From Out-of-Stock to Save the Sale

Sterling Commerce
An IBM Company

Most retailers are driven by two overarching priorities: Customer experience and operational efficiency. One of the most troubling customer experience issues is out-of-stock. One of the most troubling operational efficiency issues is increasing revenue.

Most retailers also share common business imperatives related to the above priorities:

Customer experience
- Reduce out of stock incidents and increase assortments

- Increase customer satisfaction and loyalty by delivering a unified customer experience

Operational efficiency
- Increase company revenues and market share through e-commerce

- Reduce costs by automating the buying (and other) processes

Retail sales are projected to drop approximately two percent in 2009, and many retailers are closing stores. Add the credit crunch and lack of inventory to the equation, and the end result is that many retailers are failing to meet customers' expectations. In the face of this challenging business climate, in order to succeed, retailers are looking harder than ever to find ways they can:

- Grow revenues
- Increase customer satisfaction and loyalty
- Reduce costs
- Increase market share and
- Improve performance

There are two larger priorities that feed the above concerns, and really drive retailers. These are the concerns that keep retailers up at night. The first underlying priority is the quality of the overall customer experience. The second is the need to do more business, better and faster, in order to increase revenue immediately. With respect to the first priority, one of the biggest issues for both the retailer and the customer is being out-of-stock on the item the customer requires. With respect to the second priority, one of the biggest issues is operational efficiency. Again, this has an effect on both the retailer and the customer. Let's examine this more closely.

What is the one issue that causes the overall customer experience to plummet? It is the phrase "out-of-stock." Customers don't want items to be out-of-stock. They want their items. They want the right product, at the right time, in the right place at the right price. Consumers want and are entitled to a great retail experience, regardless of whether they chose shopping in the store, online, or through any other channel.

In this day and age, all shopping expectations have been set high by the online shopping experience. The convenience and the content provided by shopping experiences on the Internet have had an impact on the way customers shop in stores. Retailers with great online experiences have set the bar, Bestbuy.com is one example. Customers are aware that the capabilities to serve them better exist "out there." What they often wonder is "Why not here?" The bottom line is, in stores, customers are all too often disappointed. The item they came to purchase at the store is often not there, or no longer available. The result is consumers leave the store empty handed and frustrated.

"In its new report, What's the Deal with Out-of-Stocks?, 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." *Supply Chain Digest, Just How Big is the Out-of-Stock Problem in Retail, 01/20/2009*

All too often, retailers drop the ball when it comes to converting lost sales from consumers who walk out the door into captured sales by not providing the goods and services that customers are demanding. Customers travel to the store looking for a particular item, but often find little success. Investigation shows that at least twenty five

Wouldn't you like to…
Create a positive buying experience for your customers across all channels, including Web, call center, store, and field sales?

Save the sale in stock-out situations?

Ensure that internal and external users accurately find, configure, and order the right products and services online?

Target customer-specific promotions and ensure that customers find and purchase the right products online?

Increase inventory assortment?

Automate the selling process across multiple sales channels through a single e-commerce platform that hides complexity from end users?

percent of the time customers leave without the item they were seeking. These lost sales are problematic for retailers, and the situation seems to be getting worse every day. One retailer indicated that almost a third of their employees who were surveyed on a Saturday noted that they were asked 10 times about an item that was out-of-stock.

"Seventy-two percent of consumers say that finding sale items out-of-stock decreases their willingness to shop with that retailer." *What Consumers Want in Their Shopping Experience, 2007, Report by Deloitte Inc. for Sterling Commerce.* Seventy-two percent is a huge number. Think how margins would improve with an integrated fulfillment system capable of managing inventory everywhere.

Retailers have to improve their operational efficiency and deliver the right items to the customer more accurately, easily, quickly and cost-effectively. The store associate has to have, and could easily be given, the opportunity to take action and save a given retail store sale. There are some actions that are already available like offering rain checks and substitutions, but these do not truly address the problem. That's where automation comes in to the picture.

Process and technology (automation) are both available to enable store associates to satisfy customers and truly save the sale.
When an out-of-stock event occurs at the store, there should be, and in fact are, proven solutions that can give retailers the capability to deliver. What does this look like? Retailers can deliver the items the customer was seeking to the customer's home, or arrange for items to be picked up at an alternate store. The ability to fulfill a sale with another store's or location's inventory leverages and balances inventory across all channels. The benefits are: increased, immediate customer satisfaction; an improved long-term overall shopping experience for the customer; increased operational efficiency (no digging in the back room or calling other stores); and increased revenue.
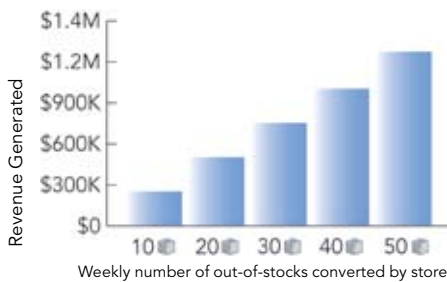
The phrase "available-to-promise" is much, much better than "out-of-stock." What does it take to be able to say "available-to-promise" with confidence? Visibility.
One key to saving the sale is the visibility provided by people, processes and technology (automation). Multiple sources of demand and limited sources of supply often lead to inaccurate inventory distribution. Retailers are known for pushing product rather than pulling it when and where needed. Customers now require inventory visibility as a precursor to a purchase, so the ability to promise availability is a clear advantage. It has become a customer requirement for buying.

Customer demand is dynamic, and planning systems are only as good as the data and history they contain. Execution versus planning achieves far greater results. Inventory visibility is critical here. Near- or real-time inventory at all locations increases customer satisfaction and on-order visibility provides greater accuracy in order-to-offer and availability-to-promise.

The visibility of inventory in any channel dramatically increases customer satisfaction, and retailer revenue and profit. Stores, Web sites, call centers, and kiosks are all touch points for the customer. Providing both the customer and employee with inventory visibility at all touch points resolves potential issues, and increases customer loyalty. Visibility offers tracking and insight at any location, across all channels, at any time. Regardless of how many disparate systems a retailer uses, visibility brings clarity to inventory availability.

When faced with an out-of-stock situation, visibility can provide store associates:
- Inventory information, including the ability to commit 100 percent of inventory
- Pricing information highlighting available discounts and late-breaking sales
- In-transit merchandise with associated delivery dates
- Order confirmation eliminating doubt in the customer's mind
- Multiple fulfillment options from a variety of sources
- E-mailed communication and shipment status information for customer assurance

Revenue Potential

Example based on 200 stores with a $25 retail average

Revenue Generated (y-axis): $0, $300K, $600K, $900K, $1.2M, $1.4M

Weekly number of out-of-stocks converted by store (x-axis): 10, 20, 30, 40, 50

Retail associates can use all of the above features to save the sale when helping customers. In the end, specific merchandise may be delivered to the customer from a Web site, catalog or store location, thereby greatly increasing market share, revenue, profit, and the quality of the customer experience.

Customers can have an optimized experience. They can get the items they want ("find it with one stop the first time"), take advantage of customized promotions ("they know what I like") and enjoy positive shopping experiences ("leave happy and come again").

Retailers can improve not only their customer experience, but also their operational efficiency with technology and automation to optimize processes and transform the way business gets done. With e-commerce (self-serve, guided and assisted selling), with a unified customer experience (deliver the same experience no matter what the point of contact), and with cross-channel selling (any channel at anytime) retailers can simplify the complexity of everyday operations.

In order to achieve "save the sale," integration and automation are necessary. These improvements are driven by customer demand. Integrating a store to the distribution center, other stores, merchandising systems, and potentially manufacturers will provide greater visibility and communication to complete transactions. Internal and external systems need to communicate in near- or real-time in order to provide the most current inventory availability. The best-practice solution designed to execute this process is a sophisticated sourcing engine. The engine enables fulfillment of a store order by searching the complete supply network and finding the optimal way to fulfill that order. Ultimately, customers will be able to choose from various fulfillment options such as pickup at store, shipment to home, and delivery to home.

IT benefits:
Both internal and external system users can accurately find an item, configure an item and order it.

Customer-specific promotions can be targeted appropriately.

Inventory assortment can be greatly increased.

Selling processes can be automated.

Current fulfillment systems can be used.

Multiple sales channels can be accommodated on a single e-commerce platform.

Transparency can be provided by managing and hiding complexity.

The solution must seamlessly source the products from a store in a given radius, have the product transferred from a distribution center, or have it drop-shipped from a vendor. The solution must also leverage the benefits of an "endless aisle" by fulfilling orders through the retailer's vendor network.

One way to think about this process is to consider what retailers do for special orders today. Many of the processes and integration activities are similar, but automation is in place. Since the retailer has failed on the original in-store offer, the resolution with automation must be foolproof. Therefore, complete inventory visibility and a seamless transaction are necessary.

Satisfying the consumer when inventory is out-of-stock or sold out can be achieved. Retailers have an opportunity to connect with their customers and prove their customer comes first regardless of the issue. By offering flexibility and options at critical touch points, retailers can continue to build customer loyalty, revenue, and profits. The personal touch at a time of frustration is always welcomed. A simple question from the cashier or sales associate to find a product will go a long way. Fulfilling the promise goes the distance and wins the customer. Customers remember the good service and will continue their brand loyalty based on the retailer's execution.

The biggest benefits of the "save the sale" vision follow.

Enabling seamless cross-channel retailing that will save measurable sales across a retail organization's Business Collaboration Network. This can be done by empowering the sales associate to offer selling alternatives to customers faced with out-of-stock situations. This will make better use of inventory, increase customer conversion, increase turnover, reduce markdowns and generate revenue.

Improving customer satisfaction and loyalty in the short term which will lead to an improved customer experience overall. This means replacing out-of-stock with "we've got it" and "available-to-promise." These phrases become part of the brand identity.

Improving operational efficiency by using people, processes and technology (automation) to simplify the process of satisfying a customer's expectations by connecting all stores, distribution centers, and suppliers, effectively enabling them to communicate and collaborate better.

Even in today's challenging climate, there are strategies and tactics to be used to great advantage. Retailers can implement tools to satisfy customers and save the sale. With these tools, as far as the customer can tell, no matter which channel is used to deliver their item, the experience is the same. That same experience will be available to support customers whether they make purchase decisions themselves or with the help of associates (or online sales tools) at the point of retail sale, through a Web site or Web based solution (whether accessed through a home computer, a store kiosk, a mobile device and more.)

From Sterling Commerce

IBM® Sterling Always In Stock for Retail is a module of the IBM® Sterling Selling and Fulfillment Suite. The module was designed to help retailers save sales when customers are faced with stock-outs. Sterling Always In Stock for Retail provides the necessary automation and integration to accomplish the goals outlined in this white paper. The solution is being delivered in three phases. The first phase will enable store transfers, the second will enable distributor transfers and the third will enable drop-shipping.

A Business Collaboration Network (BCN) exists in every enterprise in business today. Your BCN includes all the customers, partners and suppliers with whom you connect, communicate and collaborate to drive positive business results for all involved. As these networks become increasingly complex—from single channel to cross-channel and from local suppliers to global suppliers—the challenges for companies to integrate systems and manage shared processes become more difficult. Companies can optimize and transform their BCNs quickly, easily and securely, to accelerate revenues and reduce costs. This is critical, because in today's business environment, no company is successful alone. Sterling Commerce helps enterprises connect, communicate and collaborate with their customers, partners and suppliers through our Sterling Selling and Fulfillment Suite and our IBM® Sterling Business Integration Suite.

The Sterling Selling and Fulfillment Suite helps you sell complex products and services to your customers and partners, and manage and control your complex supply chains throughout the entire fulfillment lifecycle—from order management and delivery, to returns and settlement. This suite enables you to optimize the demand for goods and services by simplifying cross-channel selling of bundled and configurable products; managing partners, suppliers, and channels with distributed order fulfillment; and increasing visibility into critical inventory information.

- Increase revenue by expanding B2B and B2C selling channels while enabling a superior customer buying experience
- Reduce fulfillment costs by efficiently orchestrating the sourcing and delivery of goods and services across multiple systems and partners
- Improve business responsiveness through greater visibility and business process adaptability

The Sterling Business Integration Suite connects people, systems, and technology to enable the seamless and secure integration of critical business processes.

The suite is a comprehensive set of market-leading solutions that address the critical challenges of:

- B2B Integration – Solving challenges between a business and its trading partners, including customers, suppliers, banks and transportation providers

- Managed File Transfer – Solving the challenges of large file transfers that need to be fast, secure and reliable, whether within companies such as retailers or banks, or between companies such as manufacturers and dealers
- Enterprise Integration – Solving challenges between disparate internal enterprise systems and business processes

Appendix 1: Three probing questions that help us take a close look at the out-of-stock issue

Q. How frequently are your stores out-of-stock?
Depending on the segment, retailers can be between 6% to 20% out of stock at any given time. Think of your customers walking out the door 20% of the time because they could not find the item they were wanting to purchase.

Q. What if any is your current process to satisfy a consumer when you are out-of-stock?
Many retailers live with a manual inventory check to satisfy a customer's request for out-of-stock merchandise. More than likely it is a phone call or an e-mail versus an automated process.

Q. Can your store employees see inventory at all locations?
Most retailers may have visibility to inventory in other stores, but it may be through a phone call. Visibility at all inventory locations, distribution centers, on order, and at the supplier, is generally a gap.

Appendix 2: Five questions we asked over 500 store managers about saving the sale

Q. How frequently did a customer inquire about an item out-of-stock during peak times?
80% said more than 5 times

Q. How frequently did a customer inquire about an item out-of-stock during non-peak times?
75% said more than 3 times

Q. How frequently did your customers leave without purchasing another item or substitute?
40% of the time

Q. If you could have told customers that out-of-stock items could be ordered and shipped directly to their home, do you believe the customers would have chosen that option?
97% of the time

Q. How often do you believe you could have saved these lost sales?
68% of the time

About Sterling Commerce

Sterling Commerce, an IBM® Company, helps organizations worldwide increase business agility in their dynamic business network through innovative solutions for selling and fulfillment and for seamless and secure integration with customers, partners and suppliers. More information can be found at **www.sterlingcommerce.com.**

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