

Deleterious Effects of Out of Stock (OOS)

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Companies competing in today's retail marketplace face competing demands to launch innovative products and improve customer service levels while keeping out-of-stock products low and reduced supply chain (SC) costs. The deleterious effects of OOS in profits and market share in retail chains are amply documented.

Low forecast accuracy coupled with high variability in demand prompt companies often to compensate with expensive



operational remedies such as transshipment between distribution centres at expedite transportation costs, therefore maintaining high service levels at the expenses of shrinking profit margins. Balancing inventory and transportation costs is at the heart of inventory routing. Inventory in accuracy contributes to amplify these harmful effects. Even small losses in inventory accuracy might result in large stock-outs. Customers facing OOS products tend to switch package size, product item, purchase store, or even to postpone or cancel purchases altogether. To manage the volatility in demand effectively, companies in different industries.

A company strives to be demand-driven when it shifts from a "build to forecast" to a "build to order" strategy, on a continuum from being zero to 100% demand-driven, from production/inventory decisions that are entirely forecast-based (e.g., fashion, beverage industries) to a situation in which orders are received prior to production (e.g., aeronautics). In traditional SC, volume and product forecast



forecast anticipated to meet demand is "pushed" to local markets, often resulting in high OOS and wrong inventories being "pushed" to wrong markets.

The become Demand Driven companies has to adopt new methodologies and "Sensing changing customer demand, then adapting planning and production while pulling from suppliers – all in real time". The Deleterious effects of OOS would be almost diminished if companies follow rules of demand driven supply chain.