Retail Experience: Managing the Variable Demand of New Products

Overview

According to industry estimates, instances of out-of-stock cost retailers a 4 percent loss in category sales and, more importantly for Consumer Products companies, lead to a shopper completely switching brands over 25 percent of the time.

This issue is exacerbated when considering the variability of new products. While CP companies have become increasingly sophisticated in forecasting demand and promotional plans based upon 'like' products, there still is a great deal of unpredictability with new products and, because of this, a greater likelihood of out-of-stocks.

Approach

Given this, we observed the out-of-stock rates of new-to-world products versus existing products, with the expectation that, due to greater demand variability and unpredictability than their more established counterparts, new products would be harder to find on the shelves.

To provide a representative sample, we focused our observation on various products across multiple categories and spanning the Drug, Grocery and Mass Retail channels. Of the products selected, half were considered new-to-world and the other half were considered traditional, allowing for true comparison of on-shelf availability.

Key Findings

Review and analysis of the data collected concluded that new-to-world products are more prone to out-of-stock and low-stock levels compared to their more traditional counterparts. Highlighted findings include:

- For a leading food manufacturer, their new-to-world product experienced approximately 10 times more out-of-stocks compared to their traditional product.
- For a leading OTC pharmaceutical company, their new-to-world products experienced approximately 1.5 times more low-stock levels when comparing to the traditional products.
- In looking into new-to-world products data specifically, innovative products were approximately 2 times more likely to be out-of-stock than line extensions.

Sampling Key Retailers Across Mass, Grocery & Drug Channels

Recommendations

Given that all of the companies used for this research currently execute a single supply chain approach, it is reasonable to suggest that these companies could benefit from exploring a segmented supply chain strategy.

As companies continue to analyze their ever-growing product portfolio, a segmented supply chain becomes critical to ensuring product characteristics and consumer needs are aligned with the company's objectives.

New-to-world products – key to a company's branding and profitability – make an extremely compelling case for a segmented supply chain. Their inherent demand unpredictability and varying life cycles, depending on consumers' adoption, make these products a perfect candidate to follow a different supply chain – one that can better adapt to the changing demand.

CASE STUDY

Challenge: *Our client's mainstay products faced a steady decline. A recent merger had resulted in a broad portfolio of mature brands. To offset these challenges, business strategy relied on the successful introduction of new and innovative products.*

Solution:

- *Align the supply chain with the new product strategy without disrupting the highly-scaled and efficient supply of mature products.*
- *Implement hybrid supply chains providing differentiated support for products as they move through their lifecycle.*
- *Facilitate new product introduction and growth through supply practices which are consumer driven.*
- *Develop the capability to respond in shorter planning periods.*

Results:

- *Enhanced in-stock position for profitable new products attempting to gain market share.*
- *Branded the supply chain organization as an enabler of growth.*

This Research Brief provides an overview of research conducted as a part of the Retail Experience, a national research initiative led by Clarkston Consulting to provide retail and shopping insights. For more information, please visit **www.clarkstonconsulting.com/RIS**

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