

Just How Big is the Out-of-Stock Problem in Retail?

It's Worse than the Retail Industry Thinks, According to New Study from IHL Group; New Fodder for RFID? Beyond Just Consumer Packaged Goods

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The consumer goods to retail supply chain has been battling the out-of-stock problem for decades, with various initiatives from Efficient Consumer Response to CPFR to RFID all basically tackling the same problem, which does not seem to ever get a whole lot better. (See [Supply Chain Graphic of the Week - Two Decades of Consumer Goods-to-Retail Supply Chain Improvement Programs](#).)

But is the problem even larger than many have come to believe?

Yes, according to a new report from the researchers at [IHL Group](#) (Franklin, TN).

In its new report, **What's the Deal With Out-of-Stocks?** (which must be purchased), IHL analysts Lee Holman and Greg Buzek, say "Retailers are in denial about out-of-stocks."

In fact, they say their study found the true out-of-stock rate experienced by consumers is 17.8%, which is 123% higher than the out-of-stock rate claimed by retailers for themselves.

This may be in part due to a more expanded definition of out-of-stocks. Holman and Buzek define out-of-stocks as basically being any condition that prevents the consumer from purchasing a product and leaving the store without making a purchase of that product. That includes:

- Shelf is empty
- The consumer saw item but it was locked or consumer could not procure the item as there was no help available
- Consumer found someone to help, but they couldn't find the item
- The price/offer on the shelf did not match the ad

Such research is certainly likely to add support for RFID supporters in the consumer goods-to-retail channel, where the focus is increasingly on in-store execution and shopper experience rather than supply chain efficiencies.

or online price

This broader definition of out-of-stocks would naturally raise the percentage above the measures that look more narrowly at shelf availability, and also bring up other issues beyond supply chain and in-store logistics, such as staffing and marketing synchronization, that also lead to lost sales.

View Across Segments

In our view, out-of-stock data is too often focused narrowly at the consumer packaged goods segment of the value chain, with much less attention to other types of consumer goods to retail product categories.

This report looks at other sectors, and finds, for example, that more than 1 in every 5 consumers (21.2%) coming into the door of Consumer Electronics retailers leaves without buying at least one product they intended to purchase due to out-of-stocks – an incredible number, and one many consumers can probably relate to based on personal experience.

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Consumer Electronics Retailers Comparisons

- *Best in Class*

Retailer	% out-of-Stock	\$ Loss for every customer*
Fry's	13.1%	\$0.84
CompUSA	18.1%	\$1.16
Radio Shack	22.7%	\$1.46

* This is the burdened loss for every customer that comes in due to out-of-stocks, not just those that experience an out-of-stock. So Fry's is losing the equivalent of 84 cents for every customer that walks through their doors, which is the best of all retailers in the survey. Contrast this to OfficeMax below who is losing \$1.96 for every customer coming through their doors due to out-of-stocks.

- *Worst in Class*

Retailer	% out-of-Stock	\$ Loss for every customer
OfficeMax	30.6%	\$1.96
Office Depot	26.0%	\$1.67
Circuit City	25.7%	\$1.65

Source: IHL Group

The difference in the numbers between retailers in a sector can be significant. As shown in the graphic above, for example, entertainment retailer Fry's has an out-of-stock rate of about 13%, while at the other end of the spectrum, Office Max has a OOS rate of over 30% (in fairness, the two retailers carry very different product lines, though the report puts them in the same category).

There were also big differences in the grocery store channel, among chains that obviously carry nearly identical product categories.

Ahold, for example, had an out of stock rate of just 7.4%, according to the IHL research, whereas Food Lion and A&P had OOS levels of

22.8%.

In aggregate, the study found that fully 9% of survey respondents said that in the past 12 months they had stopped shopping at a particular retailer due to their out-of-stock situation.

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Other surveys have shown, for example, that a significant percentage of store out-of-stocks at shelf level are really for products for which inventory is available