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Out of Stocks More Costly To Grocers Than Originally Identified

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As a veteran of the Fast Moving Consumer Goods Industry, Mike Spindler has involved in the study of out-of-stocks since the earliest white paper in 1996. He recently heard Dr. Thomas Gruen from the University of Colorado and JP Brackman of P&G present on out-of-stocks at an industry conference.

"These gentlemen explored the facts uncovered in at least 50 studies done since the early '90s. There was some insightful lamenting of the fact that little has changed over the years. This fact is true despite the billions of dollars spent on systems and consultation, process improvement and development which have left the plight of the shelf largely unaffected," explained Spindler.

"One new statistic not considered before is that consumers spend about 20% of their shopping trip looking for products or substitutes of products that are out-of-stock."

Spindler continues, "Out-of-stocks are thought to cost Retailers over 4% of sales volume. This study added a labor cost number, almost \$800 per week, from dealing with customers on the out of stocks. This number is derived from the effort the typical employee exerts, in terms of minutes per customer to try to determine that: the product is really not on the shelf, that it is not in the back room (it is in about 25% of the cases, although half the time the employee cannot find it.), that the product has not been discontinued and when the product will be back in stock. One of the assumptions made in the study is that only 10% of the consumers affected actually complain and ask about out of stock items.

"While \$40,000 per year, per store in labor costs is quite concerning, is that really the sole cost for the retailer? One of the benefits of working on operations processes projects in the early days of Netgrocer, one of the largest online/mail-order grocery providers, is that I was able to observe labor in typical large grocery stores going about their daily duties. I started to think about the restock crew of 6-12 folks who arrive when most of us in bed to put products back on over-shopped shelves. If it takes a consumer over 20% of their in-store time to look for, double check, determine that the brand of their choice is out-of-stock and possibly choose a substitute item, why would it take less than that 20% of the restock crew's time to deal with finding the "spots" where out-of-stock items should be restocked? After all, there are no products on the shelf with which to match. In addition:

The cryptic shelf tag is of very little, if any, help. (Assuming it is correct! A recent study found double digit errors in product placement on the shelf including size, mismatched tags

to product, etc.)

The "hole" on the shelf has probably been neatly faced over by store policy or not so neatly by some well meaning customer.

Restocking occurs in a tough environment:

- Low light
- A huge "productivity" expectation and
- Labor that can be tired or speak English (that pesky tag again) as a second language."

"If the grocer has an eight person crew, in 6 nights a week that is 48 person-nights or 384 hours per week. We can assume the same 20% time waste. That time waste amounts to 76 hours at the rate of \$18 per hour identified at the FMI conference. This yields over \$1,300 per week on top of the \$800 that was reported. In total \$2,100 per store/week, or well over \$100,000 per year per store should be a much more realistic figure to use as the cost basis," determines Spindler.

Spindler declares, "Out of stock is a significant demand chain issue costing more in total than all of the Supply Chain challenges combined. The new news in this report is the size of the impact on the consumer and the store. Emerging technologies are starting to become more pragmatic, methodical, and will be proven money makers for those tired of paying for the same old problems, even when presented in new light."

Mike Spindler is the Managing Partner at Panther Mountain Companies, LLC, specializes in consultation with the Fast Moving Consumer Goods Industry players and supporting services companies. It works with Companies, Entrepreneurs, Equity Firms and Individual Executives who need help in bringing winning products, strategies, companies and people on-stream. Spindler is an accomplished author, speaker and contributor to industry issues such as *Out-of-Stocks and Their Solution*, *The Hierarchy of Merchandising*, *Merchandising Operations Efficiency*, *Data Cleansing for GDSN* and *New Product Speed to Market*. He can be reached at mikespindler@panthermountaincompanies.com.

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