



Reduce SHRINK To Increase Profits

Shrink averages approximately 2 percent in the supermarket industry. If you consider an average bottom line of approximately 1 percent, a 25 percent reduction in shrink would boost profit margin by nearly 50 percent. That's worth paying attention to. To identify potential improvement opportunities in shrink, ask yourself the following questions.

- Does my organization know what our true shrink cost really is ?
- Does my organization know the root causes of our shrink ?
- Is our employee "awareness of shrink" sufficient ?
- Do our operating practices reflect industry best practices that reduce shrink cost ?

If you answered "NO" to any of these questions, it may be time to examine your organization at all levels, from delivery to point of sale, to identify shrink improvement opportunities.

Most companies have not determined what their actual shrink levels are or the sources. We have observed that the smaller the grocery chain, the less likely that shrink awareness and proper controls exist. Shrink is the loss of potential income as measured by the difference between "going in" gross profit and "actual" gross profit. Operational practices significantly contribute to shrink. Process steps that should be employed include: identify, measure, benchmark, control and reduce shrink loss to your company.

An effective shrink improvement program should heighten awareness of the dollar impact of shrink to your profit and loss statement. Shrink dollars in a corporation are often greater than the total store level earnings. That in mind, remember each dollar saved in shrink directly impacts the bottom line.

Key SHRINK Improvement Elements

Properly estimating shrink is a logical starting point in the process of controlling and improving gross profit. "Ghost" or "paper" shrink (in non-perishable departments) accounts for a large percent of reported shrink. *Non-perishable department* shrink control opportunities include:

- Unrecorded markdowns
- Damaged product
- Pricing file errors
- Un-scanned deliveries at the back door
- Timing differences between purchasing and sales cycles, and
- Incomplete accounting and inventory methodologies

While identifying Shrink in the *perishable departments* we noted that supermarkets tended to calculate gross profit for many items based on an expected yield (meat department, production process, and the bakery). This methodology hinders the ability to identify and accurately measure shrink.

Increasing employee awareness regarding the causes of shrink is key to controlling it. "Employee Action Teams" formed to identify problems leading to shrink and developing solutions is a particularly effective means to build employee ownership in the improvement process.

Industry Benchmarks:

Industry Average / Best

- Tot Store 1.72% / 1.01%
- Bakery 9.6% / 2.8%
- Deli 4.4% / .4%
- Grocery .74% / .20%
- HBC/GM 2.3% / .21%
- Meat 3.4% / .3%
- Produce 4.7% / 2.17%
- Seafood 8.3% / .9%
- Floral 8.4% / 3.4%
- Price Errors 6.2% / .5%

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Atlanta Retail Consulting provides strategic insight, innovative customized business analysis and operational improvement to retail and consumer products clients, permitting them to *increase sales revenue, decrease operating cost, and increase operating margin.*

A key practice differentiator we possess is the breadth and depth of experience that our retail consultant team has accumulated while working in virtually every retail format. Our retail consultant team collectively boasts over two full centuries of successful retail consulting and retail leadership expertise. We assist our clients to properly implement our recommendations to insure they achieve the results they expected and experience a positive ROI from our consulting services.

Steps in the SHRINK Reduction Process

A sampling of key steps in the shrink improvement processes include the following:

- The process must have involvement from every department in the store
- Heighten associate awareness of the more than 20 causes of shrink and of the impact on the bottom line
- Challenge associates to identify causes of shrink and suggest solutions
- Implement a known loss tracking system to quantify components of shrink
- Execute perishable departments production planning guidelines
- Develop effective ordering procedures and frequencies
- Emphasize inventory controls and proper inventory turns
- Standardize merchandising guidelines
- Establish sales floor display fixture inventory levels
- Enforce rotation and product handling procedures
- Control backroom inventory
- Identify external security issues
- Investigate the potential ROI from electronic article surveillance equipment by documenting shoplifting incidents and measuring the recovered product value
- Refine a detection analysis system to identify front-end shrink
- Install camera and surveillance systems
- Install a centralized scale management software system to eliminate human error in pricing individual scales
- Develop a chain-wide comprehensive shrink reduction training program and procedures manual

Results we have achieved after implementing the improvement opportunities identified include: shrink reduction of up to 34 percent, improved operational efficiencies, enhanced product appearance, freshness and availability improvement, more effective measurement tools to identify known losses, enhanced employee awareness, training and commitment to successful future shrink control, and increased profitability on high-ticket items through increased security.

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