SOLVING OUT-OF-STOCKS FOR GOOD

HOW A FEW THOUSAND DOLLARS OF TECHNOLOGY CAN BOOST REVENUE UP TO 10%

Kurt Salmon consumer research shows that 50% to 60% of out-of-stocks result in lost sales—consumers either skip the purchase or buy from a competitor.

That adds up to a revenue hit of 3% to 10%, depending on out-of-stock levels for a given category, and, even worse, erosion of the customer experience and brand promise.

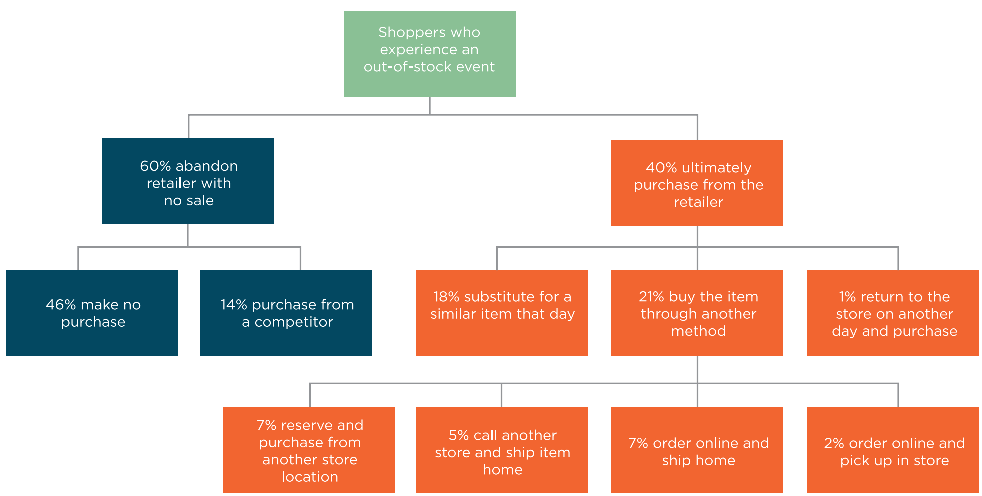
But it doesn't have to be that way. Investing less than $25,000 per store can save sales—and the customer experience—by empowering store associates to find products elsewhere.

Out-of-Stocks Impact More Than Just Sales

Kurt Salmon recently surveyed consumers in four different soft goods categories—tops, bottoms, shoes and accessories—to determine the impact of out-of-stocks on their purchase behavior during their last shopping trip. On average, an out-of-stock resulted in a lost sale 50% to 60% of the time, depending on the category, as illustrated in Exhibit 1.

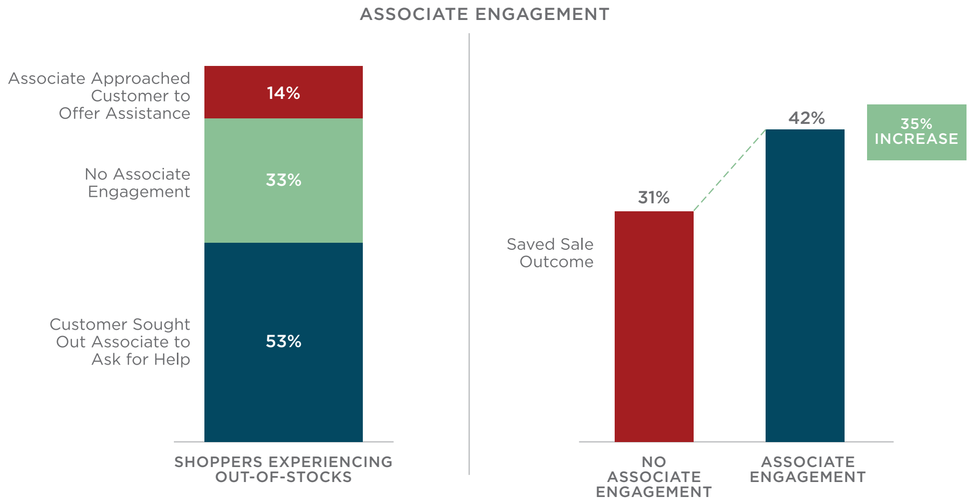
The customer experience fallout is also significant. Our interviews with customers demonstrate the bigger-picture implications for brand equity and loyalty, as shoppers said they were "annoyed that the retailer didn't have the foresight to keep popular sizes in stock," "irritated because I knew that the item was in-season, and they still were out of

EXHIBIT 1: How consumers react to an out-of-stock. (Hint: It's not good.)



Respondents were asked if an out-of-stock event happened to them in the past three months while shopping for tops, bottoms/jeans, shoes or accessories.
Source: Kurt Salmon consumer research

EXHIBIT 2: Associates aren't getting the job done when it comes to out-of-stocks.



Source: Kurt Salmon consumer research

stock in my size," and that they "rarely even try to shop there anymore."

Store Associates Not Stepping Up

Today's store associates are not equipped with the tools, training and incentives to solve out-of-stock problems. When faced with out-of-stocks, only 14% of the soft goods shoppers we surveyed were approached by a store associate to help locate the product in stock in their size elsewhere, as illustrated in Exhibit 2.

Although 53% of shoppers proactively sought out store associate assistance on their own, 33% ultimately never engaged with an associate to try to solve the problem. This is critical because a sale is 35% more likely to be saved if a shopper engages with a store associate than if there is no associate engagement.

Moreover, we all know store associates have a major influence on overall brand perception and customer satisfaction. In fact, one customer we spoke with said, “The response of the sales associate had a much more negative impact on my perception of the brand than the out-of-stock itself did, so I ended up buying the item elsewhere.”

The low use of alternate store, online and distribution center fulfillment by store associates is driven by both difficulty and lack of incentive. Right now, many associates don’t have the tools and training necessary to easily order products for customers online. And even if the capability does exist, the process is often so time consuming that it creates a strong disincentive for the associate. Few store associates have a strong economic incentive to facilitate online ordering since the store rarely gets any kind of credit for online sales.

Saving the Sale Doesn’t Cost Much

But these barriers are all coming down thanks to in-store technology, training and appropriately aligned associate incentives.

In-store WiFi is becoming more commonplace, as is tablet-based checkout. Backend software integration requires only minor resources and can equip an entire team of associates in one or two days. And minor changes in ordering fields can allow a store to track and get credit for sales generated online, aligning incentives to encourage alternate channel fulfillment.

In-store mobile ordering capabilities typically cost $1,500 per device, which covers the cost of the hardware, software deployment and associate training. A medium-sized store with an average level of customer service may need 10 to 15 devices, which means that the total cost to get a basic mobile ordering capability up and running is typically less than $25,000 per store.

That $25,000 can easily pay for itself in no time at all by helping to create situations like the one experienced by a customer who said, “They were very helpful and proactive about ordering for me. I even ordered a nicer pair of shoes than I had originally planned to.” ❖

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