Visible Touch

Technology is helping grocers get a better handle on out-of-stocks at the store level.

By Jenny McTaggart

When two of the world's top retailers make significant changes in their operations to combat out-of-stocks (OOS), you know it's a big problem. Both Walmart and Target have made recent news headlines because they're cutting down on product assortment as just one potential antidote.

Moreover, at Minneapolis-based Target, former finance chief John Mulligan was moved to the post of COO to help with out-of-stocks and other supply chain issues. Since then, the retail chain has reportedly planned to tighten deadlines on deliveries to its warehouses and initiate other penalties for late or inaccurate orders.

While these grand efforts underscore the fact that out-of-stocks are a huge problem for the industry — the latest estimate places the out-of-stock rate at 8 percent on average — several experts in the technology arena think that the most effective solution is actually much simpler. They're encouraging retailers to take another look at their individual stores — more specifically, the potential of store-level inventory visibility.

Jeff Kennedy, president of West Des Moines, Iowa-based Itasca Retail Information Systems, has dedicated a lot of time to studying out-of-stocks. He was on board in the early 2000s, when Schenectady, N.Y.-based Price Chopper worked with Itasca to make its CAO (computer-automated ordering) system more comprehensive. The new tool was able to bring out-of-stock rates down to 1.5 percent to 2.5 percent across all center store categories and to about half of its perishables, according to *Retail Info Systems News* in 2008. Today, Itasca is working with Sobeys, Wegmans Food Markets and other retailers across North America to address out-of-stocks.

"We estimate that at least three-fourths of current out-of-stocks are caused by a frustrating combination of antiquated ordering systems plus inadequate shelf-management processes," Kennedy tells *Progressive Grocer.*

"The grocery industry has been slow at adopting perpetual-inventory systems, which enable automated replenishment and its associated OOS reduction, based on past perceptions that it's difficult to implement, labor-intensive and/or requires too much store discipline to be effective," he adds. "We've been able to prove that this is a myth in 100 percent of our implementations."

In fact, Kennedy says Itasca's solutions have solved out-of-stocks and inventory issues at store level while being labor-neutral. "Approaches that don't include the store fail, because there's no benefit to the store," he maintains. "We provide an at-store solution. We employ the store personnel as our eyes and ears to let us know what's going on. Any system will work great if the information is good. And the only way to know if the information is good is to have it validated. In many cases, it has to be done by a human being."

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Itasca's system still provides auto-replenishment, however. "We don't envision store personnel actually writing the orders, but we do see them helping maintain the inventory," notes Kennedy.

"The reason why we take a store approach is that we think perhaps getting that big number — the number that's required for the manufacturer to supply the retailer — is one thing, but getting all the little numbers — in other words, if you're a 100-store retailer, all those stores with the right amount of product — is more difficult," he adds. "So there might be adequate inventory, [but] it just might not be in the right location."

Itasca's solutions are tailored specifically to the North American grocery industry, which has unique challenges such as a large variety of product sourcing and an emphasis on promotions, he notes.

In one of Itasca's most recent implementations, Rochester, N.Y.-based Wegmans is in the process of bringing the Itasca Magic Inventory Management Solution to all 88 of its stores and in most major departments. Future phases will extend the solution to the general merchandise, health and

beauty care, direct-store-delivered, and perishables categories — in addition to the grocery, frozen, and dairy categories it has rolled out to chain-wide over the past year.

"We are already better at ordering accuracy, staying in stock and reduced overall store inventories," said Jack DePeters, Wegmans' SVP of store operations, in January.

Right Inventory, Right Time

Over at Dayton, Ohio-based Teradata, store-/SKU-based forecasting is the name of the game for dealing with out-of-stocks. Tim JW Simmons, general sales manager, North America, demand chain solutions and services at the company, notes, "The key factors causing out-of-stocks are using promotion estimates that aren't based on individual store demand and need; having new item forecasts that are based on averages, with limited focus on individual location; and having a one-size-fits-all service-level strategy."

Teradata's solutions more accurately forecast promotion and event demand, and also incorporate seasonality, trend and new-item data into their analytics, he says.

One national food retailer that recently implemented Teradata's demand-driven forecasting and replenishment approach "significantly improved its ability to determine the right inventory, at the right place, in the right quantity, and at the right time across the chain," according to Simmons. The retailer now provides its stores with automated demand forecasts and suggested order quantities.

While North America certainly has its own distinct challenges contributing to out-of-stocks, at least one global retailer is learning some lessons that might also apply in the States. Slovenian retailer Mercator operates supermarkets, convenience stores and online operations, yet at one time, its IT systems weren't fully integrated and didn't adequately support its business needs.

Specifically, its ordering and replenishment systems were working in silos, and product information wasn't held centrally or at the shelf. Palo Alto, Calif.-based Symphony EYC was able to use its Symphony GOLD technology to help the company turn its operations around and significantly lower its out-of-stocks, according to Donal Mac Daid, VP of marketing supply chain for Symphony GOLD.

"Mercator operates with two huge systems: the supply chain management system, and the merchandising and category management system," notes Mac Daid. "The first stage of the improvement program was to synchronize these systems together and integrate the business processes so the store replenishment system would be driven by live sales and inventory data. To achieve this, Mercator deployed Symphony GOLD Assortment Planning and Store Execution."

The IT system allowed Mercator to access data at numerous points in the supply chain, including at the shelf, according to Mac Daid. Inventory levels across the supply chain could now be monitored in real time, and orders were placed automatically to suppliers, reducing the risk of out-of-stocks.

So far, Mercator has rolled out the Symphony GOLD system to 483 stores in Slovenia: 22 hypermarkets, 61 supermarkets and 400 convenience stores.

Amazon's Always in Stock

Mac Daid believes that in the U.S. market as well, the frequency of inventory updates around both sales and inventory needs to increase. "Like all retailers, U.S. supermarkets need to move faster," he says. "It used to be that grocery chains kept, on average, 28 days of stock on hand; now it's seven days. With less days of inventory, they need more support from their IT systems."

At least one U.S.-based retailer can claim to have no out-of-stocks, namely, Seattle-based Amazon, notes Mac Daid. "With Amazon as the default standard for online delivery, retailers need to address their out-of-stock issues or risk going out of business," he warns. "Today's shoppers will go elsewhere if the retailer doesn't have what they want."

Itasca's Kennedy echoes his concerns, noting that SKU reduction as a strategy to deal with out-of-stocks may be a bad idea, when you consider the growth of online retailing. "That's the wrong move," he says. "I think that's a move toward limiting your appeal to the consumer. In a day in which brick-and-mortar stores need to compete against online operations, dropping variety is not the best strategy."

He adds: "We take a more direct approach to the elimination of OOS, which is [to] go to the root cause — which is generally poor store orders. If we can eliminate poor orders, then we can eliminate out-of-stocks." **PG**

Lessons Learned

A year ago, the Food Marketing Institute/Grocery Manufacturers Association Trading Partner Alliance shed new light on the problem of out-of-stocks in an eye-opening report, "Solving the Out of Stock Problem."

Since that time, the third phase of the alliance's journey to bring on-shelf availability to 98 percent has continued, and the team has validated several of its white paper recommendations via retailer-manufacturer learning pilots.

Daniel Triot, senior director of the FMI/GMA Trading Partner Alliance, shared those findings with *Progressive Grocer*. Among them:

1) Collaborative Planning: Event forecast plans using one demand signal in support of market-driven events can deliver higher on-shelf availability (OSA) and customer satisfaction, while improving sales and reducing excess inventories.

2) Leveraging Metrics, Process and Technologies: Various out-of-stock metrics currently exist, leading to multiple views of the "shopper's reality," and confusing leaders and decision-makers upstream from store operations. Leveraging metrics and technologies to better understand the location, quantity and accuracy of promoted/nonpromoted products at the SKU-store-shelf level, determining root causes of OSA failures, and prioritized plans are key to improving OSA.

Meanwhile, as part of its mission to provide education and practical tools for industry use, the alliance has collaborated with the Wake Forest University Center for Retail Innovation to develop two OSA tools. The first is a Root Causes or Ishikawa Diagram that highlights the leading causes of OSA failures across five retail functional domains: store execution, ordering and execution, forecasting, manufacturing, and category management and merchandising. The second tool provides "best practices solutions" to address OSA for the five functional areas. Both tools are scheduled to be online by June 30 at www.fmi.org/industry-topics/supply-chain.

"Last but not least, acceptance and adoption of a common on-shelf availability definition should remain a critical industry objective to improve on-shelf availability," Triot tells *PG*. "The Trading Partner Alliance supports the industry efforts to move, at a minimum, to a common definition of 'zero on hand,' which is the number of instances when an authorized item's perpetual inventory falls to zero or below for that item, regardless of where it is located in the store."

Triot notes that the Trading Partner Alliance now has a dedicated email address for questions related to OSA: osateam@gmaonline.org.