Hong Kong Out of Stock Study

Background

Initiated by ECR Hong Kong, Hong Kong Out-of-Stock (OOS) Study is examining the stock levels at retail outlets across the territory. Specifically, the study is examining a representative basket of the ***top 100 selling products*** from the major Hong Kong retail supermarket, drug store and convenience store chains.

Most OOS studies have typically been for limited periods and done on a limited basis, either by suppliers or market research companies. This study is the first of its kind carried out in Hong Kong on such a large scale, continuously and at such a low cost. It provides valuable OOS information for suppliers and retailers, and benefits customers through improved customer service. Topline results will be shared with industry at large.

The OOS Study was conceived based on the ECR 50/50 initiative championed by ECR Asia in 2000. The 50/50 challenge, which went out to Consumer Good companies across the region, were to reduce inventory by 50% while increasing on-shelf availability by 50%. This would reduce costs and increase customer satisfaction and sales.

While the Hong Kong Census and Statistics Department average retail sales figures for July 2002 was just over HK$15 billion, OOSs were estimated to be around 5% of all sales, meaning that for July alone, over HK$750 million worth of sales were lost to both retailers and suppliers due to OOSs.

Study Design

A basket of the most representative top 100 selling products was selected, across the following ***eight major categories***: 'alcohol', 'baby', 'basic grocery', 'chilled, fresh & frozen', 'drinks & beverages', 'household', 'lifestyle grocery' and 'toiletries'.

Even more important, cooperation was obtained from all the major Hong Kong retail chains. Participation was obtained from: ***China Resources Supermarket***, ***ParkNShop***, ***Wellcome***, ***7-Eleven***, ***Circle K***, ***Mannings*** and ***Watson's The Chemist***. Over 25 manufacturers also took part in the survey, directly sponsoring items. The study covered more than 1,300 locations across Hong Kong.

The research was carried out by a 3rd party merchandising company, KerryFlex Supply Chain Solutions Ltd. (formerly known as Flex Merchandising Resources Ltd.), who visited a core 20% of stores each week. The remaining 80% were visited once over a 2-month's period. This

resulted in ***over 1,600 checks*** per month for the survey.

Study Objectives and Deliverables

- Establish a ***standard OOS definition***
- Create an ***industry methodology*** to measure OOS
- Provide ***data indicating both distribution level and OOS level*** on weekly basis
  - *Suppliers get reports By SKU and Category By Outlet Type*
  - *Retailers get reports By SKU and Category By Own Stores*
- Establish a Hong Kong ***OOS benchmark***
- Promote ***supplier and retailer cooperation***

Study Results

A first major breakthrough for the project was to have established a simple, consumer-oriented definition for OOS:

> *'At least one unit of stock has to be visibly accessible on shelf by consumers and acceptable for purchase. Otherwise, it is counted as an OOS. "Not in distribution", as measured by the absence of shelf edge ticket, is NOT OOS.' – ECR Asia*

The second achievement of note is that the study used and consistently applied a research methodology in gathering data. According to Keith Bartlett, Supply Chain Director of ParkNShop and Chairman of ECR Hong Kong, "The only way accurately check for OOSs is to do it physically. Many companies have previously relied on computer data, which may not be able to reflect the truth."

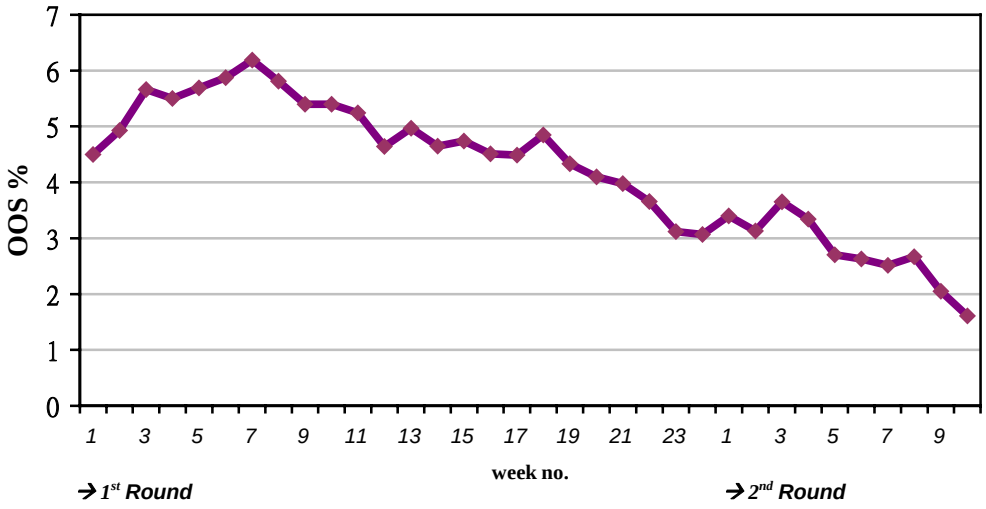

Chart 1: Survey Results of 1st & 2nd Cycle of OOS Study (Jun 1, 2002 – Feb 24, 2003)

Given the time lag in processing the data and getting it back to participants, about 10 days, the decrease in OOS really started in the following week, and by the twenty-fourth week OOS levels were at just about 3%, almost half of their peak level. The OOS level continued to decline and reached 1.6% as at Week 10 of 2nd cycle of the survey (see Chart 1). This 75% improvement may also be due to other seasonal factors, which have not yet been measured. Some other interesting results worth sharing:

Outlet Types

Different outlet types had their own areas of expertise as reflected by their OOS levels of different product categories: supermarkets were comparatively better in grocery and household, convenience stores in alcohol and drug stores in baby and toiletry.

Product Categories

The 24-week trend showed improvement and convergence for product categories like alcohol, toiletries and drinks & beverage. For baby products, there was a high OOS level due to shrinkage concern. Some individual lifestyle grocery items displayed supply problems.

Brands Performance

Some brands demonstrated high OOS level. They include bread, dog food, lifestyle grocery, ice cream, snacks and drinks. The possible causes of the problems seemed to be various and needed to be examined individually.

Sponsored Lines vs Non-Sponsored Lines

Sponsored lines showed better improvement than non-sponsored lines. This implied that items with visible shared data got extra attention and this thus led to a lowering of the OOS level when compared to those with information withheld.

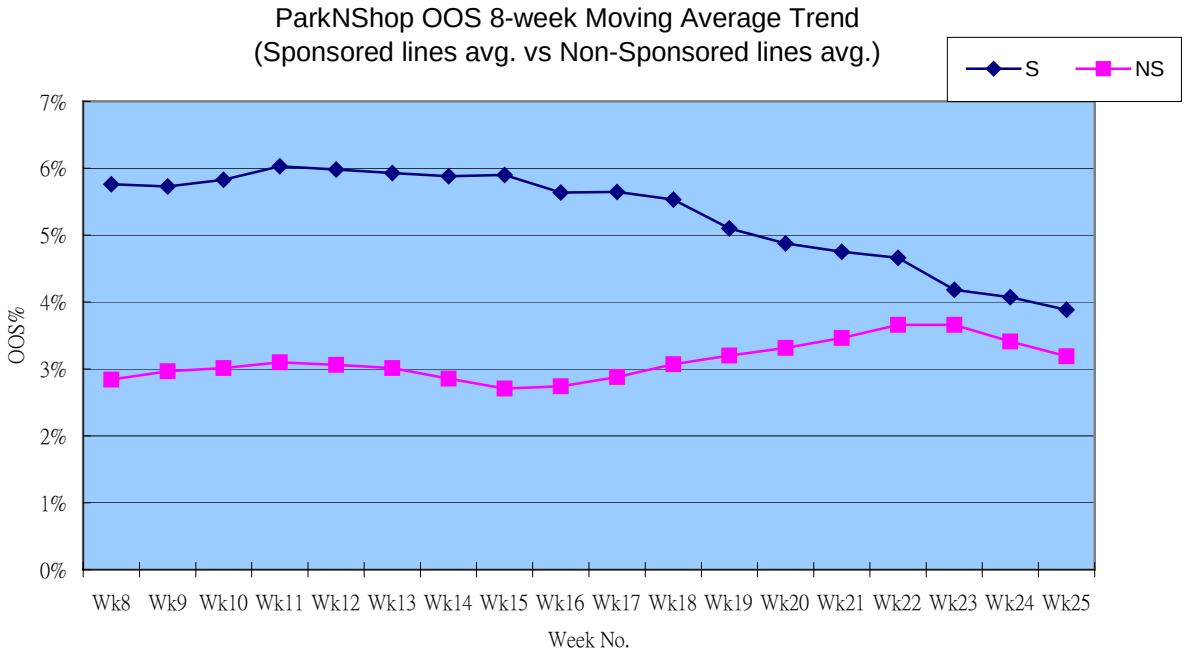

Chart 2: A Comparison of Sponsored Lines and Non-Sponsored Lines

Starting from Tip of the Iceberg

Underlying causes of OOS in Hong Kong are various and articulated in most cases: planogram clutter (too many items on shelf), inefficient refill of shelves, delayed ordering, supply problems in direct store delivery & cross-boundary delivery, fluctuating demand due to frequent ad-hoc promotional sales and inaccurate forecasting. There are other shrinkage concerns such as some stores' refusal to order shoplifting concern. The current study is a good initiative to start the whole thing off from end customer's perspective from demand side. At the tip of the iceberg, it standardizes definition of OOS, provides useful data and alerts the scale of OOS.

According to Keith, "We are very delighted by how this has all worked out. For the first time in Hong Kong, we know the stock levels and types of stores that have best and worst OOS results. And we have established a level of cooperation between retailers and suppliers that is unprecedented."

In addition, all parties now have figures about their performance compared with the market average and have knowledge of what areas they do best and worst in compared to this benchmark. Suppliers will know what products to focus upon, whereas retailers will know what stores to focus upon. Above all, both suppliers and retailers share same OOS data which reflects the real situation for on-going joint improvement.

"Some short-term solutions do exist such as forcing stock to non-ordering stores to eliminate delayed ordering problem and promotion allocations. In the long run, however, preventive measures and ECR techniques should be introduced to rectify the problems like collaborative forecasting, planogram adjustment and theft prevention measures." said Keith.

He continued, "Through this study, ***market-wide measurement*** is found to be more powerful than separate studies. Establishment of ***common standards*** and ***sharable data*** are essential to drive industry improvement as they enable ***comparable and measurable results***. Only through benchmarking and useful & well-defined data can improvement be guaranteed."

Current Status of OOS Study

The OOS study has been extended for almost a year from an original 6-month project with positive response from retailers and suppliers. As at Feb 24, 2003, the Top 100 OOS level has been dropped to 1.6%. The end goal is to provide accurate information to participants continuously and create an industry momentum and a constructive way for retailers and suppliers to work together to reduce OOS across the industry.

ECR Hong Kong is also interested in making the study even broader. The basket of 100 top selling items was designed to be both representative and meet the needs of retailers and suppliers. However, sponsorship is always welcome from particular manufacturers or retailers for extra items to add into the survey.

With ECR Hong Kong's taking a pioneer move, other ECR Asia member organizations would be encouraged to run an OOS study within their countries. This will ultimately allow creation of a regional benchmark and comparisons of the problem scale at national levels.

Sponsorship or Further Information

For companies who wish to participate in the study and know the OOS level of their product lines, please contact Ms Alice Fung of GS1 Hong Kong on 2863 9766 or info@gs1hk.org, or Ms Annie Chan of KerryFlex Supply Chain Solutions Ltd on 2410 4202 or annie.chan@kerrylogistics.com.