



wisdom about the alleged root causes of shrink: poor forecasting, undisciplined distribution systems, and theft, among others. However, over 40% of the time, we found that what managers thought was the main driver of a shrink issue was shown to be the wrong culprit. True, the managers' theories often pointed to a contributing factor to the shrink problem, but not the *primary* cause. In comparison, by completing a rigorous analytical assessment of the issue, we were able to work with store managers and merchandisers to solve the primary causes of shrink. Since our approach addressed the core issues, the solutions were successful, measurable, and sustainable for the long term. It is vitally important to leverage intuition, but rely on facts.

#### FINDING THE ROOT CAUSE: DAIRY SHRINK

A major US grocery retailer recently conducted a project to address fluid dairy shrink in 300 stores. At almost 5%, fluid dairy shrink was more than twice the industry average. The business initially assumed that the issue was related to a high number of low-volume dairy SKUs or poor product rotation. Analysis showed that the issue was actually related to a quality problem with the caps on one-gallon milk – their highest volume SKU. By fixing the issue, dairy shrink was reduced by 55% and the company saved over \$1 million per year.



It is important that retailers not underestimate the complexity of determining solutions once a root cause is identified. For example, one major US office product retailer used data and analysis to identify a significant theft issue with inkjet cartridges. The company knew

shrink would continue if the issue was not addressed, but also had data that proved that inkjet cartridge sales would suffer considerably if the items were locked up behind a service counter. After significant analysis and testing, the company found the right answer – it redesigned its inkjet product display and location to better monitor theft, but not deter sales in the process. This example demonstrates that identifying the correct root cause is key to solving shrink, but it is only the first step in the process.

#### 3. TAKE A DISCIPLINED APPROACH

A common mistake retailers make is attacking shrink as a single large problem. To successfully combat shrink, retailers need to break down the problem into manageable levels by doing the following:

##### □ Identify the biggest opportunities

A truly thorough assessment of shrink begins by assessing the actual dollar value of reducing shrink, rather than just a percentage improvement. This assessment should include looking at shrink metrics in a variety of ways, such as by item, category, department, district, area and region. This allows you to look at the problem more analytically and determine your biggest areas of opportunity, helping you avoid expending effort in “pain-point” projects that may be highly visible to some people, but deliver little ultimate gain.

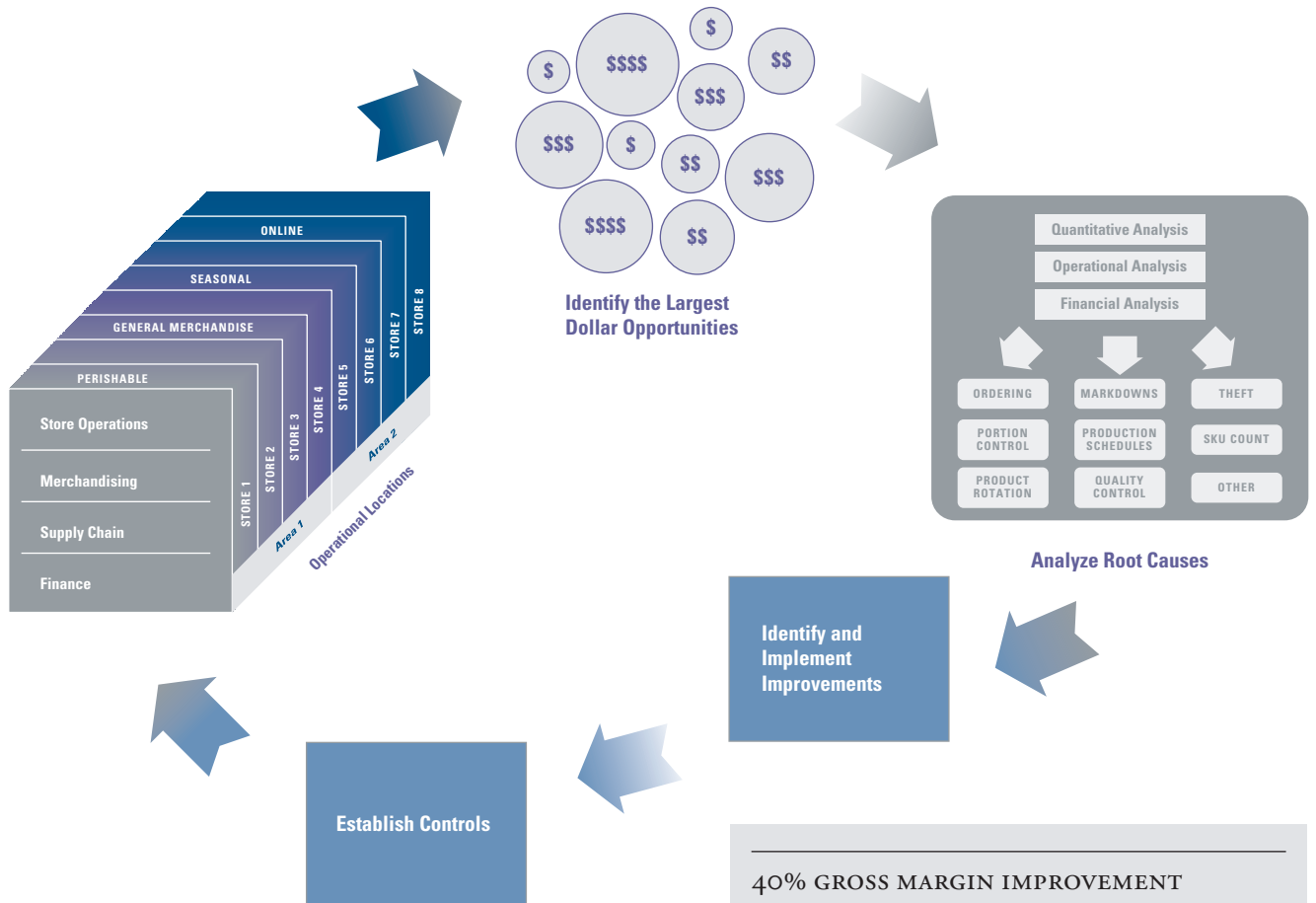
##### □ Dedicate resources

To attack a problem as stubborn as shrink, retailers need to assign a focused team to solve the problem and then hold the team members accountable for savings. Reducing shrink cannot be accomplished with a general directive to employees. Instead, it requires a concerted focus of professionals and team leaders who can build experience in solving shrink problems over time.

##### □ Track progress

Once you know where to focus and who will do the work, progress must be tracked and managed. Managers should know the status and expected completion date for every project in your shrink initiative. In the best managed companies today, shrink is a clear management Key Performance Indicator and projects that improve shrink are tracked regularly.

## Shrink Reduction Approach



### 30% PERISHABLE SHRINK REDUCTION

For several years, a large retailer had attempted to substantially reduce its perishable shrink. SSA & Company worked with the business to apply the Shrink Reduction Toolkit to determine the root causes of shrink and identify a solution. Analysis showed that store associates were consistently over-ordering perishable inventory due to a lack of detailed historical sales data. To resolve the issue, the company developed order guides for all perishable departments, and required their use in all stores. These changes resulted in a 30% reduction in perishable shrink with an annual benefit of approximately \$7 million.

### 40% GROSS MARGIN IMPROVEMENT

Portion control can be an untapped opportunity in retail, and one that contributes significantly to shrink. In one example, a grocery retailer found its in-store baked cakes exceeded their tag weight by anywhere from 1 to 37 ounces more than 95% of the time! After gathering and analyzing the data, it was determined that these weight fluctuations were caused by excessive icing on the cakes. Because this grocer produces nearly 2 million cakes each year, improper portioning of ingredients like icing results in excessive costs and reduced profitability. In this case, over-icing caused a 40% margin loss on each cake sold. With the help of SSA & Company, the retailer installed scales in all its bakery departments and implemented step-by-step instructions for building cakes. As a result, stores reduced their icing expense by \$600,000 annually, and improved cake profitability by 20%.

