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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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PREVENTION OF INVENTORY SHRINKAGE IS BETTER THAN SHRINKING THE PROFIT – A GLOBAL ORGANISED RETAIL CONFRONTATION

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ABSTRACT

Shrinkage within the retail sector runs in to billions every year against an economic backdrop of reduced consumer spend and ever increasing pressure on margins through reduced sales and increasing costs. Inventory Shrinkage is the difference between your inventories on hand and what it should be according to sales records and purchase orders. This difference can be substantial - between 2% to 5% annually, according to retail industry studies. To combat shrinkage, companies often need to implement tighter security measures. Depending on the nature of the business, this may involve hiring plainclothes or uniformed security guards to patrol the premises and monitor the activities of employees and customers. They may need to install security cameras and other electronic devices. Combine customer service techniques with good store design to combat shoplifting. The business may also need to install strict internal control measures to monitor bookkeeping and inventory control. The presence of more security may exacerbate the feeling of mistrust between management and employees. And also well-designed store layout will not eliminate all shoplifting but will help reduce it.

KEYWORDS
Employee Theft, Inventory Shrinkage, Organised Retail Crime (ORC), Point of Sale (POS), Shop Lifting.

INTRODUCTION

Inventory is a critical area in business that can easily impact the business financial stability. Appearing as an asset on the business financial statements, the stored inventory is the goods a business uses to generate income. Inventory shrinkage depletes the business potential income, and thus, potential profit. Shrinkage is caused by two things and two things only - theft and error. If you take action to account for a change to your inventory, such as removing an item from stock for store use, or reducing the sell price of an item because of its condition, or donating an item to a charity, it will not show up as shrinkage because you have accounted for it.

There are three categories of theft - theft by employees, theft by customers and theft by vendors. Error, on the other hand, is the unintentional loss of inventory value, with no dishonesty involved. Mistakes such as mispricing, entering inaccurate data into the IMU file, or neglecting to adjust the inventory when actions take place such as removing an item from display for store use or donating an item to a local charity, are all examples of shrinkage caused by an error. Shrinkage can result in business changes, such as increased prices, decreased employee bonuses and overall loss of sales. An important issue facing store management is reducing inventory losses (Figure 1: Sources of Inventory Shrinkage) due to 1) Employee theft 2) Shoplifting 3) Administrative errors in record keeping and 4) Vendor errors.

FIGURE 1: SOURCES OF INVENTORY SHRINKAGE

Employee mistakes are failing to ring up an item when it is sold and miscounting merchandise when it is received or during physical inventories. Inventory shrinkage due to vendor mistakes arises when vendor shipments contain less than the amount indicated on the packing slip. Although shoplifting receives the most publicity, employee theft accounts more inventory loss. A year ago, hopes of continued improvements in the global economy gave rise to optimism that shrink was coming under control. But as economic growth has stagnated in many regions retailers have continued to come under pressure in their attempts to confront and overcome the causes of shrink. A big challenge for retailers is the increased diversity of threats contributing to shrink. Theft related factors make up nearly 3/4th of shrink.

GLOBAL RETAIL SHRINK TRENDS

The 2011, Global Retail Theft Barometer (GRTB) notes that shrink exceeded $119 billion presently, representing 1.45 percent of total retail sales. This shrink rate is the highest ever recorded by the annual GRTB, and reflects an annual increase of 6.6% (See Table:1). The countries suffering the highest rate of shrink included India (2.38%), Russia (1.74%) and Morocco (1.72%). The lowest rates of shrink were found in Taiwan (0.91%), Hong Kong SAR (0.95%), and Japan and Austria (both 1.04%). Asia-Pacific rate was 1.22%.

TABLE1: GLOBAL RETAIL SHRINKAGE

	Total Shrinkage U.S. $ billion*	Total Shrinkage U.S. $ billion*	Total Shrinkage U.S. $ billion*
North America	$45,321	1.58%	6.0%
Latin America	$6,053	1.67%	4.4%
Middle East/Africa	$0.815	1.71%	5.6%
Asia-Pacific	$18,288	1.22%	0.8%
Europe	$48,615	1.39%	7.8%
Global	$119,092	1.45%	6.6%

* U.S. $1 billion' is U.S. $1,000 million

Source: Global Retail Theft Barometer – 2011, Press release.

NEED OF THE STUDY: WHAT IMPACT CAN SHRINKAGE HAVE TO A COMPANY?

Shrinkage is a term used to identify merchandise or inventory that a business records as being present but is not actually on hand or is unsalable. Shrinkage can occur due to employee or customer theft, damage or a bookkeeping miscue. Shrinkage can affect virtually any type of business, but is a problem most commonly associated with the retail industry. When an annual inventory is conducted and a shortage is discovered, there is, unfortunately, no verifiable means of determining exactly what percentage of the loss was caused by theft out the front door by customers; theft out the back door by employees; cash embezzled at the POS terminal by employees; theft by a vendor who has access to your inventory; or errors resulting from mistakes by employees with no criminal intent.

REDUCED PROFITS: Shrinkage takes a bite out of a business's bottom line. Retailers typically must operate with razor-thin profit margins to remain competitive, so any event that cuts into profits is likely to have a significant negative effect. (See an Assumed Illustration in Table 1, which depicts the direct impact on profits of an organisation due to Inventory Shrinkage.)

PRICES AND WAGES: To account for the lost sales, business owners often must resort to raising their prices. In businesses where shrinkage is problematic such as the grocery industry, this means consumers must pay more for products they need to survive. For businesses which sell highly price-sensitive goods, higher prices can place them at a competitive disadvantage. Businesses may also have to offer lower wages and hold the line on wage increases, making it more difficult to attract and retain high-quality employees.

TABLE1: ASSUMED ILLUSTRATION

Situation : 1	(In US $)		
Stock as on 01.04.2011	10000000		
Sales : (Assume company registered 100% sales by 31.03.2012)	10000000		
a) Assume Expected Profit @ 10% on sales		**1000000**	
Situation : 2			
Stock as on 01.04.2011	10000000		
b) Inventory Shrinkage @1.45% *	***145000***		
Net Stock available for sale	9855000		
Sales: (Assume company registered 100% sales by 31.03.2012)	9855000		
c) Assume Expected profit @ 10% on sales		**985500**	
d) Loss on Sales (a-c)		***145000***	
Net loss to the company (b + d)			***290000***

* Global Retail Shrinkage is at 1.45% on sale

Source: GRTB-2011.

OBJECTIVES OF THE STUDY

1) To focus on implications faced by Retail firms due to inventory shrinkage.
2) To highlight the importance of control measures/strategies to reduce the inventory shrinkage in retailing.

PREVENTIVE MEASURES TO CONTROL INVENTORY SHRINKAGE

The retail industry reports that 50 percent of inventory loss is due to external theft, 30 percent is due to internal theft, and 20 percent is due to poor paperwork. While retail percentage figures may not apply exactly to all industries, the categories remain valid. One needs to look for a system that monitors all three of these areas.

1) EMPLOYEE THEFT: "DO, EMPLOYEES UNDERSTAND THE TRUE COST OF LOST MATERIAL?"

Many retailers find it hard to believe that their employees or customers would steal. But unfortunately stealing, especially petty theft is a very common reason for "inventory shrinkage." And a retailer, who doesn't admit that theft is a problem, or a potential problem, is just burying his or her head in the sand. In fact, many employees don't realize the value of your stock inventory and may "borrow" products or take samples for their personal use.

Did the employees think they were stealing? Probably not. These were good people who never would have thought of taking money out of the cash register. But they didn't appreciate the true value of inventory. They didn't see the direct relationship between the inventory in the store, turning that inventory into cash by selling it to customers, and using that cash to pay employees and other expenses. Employees must see all inventory shrinkage as an expense that reduces the amount of money available to pay wages and benefits. It takes money out of their pockets.

Some retailers install security cameras and other theft-deterrent devices. While they are important tools in a retail environment, the effectiveness of these "hi-tech" solutions in a store, distribution warehouse is questionable. True, they may be a deterrent to some theft, but employees who are also thieves usually put considerable thought and effort into getting around these systems and continue to steal. At the same time, honest employees often feel intimidated and resentful as "big brother" continually watches their every move. These feelings often discourage good and loyal employees from giving their all for the company.

A better way to discourage theft is for management to create an atmosphere that encourages effective control of major source of Inventory shrinkage, 'Employee Theft'. How?

LIMIT ACCESS TO THE WAREHOUSE: A Retailer cannot hold warehouse employees responsible for the material in warehouse if customers, truckers, salespeople, and other individuals can walk through the aisles, unescorted, at any time. Only the people receiving, moving, picking, and packing material should be allowed in the area where merchandise is stocked. Salespeople may complain that they need to run out to the warehouse to check material availability because the stock balances in the computer are inaccurate. This may be true. Unfortunately, one of the major reasons why computer stock balances are inaccurate involves the number of people who have access to the warehouse. This is truly a "chicken and egg" situation: Salespeople need access to the warehouse because your stock balances are inaccurate. Stock balances are inaccurate because salespeople (along with customers, vendors, truckers, and others) have access to the warehouse. This is a vicious cycle that won't be broken until implement business policies that are designed to maintain accurate stock quantities.

Some retailers can't keep salespeople out of their warehouse. Maybe they don't have enough help, or maybe salespeople are responsible for providing after-hours service to customers. If so, be sure to implement a tool that allows salespeople to easily record any material they remove. In fact, many companies allow the salespeople themselves to develop the system to record the products they remove for emergencies, samples, or other valid reasons. This "system" is often just a clip-board hanging by the warehouse door, the following information is noted for each item taken.

PAY YOUR EMPLOYEES WELL: If a retailer pays the employees more than they could earn at other retailers, and pay them based on how well they perform, then probably be able to get the best people available in the workforce. When employees can see a direct correlation between performance and their compensation, they usually tend to work hard. When the accuracy of on-hand quantities affects the compensation of all employees that have access to warehouse inventory, then employees are motivated to treat employer's inventory as if it was their own. It's like having management constantly watching over your warehouse operations.

RECOGNIZE THE ORGANISED RETAIL CRIME (ORC): If someone steals, they are stealing from everyone who works for your company. After all, the money used to buy replacement merchandise is money that could have been used to pay higher wages or provide additional benefits. If a retailer overlook certain indiscretions or continually give people a "second chance," i.e., condoning behaviour that is detrimental to the well-being of the company and its employees.

MAINTAIN A STRICT EMPLOYEE THEFT POLICY

- Explain fully that theft is a fireable offense and that there are no second chances. If employees think they can get away with theft, they are much more likely to attempt to steal than if there is a strictly enforced employee theft policy in place.
- Make examples out of previous employees to affirm the management's seriousness.

PROVIDE GOOD EMPLOYEE TRAINING

- Thwart register errors by ensuring each employee fully understands the POS terminal and his or her duties at the register. Non-criminal cash register errors account for a considerable percentage of inventory shrinkage.
- Train your packagers and warehouse employees how to properly lift and handle product. Damage to products is almost entirely preventable.

FEW REPUTABLE PRACTICES

- ✓ **Pantaloon's People Management System:** with over 18,000 employees, the Pantaloon's People Management System initiative in building five pillars of people based growth – Culture Building, Performance Management, People Processes, Management Process and Leadership Brilliance. A competent Learning & Development team is responsible for training employees at all levels across the country, focusing on various aspects of retailing and assessment of training needs across knowledge, Skills and "Attitude" areas.
- ✓ **Pragathi, Spencer's Centre for Retail Excellence:** RPG retail's "Training for Operational Excellence" aimed at Manpower, trained in Product Knowledge, Customer Acquisition skills, Store Economics and Nurturing a "Professional Culture" etc., which ultimately ensuring total alignment to business goals and growth to both the individual and the organisation.

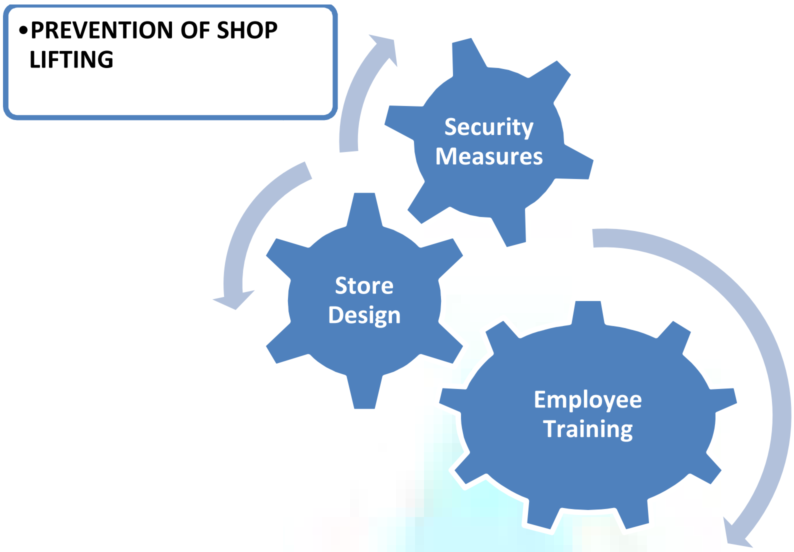
2) SHOPLIFTING

Second major source of inventory shrinkage after employee theft is 'Shoplifting', combined account for the largest source of property crime committed annually. The easiest way for retailers to discourage theft in a store is by taking away opportunities to steal. A little thought into the store's layout and design can prevent theft before a loss occurs. Here's How:

- **CHECKOUT:** Designing the store lay out so customers must pass the register area and staff to exit the store. Never leave the register unlocked or unattended. Do not display merchandise near the store exits.
- **TIDY UP:** Keeping the store neat and orderly. Full displays and straightened shelves allow employees to see at a glance if something is missing.
- **VIEW ALL:** Using mirrors to eliminate blind spots in corners that might hide shoplifters. Maintain adequate lighting in all areas of the store; keep fixtures and displays low for better visibility.
- **UNDER LOCK AND KEY**: Placing small, expensive items in locked cabinets or behind the counter. Rest rooms and dressing areas should be watched at all times. Keep dressing rooms locked and limit the number of items taken in by each customer. Use alarms on unlocked exits and close or block off unused checkout aisles.
- **SIGNAGE:** Signs and posters reinforcing security messages should be used. Post anti-shoplifting signs like 'Shoplifters Will Be Prosecuted' in clearly visible locations.
- **SECURITY:** Using security equipment such as closed circuit television, security tags and two-way mirrors. Uniformed security guards are also powerful visual deterrents to the shoplifter.

A well-designed store layout will not eliminate all shoplifting but will help reduce it. Combine customer service techniques with good store design to combat shoplifting. (See Figure:2)

FIGURE 2: COMBINATION OF SHOP LIFTING PREVENTION TOOLS



3) ADMINISTRATIVE ERRORS AND VENDOR ERRORS

Inventory accuracy is a necessary element in any effective replenishment system. If buyers don't know how much of a product is in retailer's warehouse and available for sale, there is no way they can accurately determine when to replenish stock and how much to order. Retailer will end up with a loss, due to shortage of products (Stock-Out Situation), and not readily available to pick, when customer is tend to purchase.

TIE SALES TO INVENTORY COUNTS": A point of sale system ties every sale to inventory count and costs. Every time a clerk, ring up a sale, the inventory numbers reflect the change. This tells exactly how much inventory should be coming off the shelves in the back room. If 1,000 units are sold and have a reduction in inventory of 1,100, then, need to examine backroom security measures.

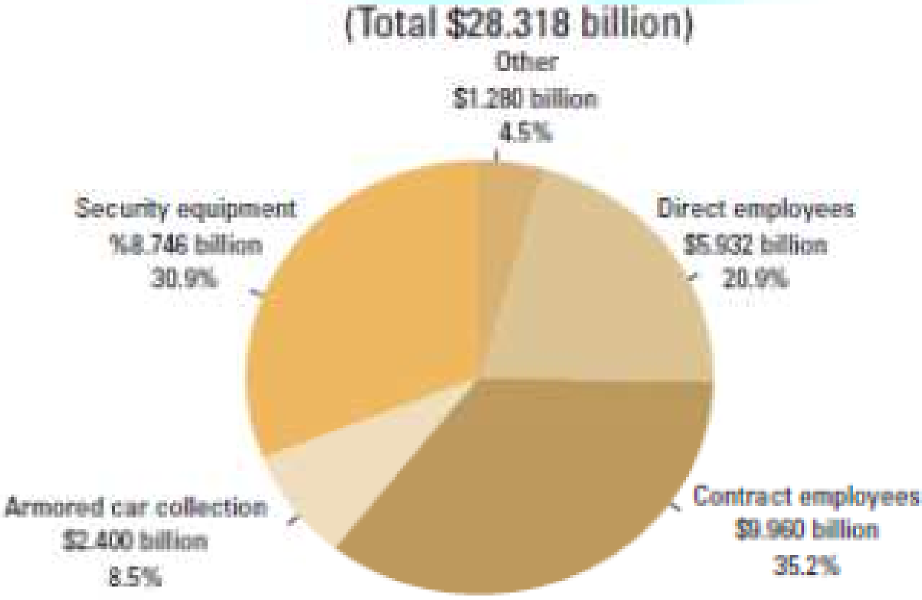
EXAMINE PROFIT MARGINS REPORT: A good information system gives a profit margins report in each category of product. If one area has a reduced margin, retailer need to investigate what is going on in the warehouse. A retailer will plunge into reduced margins because of buying more inventory than selling.

CHECK ACTUAL INVENTORY AGAINST VENDOR CLAIMS: Using an information system to log in actual products ordered and received from vendors. Does not using the vendors' packing slips, because packaging errors occur? And may not have received the number of products the vendor claims to have shipped. Run your actual inventory numbers against vendor claims once a month, can identify areas where retailers are paying for inventory which they never received.

DISCUSSION

Shrinkage is rarely a good thing, and in a small business it can be costly. Inventory shrinkage is the reduction of inventory value between production and retail. This is the cost of goods being lost, stolen or misplaced. Tracking the percentage of inventory shrinkage allows you to see how much value is being lost. Ideally, you want to keep the figure as close to zero as possible. Ernst & Young's Study of Retail Loss Prevention examines how retailers manage one of their most significant costs Inventory Shrinkage, which includes employee theft, shoplifting, administrative and paperwork errors, and vendor errors/issues. In addition to the financial impact of "shrink," the survey provides new insight on the effectiveness of the programs and tools employed by retailers to combat it. Companies are placing a renewed emphasis on managing shrink to help improve profitability in this difficult economic environment. In 2011, retailers increased their spending on loss prevention and security by 5.6% over 2010 to US$28.3 billion globally, loss prevention equipment's share of total loss prevention expenditures actually declined slightly (See Figure:3).

FIGURE 3: GLOBAL LOSS PREVENTION EXPENDITURE



Source: Checkpoint systems (www.checkpointsystems.com)

The region with the sharpest decline in loss prevention equipment's share of expenditures was Europe, down 6.25%. Notably, shrink in Europe increased 7.8%, topping the global average. Shrinkage within the retail sector runs in to billions every year against an economic backdrop of reduced consumer spend and ever increasing pressure on margins through reduced sales and increasing costs.

RECOMMENDATIONS

"Many retailers are using security technologies such as anti-shoplifting, digital video and point-of-sale systems to help their staff zero in on theft problems."

- Point-of-sale data mining software solutions that detect potential theft problems at the cash register and alert appropriate personnel in real-time. These data mining packages can be tied to digital video recorders to provide crisp, clear images of who sold what to whom with a click of a button and can delivered to any location around the world.
- Source tagging programs where tiny anti-theft labels about the size of a paper clip are placed inside an actual product or product package, effectively hiding it from view.
- Self-alarming anti-theft tags that broadcast an audible alarm throughout the store when a shoplifter attempts to improperly remove it from merchandise.

Technology also allows employees to focus more time on assisting customers and less on patrolling the aisles. **"Retailers are going High Tech"** - Many supermarket retailers are installing "self-checkout lanes". This technology offers benefit to both retailers and their customers. 90% of the cost of maintaining a checkout line is the casher. Thus, eliminating the cashier can reduce costs and/or enable the store to open more checkout lines. To limit the potential theft in the self-checkout lanes, retailers are using various techniques. Like these deterrents are psychological, such as displaying customers on a video screen as they san their merchandise. In addition, an electronic scale beneath the shopping bags knows what's just been scanned and how much it is supposed to weigh. So if a shopper scans toothpaste while slipping a toothbrush in the shopping bag, the system beeps and asks that the item be entered again.

CONCLUSION

Reducing and eliminating inventory shrinkage requires due diligence from every business employee, from the customer associate to accounting and executive professionals. Though mistakes happen, continuous attention to details and quality care of the inventory will help eliminate unnecessary and avoidable shrinkage.

MANAGEMENT FOCUS: Businesses with high shrinkage often require that management place more focus on loss prevention. To encourage managers to be more vigilant, some retail organizations include loss prevention incentive programs as part of a manager's compensation program. While these programs can help to reduce shrinkage, it may require managers to devote more attention to loss prevention at the expense of other important tasks like training, staffing, promotions and other day-to-day operations.

Perceptibly, being able to put at least 2% of your annual inventory costs back in your pocket allows to maximize business investment and better grow the company. It can even pay for Point of Sale (POS) software system, allowing for even greater savings from improved efficiencies and increase customer satisfaction. "In developing a loss prevention program, retailers confront a trade-off between providing shopping convenience and a pleasant work environment on the one hand and, on the other hand, preventing losses due to shoplifting and employee theft. The key to an effective loss prevention program is determining the most effective way to protect merchandise while preserving an open, attractive store atmosphere and a feeling among employees that they are trusted".

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