The costly penalties of going out of stock

Why maintaining a high in-stock rate on eCommerce sites is so important… the implications of going out of stock are bigger than you think

Staying in stock has always been a fundamental principle of effective retail execution. The acceleration of eCommerce is only ratcheting up the challenge. But eCommerce supply chains are far from mature. We saw the effect of this play out in recent months due to the pandemic as the surge in online demand put enormous pressure on eComm supply chains. While the near 100% out-of-stock rates in some categories have abated, managing online product availability remains a big and ongoing pain point as retail transitions from physical to digital.

The hard truth is eCommerce supply chains are not getting enough investment to keep pace with the complexity of meeting online and omnichannel demand. According to our latest **eCommerce benchmarking study**, conducted in collaboration with Kantar, 41% of brand professionals

surveyed say they don't have a specialized team or set of processes in place for managing their eCommerce supply chain. This is a problem.

Using our daily Amazon sales and availability data, we explored the penalties and drawbacks of going out of stock. Our research findings, based on 44,000+ products studied from mid-April to mid-June 2020, underscore how crucial inventory and supply chain management is for eCommerce success. Above all else, your top priority should be having someone track online availability *daily* using an analytics platform like Profitero. This way you can quickly address availability issues, minimize lost sales, and fend off huge drops in search placement, or worse yet having your listing suppressed.

Research highlights

42%
potential sales loss on Amazon when in-stock rate drops from 90%+ to <30%

3-4 days
time it takes to regain your full sales volume after being OOS for 1 day on Amazon

6-7 days
time it takes to recover your organic search placement on Amazon and Walmart.com after being OOS for 2+ days

Here are 4 key findings from Profitero's research:

## (1) Set your in-stock goals at 60% or higher, or pay a big price

It's critical that manufacturers maintain at least a 60% average in-stock rate (i.e., available to buy online) for products in any given month — or expect major sales repercussions to set in. Of course, aiming for 90%+ is best albeit sometimes unrealistic, especially for companies that are new to eCommerce.

Our research reveals that brands, lose, on average, **42%** of their online sales, **26%** of conversions and **22%** of glance views (or traffic) when in stock rates drop to a low level — defined as < 30% in-stock rate in our analysis — versus the average sales generated while maintaining a 90%+ in-stock rate.

This data underscores three important actions for manufacturers: 1) Start setting and communicating in-stock goals to your company; 2) Scorecard and benchmark performance regularly; 3) Be transparent in showing retailers how their purchasing patterns may be exacerbating out-of-stock issues (see more advice at the end of the report).

How poor in-stock rates* impact eCommerce performance — on Amazon

(average difference in performance metrics: 90% in-stock rate vs. lower in-stock rate)

● Sales ● Conversion ● Traffic

< 30%   30% - 60%   60% - 90%

-7% -5% -2%
-23% -15% -9%
-42% -26% -22%
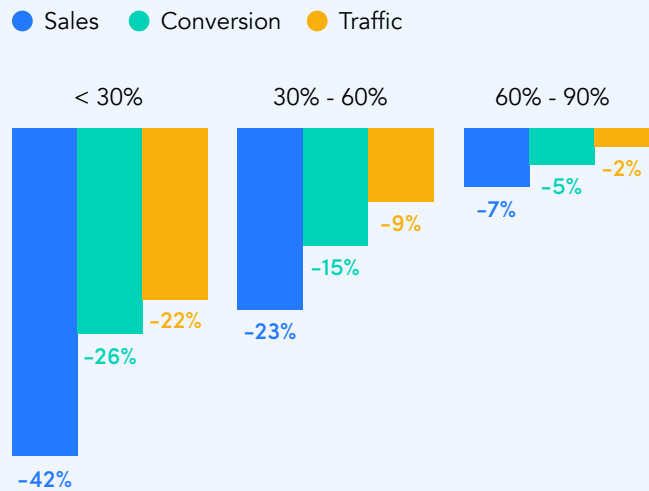
Source: Profitero; *Note: In-stock rate = the % of products listed that were available to buy during the 60-day time frame studied (mid-Apr to mid-Jun 2020). Products listed as "in-store only" are excluded.

(2) Regaining sales after being out of stock takes longer than you think

Going out of stock and losing sales is bad enough. To add insult to injury, you also need to figure in some lag time before sales bounce back once you've replenished. Meanwhile, while you're dealing with stock issues and trying to regain sales, your competitors, other challenger brands and third-party (3P) merchants are swooping in to pick up the slack.

Our research shows that it takes an average of 3-4 days for sales to fully recover after being out of stock for even just one day. Of course, the longer you remain out of stock, typically the longer your sales recovery period will be — and the more your lost sales add up.

What the sales recovery time looks like after going out of stock — on Amazon

(number of days it takes to regain full sales volume)

Source: Profitero

3-4 days **4-5 days** **6-7 days**
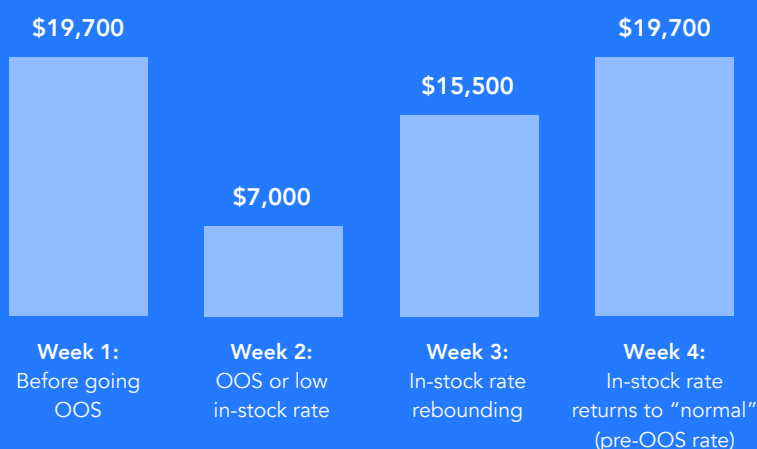
1 day OOS   2-5 days OOS   6-14 days OOS
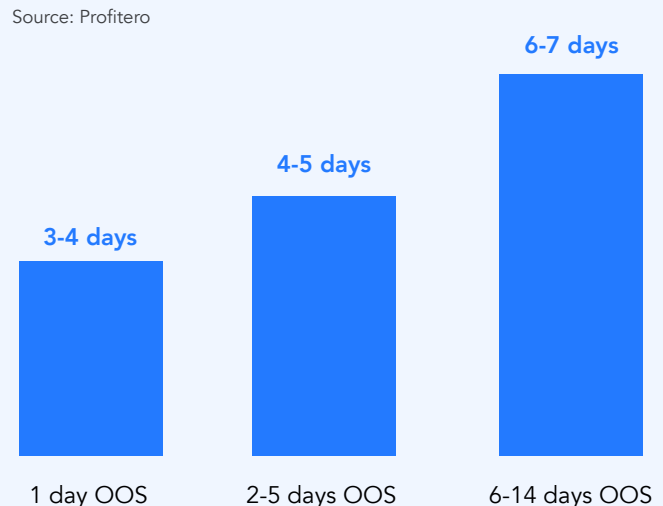
Example: Quantifying the sales loss and recovery time from going out of stock

In this example, Product X generates average daily sales of $19,700. But in Week 2 when the product goes out of stock, or has spotty availability, average daily sales plummet 65% to $7,000.

The product is fully replenished in Week 3, and sales begin to rebound. Still, it takes about 1.5 weeks (in Week 4) after coming back in stock to fully regain sales consistent with its "pre" out-of-stock level ($19,700).

Tallying it up over a month's time, the brand lost more than $118,000 in sales due to out-of-stocks. Multiply this times the hundreds or thousands of products in a brand's portfolio — the high cost of going out of stock becomes clear.

Average daily sales of "Product X" over a 1-month period

$19,700	$7,000	$15,500	$19,700
Week 1: Before going OOS	**Week 2:** OOS or low in-stock rate	**Week 3:** In-stock rate rebounding	**Week 4:** In-stock rate returns to "normal" (pre-OOS rate)

(3) Out-of-stocks jeopardize your brand visibility

Not only are sales at risk when your products go out of stock, but availability often factors into retailer search algorithms too, causing you to lose the search ranking you worked so hard to attain in the first place. Furthermore, some online retailers will suppress product listings altogether when a product is not available for purchase. In these cases, products never even have a chance to make it into a shopper's consideration set. Another compelling reason why brands must keep a keen eye on in-stock rates.

Taking a closer look at what happens when brands have availability issues on Amazon and Walmart, we found a similar drop in search ranking due to out-of-stocks between the two retailers: on average, products lost one organic spot if they went out of stock for one day.

But watch out if your out-of-stocks linger on! We found products lost 6 spots in organic search ranking on Amazon and 5 spots on Walmart.com when they were unavailable for 2+ days — huge drops that could easily knock you off page 1. And if you're not on page 1 you may as well be invisible, according to our **Search Placement ROI research**. These findings only underscore how important it is to track online stock levels *daily* with an analytics tool like Profitero.

Average number of organic places lost by days OOS

Source: Profitero

● Amazon   ● Walmart

	1 day OOS	2+ days OOS
Amazon	1	6
Walmart	1	5
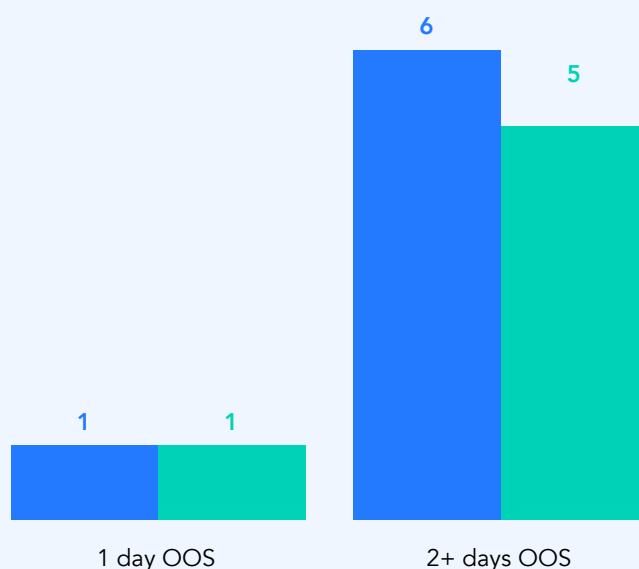
④ Walmart's algorithm penalizes out-of-stocks more than Amazon's

Quick action is needed to remedy OOS issues, especially at your top retailers. Otherwise, you could be putting your search ranking at risk, as demonstrated by our research. Maybe even more important, you want to avoid getting caught up in a reverse flywheel — i.e., the longer you remain out of stock, the more significant your drop in search placement, the longer it takes to recover, and so on.

According to our research, it takes about 3-4 days to recover search placement on Amazon after being out-of-stock for one day, and about 6-7 days if you remain out of stock for 2+ days. On Walmart.com, the recovery period is even longer: 5 days if you're OOS for one day; 7 days if you're OOS for 2+ days. Every major manufacturer has a dedicated sales team responsible for Walmart, so it's important these teams be equipped with real-time in-stock data related to online activities.

Average days it takes to regain Search Placement

Source: Profitero

● Amazon ● Walmart

1 day OOS: Amazon 3-4 days, Walmart 5 days
2+ days OOS: Amazon 6-7 days, Walmart 7 days

How fixing OOS on Amazon enabled a leading personal care brand to cut its sales loss by nearly a third and increase overall share by 2.7pp

PROBLEM

The manufacturer found out-of-stocks on Amazon were consistently creeping above an acceptable threshold of no more than a 5% OOS rate on Amazon 1P.

SOLUTION

Using Profitero's Assortment & Availability analytics, the manufacturer began routinely monitoring OOS rates across 20+ categories and identified "deodorant" with a huge OOS issue, reaching as high as 29% at times.

SO WHAT?

The brand was able to negotiate better inventory and supply terms with Amazon.

DEODORANT

OOS rate improvement

As high as: As low as:

29% → 2%

Resulting share increase

27% → 35%

Your Availability playbook:
How to action this research

How to effectively manage your assortment and availability strategy

1. Manage your product inventory, with a watchful eye on priority products

- Use an analytics tool like Profitero to monitor online inventory levels across retailers; Set up daily alerts so you can quickly react and address any stock issues. You don't want to wait a week for what needs done today.
- Prioritize products in your portfolio based on (1) sales velocity and (2) in-stock rate to identify and focus on items with the highest potential for sales recovery.

2. Keep on top of consumer trends for better demand forecasting

- Use Amazon keyword search trends & Google Analytics to help identify trends and potential blind spots.
- Traffic data can help forecast demand.
- Improve demand forecasting to weight leading indicators like traffic (glance views) and keyword search frequency, disproportionately weighting recent data.

3. Build flexibility into your supply chain

- Diversify your supply chain network, building in more options for production, storage, fulfillment, etc. — e.g., tap third-party logistics, drop-ship capabilities and Seller-Fulfilled Prime (SFP) on Amazon, as needed.
- Develop or strengthen direct-to-consumer (DTC) capabilities to minimize potential distribution disruptions.

4. Understand fulfillment processes of key retailer partners, especially pure plays

- Get to know programs like Born to Run, an Amazon program that helps vendors launch new items with sufficient stock levels to "run."
- Deepen your internal connections to supply chain and account service roles, and map the retailer's organization to identify roles like In-Stock Manager that may be able to help intervene in exceptional cases.

How Profitero's data and analytics can help you manage your availability online
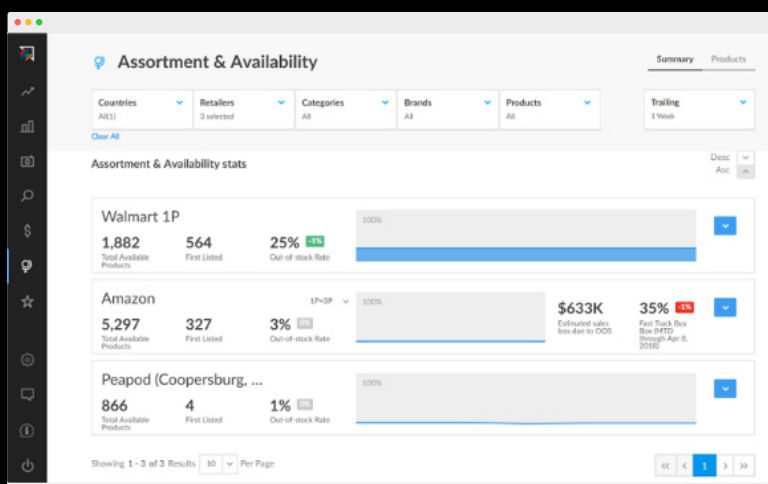
- Detect and manage out-of-stock issues across all online retailers, at scale
- Receive daily alerts notifying you when in-stock rates drop below a set threshold
- Size and quantify sales losses due to OOS using sales data integrated with OOS analytics
- Use page traffic data to anticipate out-of-stocks before they happen
- Integrate OOS analytics with your sponsored ad buying to prevent wasted ad spend