



IMPROVING ON SHELF AVAILABILITY WITH EFFECTIVE DATA SOURCES AND SOLUTIONS

By: Andrew Mitchell, Sales Director, European Technology Services Group

IRI UK
Eagle House, The Ring
Bracknell, RG12 1HS
TEL: +44 1344 746000
FAX: +44 1344 746001



IMPROVING ON SHELF AVAILABILITY WITH EFFECTIVE DATA SOURCES AND SOLUTIONS

BACKGROUND

Out of stock levels in grocery retail remain persistently high and in today's challenging economic environment it is even more critical than ever for retailers and manufacturers to manage their working capital effectively, to ensure that core products are available and to make sure that they don't carry too much inventory.

For many years IRI has worked closely with leading FMCG manufacturers and retailers to measure and improve On Shelf Availability with daily data, analytics and studies. This work has established IRI as an expert in the domain and 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. Proven step-wise approaches exist today that can help you make improvements straightaway.

Proven step-wise approaches
exist today that can help you
make improvements
straightaway.



IMPROVING ON SHELF AVAILABILITY WITH EFFECTIVE DATA SOURCES AND SOLUTIONS

THE BUSINESS CONTEXT

Recently retailers have adopted a back-to-basics approach with regard to product availability and meeting their customers' needs. Part of this new approach has involved increased sharing of retailer data. More FMCGs than ever before have access to daily store sales data from their most important retail customers, whether through one-to-one agreements, category management programs or from panellists like IRI. Solutions, services and advanced analytics from partners like IRI have been developed to simplify the management of this data and deliver intuitive insights to the business quickly.

In today's challenging economic environment, the business case for On Shelf Availability initiatives and improved retail execution is even greater for both Retailers and FMCGs. For instance, IRI interviews with tens of thousands of shoppers shows that when a product is not available on the retail shelf, shoppers behave as follows:

- > 56% of shoppers would substitute another product in the same store.
- > 31% would buy the same product at another time in the same store.
- > 13% would buy the same product in a different store.

These results depend on the category and the retail environment. For instance substitution is lower on home care products (42%) than on fresh and frozen products (63%) due to urgency of the purchase and shelf life of the products. Our research shows also that retailers should be concerned about availability due to higher levels of substitution on private label products (65%) vs. that of national brands (53%). It has also been shown that when shoppers are faced with repeat out of stocks at the same store, they are increasingly likely to migrate permanently from that store, resulting in increased lost sales for the retailer.

While the stakes are high for retailers in terms of postponed purchases and loyalty to the retail banner, FMCGs bear the most risk. Extensive IRI research on the topic shows that the level of substitution between brands can reach as high as 75% in case the desired brand is not available on the shelf. In any case, reducing out of stocks is a win-win investment for both retailers and FMCGs to retain shoppers and support store / brand loyalty.

Recently retailers have adopted a back-to-basics approach with regard to **product availability and meeting their customers' needs.**



IMPROVING ON SHELF AVAILABILITY WITH EFFECTIVE DATA SOURCES AND SOLUTIONS

THE RETAILERS' PERSPECTIVE

1. Why is Out of Stocks such an important area for retailers?

There is mounting evidence that the OOS problem is one that may impact retailers to a much greater extent than thought before. Recent studies in the US indicate that:

- > 9% of retail customers have stopped shopping at one or more retailers in the last 12 months due to on shelf availability problems.
- > Shoppers leave stores not purchasing at least one item they planned to buy - or a substitute item - more than 16% of the time. That is one out of every six shopping trips!
- > Even amongst the best-in-class performing retailers, almost 15% of their shoppers experience out of stocks on at least one item, and more than 22% of shoppers experience an out of stock at the worst performing retailers.

2. Why is collaboration so important?

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

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

- > With retailer-FMCG 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 retailer-FMCG 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 an FMCG to offer solutions that are proven, operational and that can deliver insights and

business benefits without much direct involvement by the retailer

*ECR UK (Efficient Consumer Response) develops best practice and is managed by the IGD.

3. Category Differences

ECR, Grocery Manufacturers of America (GMA) and other private and industry studies have shown that certain categories perform better on out of stocks than others with important implications for retailer-FMCG collaboration.

- > Detergents with 95% availability: +/- 4% depending on supplier and retailer.
- > Food with 92% availability: +/- 7% depending on supplier and retailer.
- > Personal care with 80% availability: +/- 17% depending on supplier and retailer.

IRI's own extensive experience with daily data and out of stock measurement shows large differences in OOS performance by category as well as:

- > Across retail formats
- > By day of week
- > By type of out of stock (full, partial, during promotional periods).



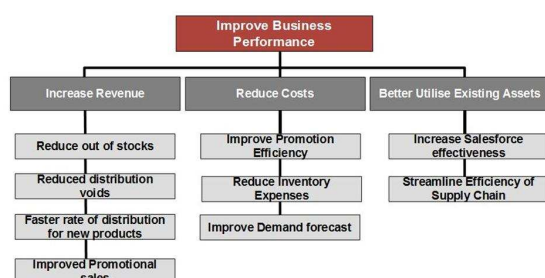
IMPROVING ON SHELF AVAILABILITY WITH EFFECTIVE DATA SOURCES AND SOLUTIONS

DRIVING BUSINESS VALUE – NOW AND IN THE FUTURE

So data is widely available, basic and advanced solutions exist and the case for collaborative or independent action on out of stocks is clear. What next?

IRI's client experience shows that the use of daily data and OOS 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 measurable 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.

Learnings based on value drivers



Our experience shows that clients that focus on a limited number of key objectives have been able to generate the most important improvements in performance internally and with their retail customers. Some examples from client projects follow below:

i. 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 FMCG client was able to reduce lost sales from out of stocks by 2 to 3 percentage points without significant changes to systems or existing business process. The benefits

arose mostly from systematic measurement and awareness of out of stock issues.

ii. Salesforce Effectiveness

Field salesforce teams armed with out of stock exceptions 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 FMCG is equipped with resources to solve problems and improve store sales.

iii. New Product Launches

With daily visibility into store sales, one of our FMCG clients is now able to track in-stock positions of newly launched products. Based on extensive IRI 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 IRI solutions, our client was able to turn around their performance on new product launches from worst to best in their Division.



IMPROVING ON SHELF AVAILABILITY WITH EFFECTIVE DATA SOURCES AND SOLUTIONS

iv. Reduce Distribution Voids

Distribution voids at store level can be pinpointed and quantified through the integration of ePOS and retailer ranging data. This approach has enabled our FMCG 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.

v. Improve 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.

vi. Improve Demand Forecast

Forecast accuracy and management of product availability in heavily promoted categories is a long-standing challenge. Best-in-class FMCGs 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. IRI research shows that FMCGs using this approach are achieving availability levels far superior than their branded competitors, and at par with the retailer's private label products in their categories.

Getting buy-in to all elements of the project from key stakeholders is critical. Our experience is that an on shelf availability initiative will typically involve the following stakeholders:

- > Sales Director
- > Customer Development Team
- > Retailer Merchandising, Category Management or Buying organisation
- > Supply Chain teams at the Retailer and Manufacturer
- > Retail Store Manager
- > Field Sales Force and Field Agency
- > Information Technology

The key across these stakeholder is to ensure that the information is structured and flows directly to those individuals who need it. It then needs to be embedded into their everyday roles as the value can only be captured if the appropriate actions are taken based on the information and insights.



IMPROVING ON SHELF AVAILABILITY WITH EFFECTIVE DATA SOURCES AND SOLUTIONS

KEY CHALLENGES

The opportunities are clear and many leading FMCGs have paved the path, as explained in the previous examples. Of course there are some typical challenges to be overcome along the way, some of which are summarised below:

1. **Data** – Manufacturers are sinking in data and often have difficulty managing daily data feeds coming in multiple formats from many different retail customers. Each account team has its own ad hoc or more systematic way of using the data and often no common approach is embraced. Getting the right data and creating a simple yet effective infrastructure to manage it on a daily data is a basic hurdle to overcome.
2. **Collaboration** - Some retailers see daily data as too valuable to share or sell to FMCGs, or are not able to devote significant time to work through availability issues with even their largest suppliers. A clear value proposition for the retailer, a step-by-step process and proven solutions will be critical to get the retailer's commitment to your project.
3. **Simplicity** - Using daily data in a systematic way requires an investment of time and money but also may require change - like new reports or additional steps in a sales process – that some FMCGs find difficult to communicate to their business. IT-driven approaches often don't deliver insights the business can use easily. Our experience is that successful projects minimise the impact on day to day business by keeping insights simple, targeted to users and relevant to the business.
4. **Change** – An initiative to improve on shelf availability will most likely require someone in your organisation to change the way they do their job. Prepare your sponsors and stakeholders for change early on even if you do not have a clear idea at the beginning what the extent of the change will be. For instance, new measures and dashboards, daily or on-line access, new performance measures for sales teams, etc.
5. **Investment** – An initiative to improve on shelf availability will require investment of time and money. The important thing here, as with all the points above is to take a step-wise approach and lay out all the requirements and a solid business case for your management team and stakeholders. Do this as early as possible to understand potential objections and to build consensus for your project.



IMPROVING ON SHELF AVAILABILITY WITH EFFECTIVE DATA SOURCES AND SOLUTIONS

KEY CAPABILITIES

FMCGs and Retailers 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. We've 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.

OOS Analytics and measurement

- > Zero sales
- > Full and partial OOS
- > OOS during promotional periods
- > OOS 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

OOS Root Cause Capture & Analysis

- > Integration of OOS measures and 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

The below chart provides our point of view on how the capabilities above can be assembled for in a “Good, Better, and Best” framework. There is no single formula or “correct” combination of capabilities for your company. The important thing is to define the right capabilities based on what your situation is today, where you need to be and how quickly you think you can get your team and customer(s) there.

IRI On Shelf Availability Best Practices Matrix

	Good	Better	Best
Data Type	Field Audit	Store Sales	Store Sales, Stock & Orders
Frequency	Daily/Monthly	Daily/Weekly	Daily/Daily
Coverage	Sample of Stores	All Stores	All Stores & Distribution Centers
Measurement	Zero Sales	Baseline/Normal Sales Lost sales value	Full & Partial Out of Stocks, Promo/Non-Promo, Seasonality, Store Traffic, Cannibalisation, Lost Sales Value
Functional Scope	Sales	Sales, Supply Chain, Customer Development	Sales Supply Chain, Customer Development, Market Research
Geographic Scope	Country	Region	Global
Customer Scope	1 Customer	Largest Customers	All Customers with Daily Data
Origin & Root Cause	Store Visit	Manual Check of SCM	Automated
Integration	External Data	Internal & External Data	Internal, External and Systems
Solution	Spreadsheets & Scorecards	Legacy Tools	Enterprise Platform
Collaboration	None	Manual	On-Line
Process	Ad Hoc	Exceptions, Silo	Integrated with Sales, Supply Chain & Customer Development



IMPROVING ON SHELF AVAILABILITY WITH EFFECTIVE DATA SOURCES AND SOLUTIONS

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:

- > 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.
- > Make the process even more simple for your retail customers.

Overall, out of stocks remain a vexing issue for both retailers and their FMCG suppliers, 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 IRI, industry leaders are moving forward with their initiatives. Adoption of best-practices in the field is expanding across regions as FMCGs are encouraged by their own results and proof points from other FMCGs, 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 FMCG can get started today, build momentum and make the continuous improvement in On Shelf Availability part of day-to-day business.

About IRI

IRI is the world's leading provider of consumer, shopper, and retail market intelligence and insights supporting 95 percent of the FORTUNE Global 500 consumer packaged goods (CPG), retail and healthcare companies. Only IRI offers the unique combination of integrated market information, automated and predictive analytics, innovative enabling technologies, and domain expertise. With IRI, leading retailers and manufacturers are able to quickly discover breakthrough insights driving smarter decisions and actions across the enterprise for breakthrough results. Companies around the world depend on IRI for improved productivity, stronger brands, and dramatic revenue growth. For more information, visit www.infores.co.uk.

IRI UK
Eagle House, The Ring
Bracknell, RG12 1HS
TEL: +44 1344 746000
FAX: +44 1344 746001

