of inbound orders, have the dock free and staff on hand to unload the trucks at the right time. Asking them to do this manually is just asking for trouble. Papers get lost, people make little errors and spreadsheets get messed up inadvertently all the time. As soon as one truck gets delayed waiting to unload, it starts a cascade and then the out-of-stocks start to happen.

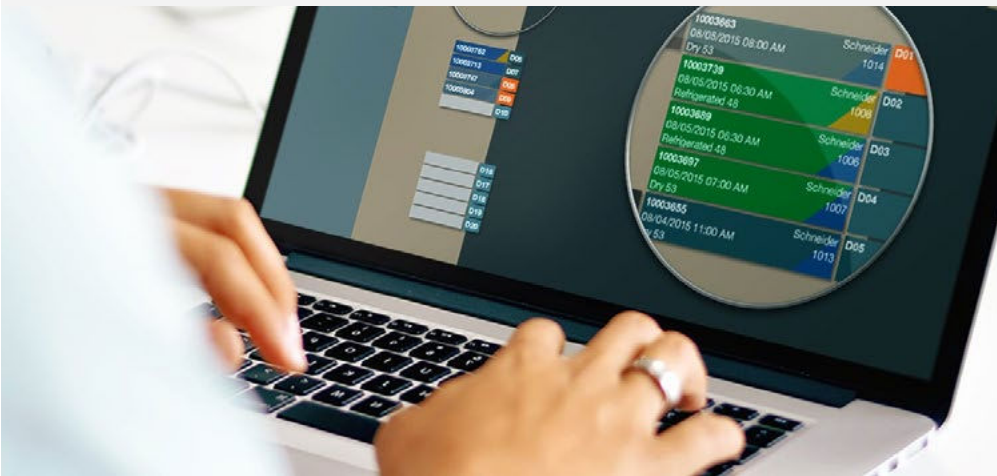
Time Slot	Delivery ID	Company Name	Units/Pallets
06:00 AM	10000156	10000184	102 Units 30/35 Pallets
	294666 Delivery Conway Campbell's	294666 Delivery FedEx Freight ConAgra	
07:00 AM	10000172	10000180	210 Units 51/75 Pallets
	294666 Delivery JB Hunt The ChocMite...	294666 Delivery Mom & Pops Tru... Best Foods	
08:00 AM	10000208	10000198	61 Units 39/80 Pallets
	294666 Delivery Conway Campbell's	294666 Delivery Schneider Dewalt	
09:00 AM	10000222	10000238	208 Units 30/80 Pallets
	294666 Delivery Conway Basic Products	294666 Delivery Conway Apex Supply	
	10002940	294666 Delivery Coca-Cola Refr...	
10:00 AM	10000255	10000293	194 Units 14/100 Pallets
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But with a [scheduling system](#) in place, vendors can make their own dock reservations automatically. Your staff will spend their time on more productive tasks than taking calls and trying to juggle appointments manually. Labor on the receiving docks will be better utilized. Orders will be tracked from door to door, enabling better visibility and planning.



Sweet dreams are made of this

As we have seen, out-of-stocks mean immediate lost revenues as customers are forced to either substitute, not buy or go to a competitor. That five percent loss will hurt your bottom line. And when they find stock-outs are a regular occurrence you'll lose even the most loyal customer.

We know it's not easy to forecast demand, especially when you are trying to predict orders coming in from e-commerce alongside in-store walk-in traffic. There is a huge premium on getting it right in the era of omnichannel e-commerce. Customers are unforgiving and very demanding. You don't get a lot of chances to get it right these days.

But when you do, the rewards are huge.

- ★ Customers buy what they want when they want it
- ★ Vendors know that they can trust your stores to be ready to receive them when they arrive
- ★ Upstream staff knows the vendors will be happy and keep supplying your stores
- ★ You can count on your own inbound loads to receive the same timely and accurate scheduling service that applies to every inbound truck



Article Scheduling is not a detail, it's a key operational advantage in today's fast-moving, on-demand market. Having control over the movement and timing of loads into your retail stores means you can manage the out-of-stock risk and keep store shelves stocked.

At C3 Solutions we think it's worth being proactive and providing yourself with tools that will give you a leg up over the competition. Being the retailer that's known for being organized at the docks, keeping commitments and being easy to work with is no pipe dream. It's a sweet, achievable dream, and one that will keep the Nightmare on Inventory Street at bay.

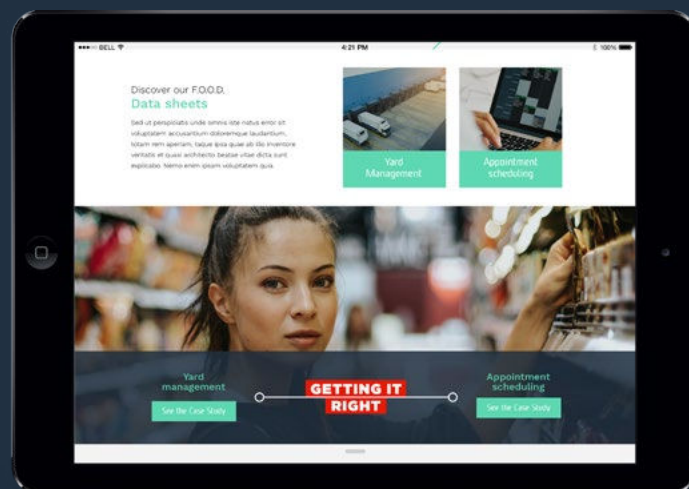


Looking to learn more about
how others are


GETTING IT RIGHT ?

To see how others have successfully leveraged yard and dock
management technology to smooth out the grocery
supply chain, discover C3's F.O.O.D. Program.

Empowering the Grocery Industry with
Automated Yard Management and Appointment Scheduling



Visit the F.O.O.D. Program



C3 Solutions is an information technology company specialized in yard management (YMS) and dock scheduling (DSS) systems.

Since its founding in 2000, C3 has gained the confidence of clients around the world and across many industries including retail, grocery, distribution, manufacturing and parcel post.

Headquartered in Montreal (QC), Canada and privately owned, C3 is dedicated to developing, implementing and supporting the most complete yard management and dock scheduling products on the market today.

For more information,
visit www.c3solutions.com

Get in touch

1751 Richardson
Suite 4408
Montreal, QC H3K 1G6

514.315.3139
sales@c3solutions.com



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