

Breakout 2.4

***Shrinkage: Building
Leadership and Taking Action***

*ECR Conference, Berlin
Wednesday 28th May 2008*

Breakout Structure

- Introduction to the ECR Europe Shrinkage Group
- Scale of the Problem and the Size of the Prize
- Identifying Leadership in Loss Prevention
- Creating Collaborative Partnerships to Reduce Shrinkage
- Interactive Session on Collaboration
- Benchmark Feedback and Wrap Up

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Purpose of ECR Shrinkage Group

- Raise awareness of the problem of shrinkage
- Co-ordinate and sponsor cutting edge research
- Encourage companies to address the problem
- Promote a more systematic and systemic approach to dealing with the problem (the ECR Shrinkage Road Map)

Deliverables

- Measuring the Scale of the Problem – 2000 and 2004
- Understanding Hot Stores – Managers OR Location?
- Developing the ECR Approach – The Road Map
- Scoping the Potential of RFID
- Measuring Shrinkage – Developing a KPI
- Targeting Hot Stores – Using Store Checklists
- Redefining Shrinkage – Developing the Right Priorities
- Exploring Staff Offending – Where and How
- Creating a Rapid Improvement Road Map for Hot Stores
- The Use of Technology – Understanding its Role and ROI
- Working Together – Developing Retailer/Manufacturer Collaboration



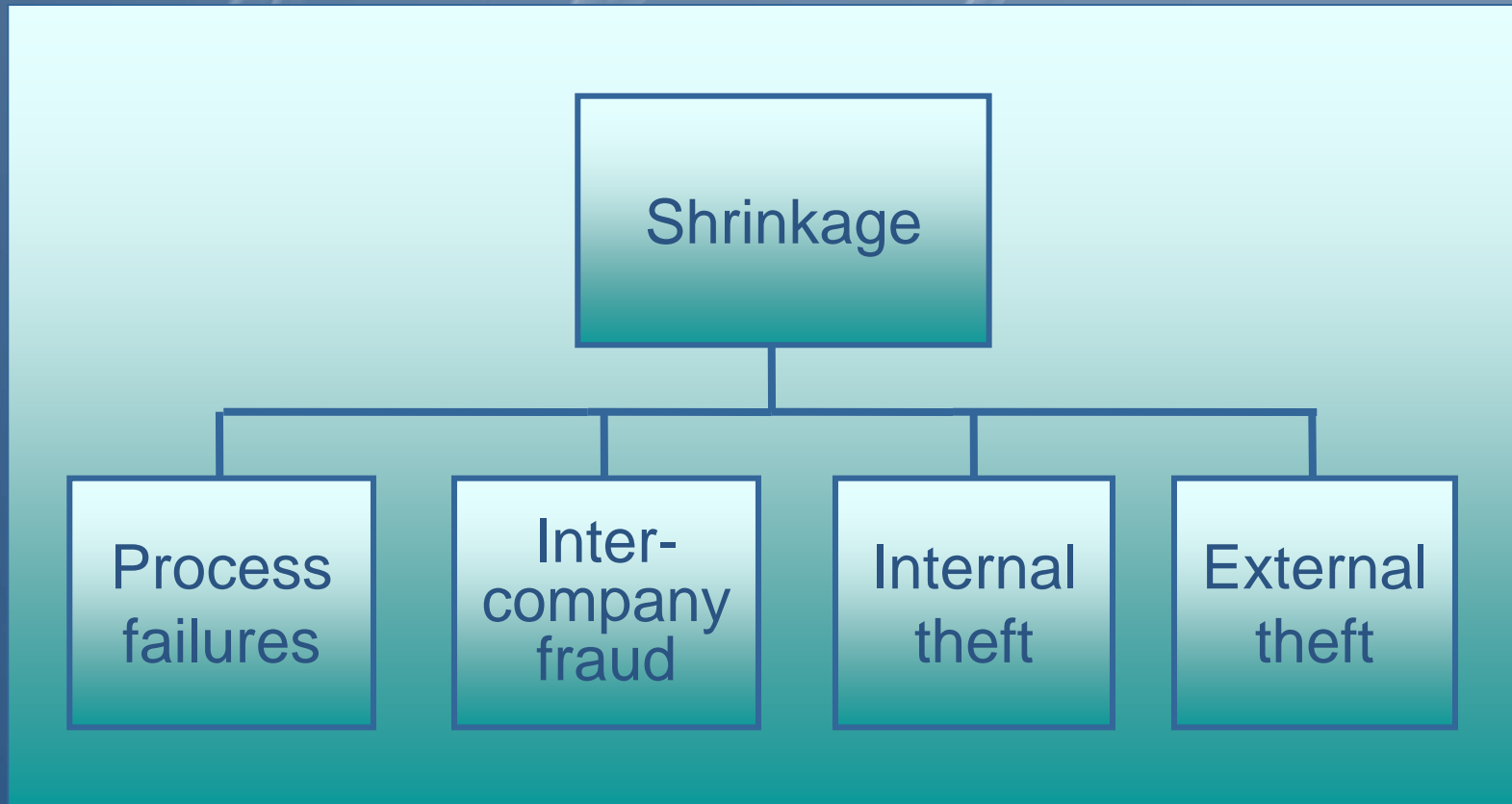
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Defining Shrinkage

Original ECR Europe Definition Shrinkage



What Does Shrinkage Mean?

Inter-Company Fraud

- × Deliberate Under/Over Delivery
- × Invoice Errors
- × Quality and Weight of Items

Process Failures

- × Inventory Errors
- × Pricing Errors
- × Damage to Stock
- × Promotion Errors
- × Stock Going Out of Date
- × Product Delivery/Scanning Errors

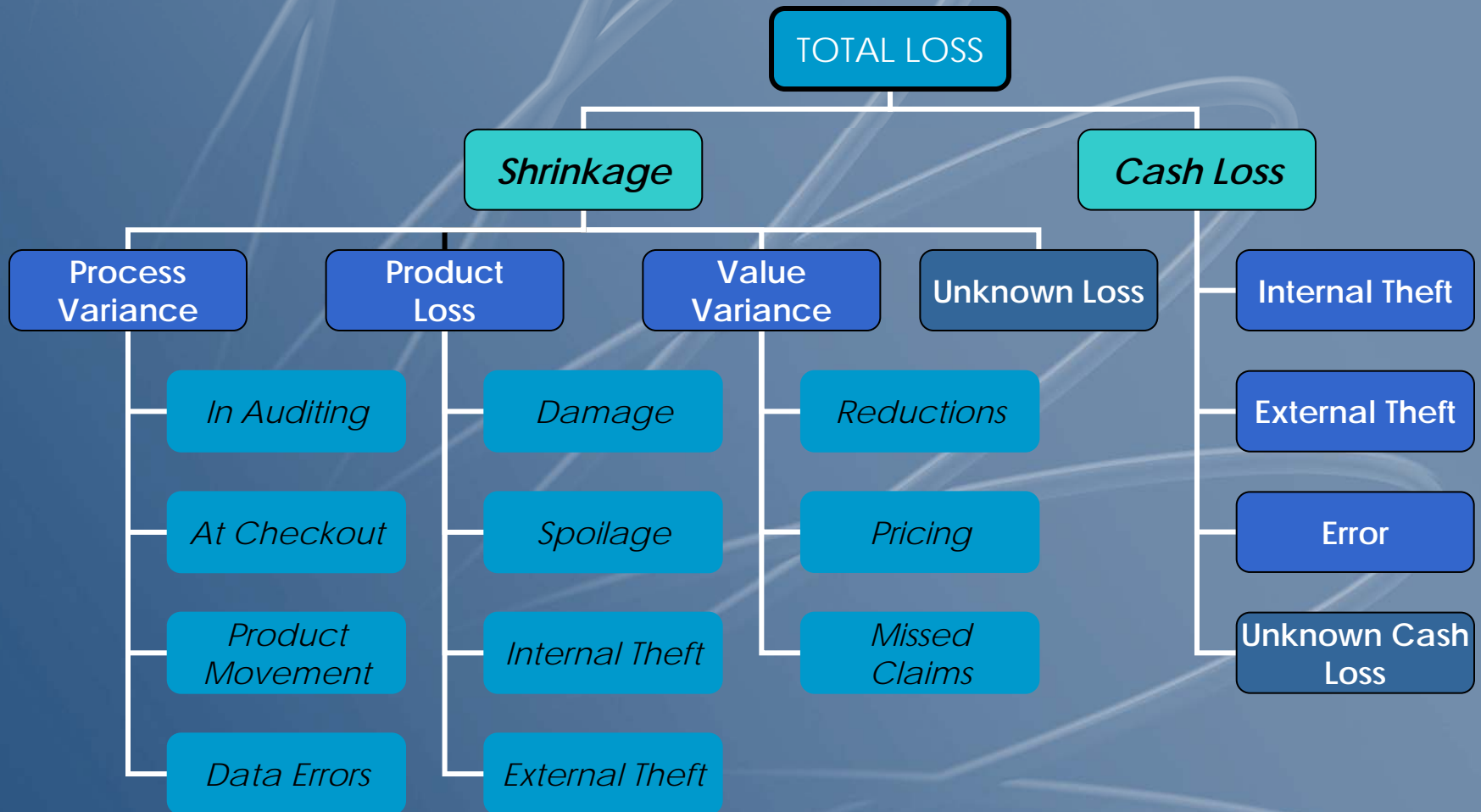
Internal Theft

- × Theft of Stock and Cash
- × 'Grazing'
- × Collusion

External Theft

- × Shoplifting
- × Returning Stolen Goods
- × 'Grazing'
- × Till Snatches
- × Burglary

New Shrinkage Typology



Scale of the Problem

International Comparisons

Year	Source	Size
2002	National S'market Res. Group (US)	2.32
2004	ECR Europe	1.84
2003	Retail Council of Canada	1.75
2006	Food Marketing Institute (US)	1.69
2006	NRSS (US)	1.57
2002	ECR Australia	1.52
2003	Otago University (New Zealand)	1.50
2007	Global Theft Barometer	1.36
2003	Eurohandelinstituts (Germany)	1.23

The ECR 2004 Survey

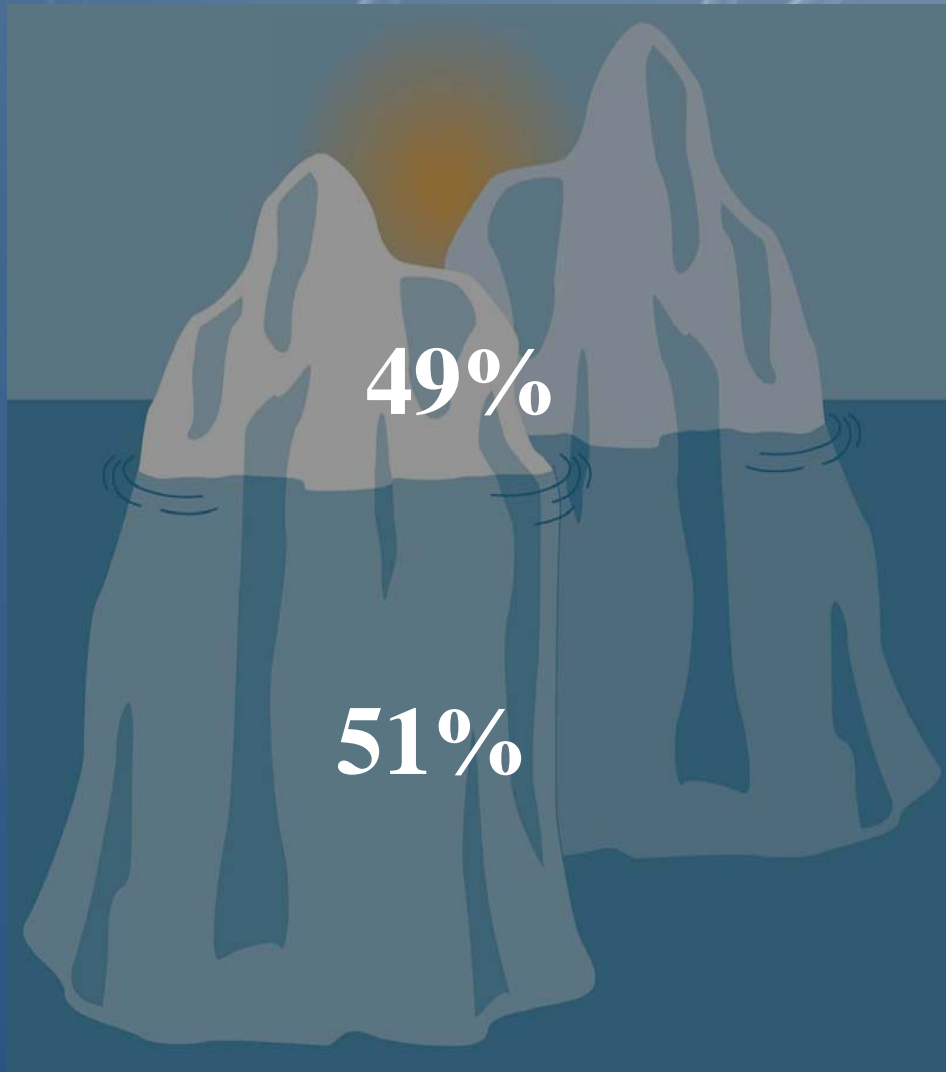
Sector	% of sales	Value (€ billions)
Retail	1.84	18.5
Manufacturer	0.57	5.7
Total	2.41	24.2

What does €24 billion buy?

Annual GDP of Luxembourg



Shrinkage Retail Iceberg

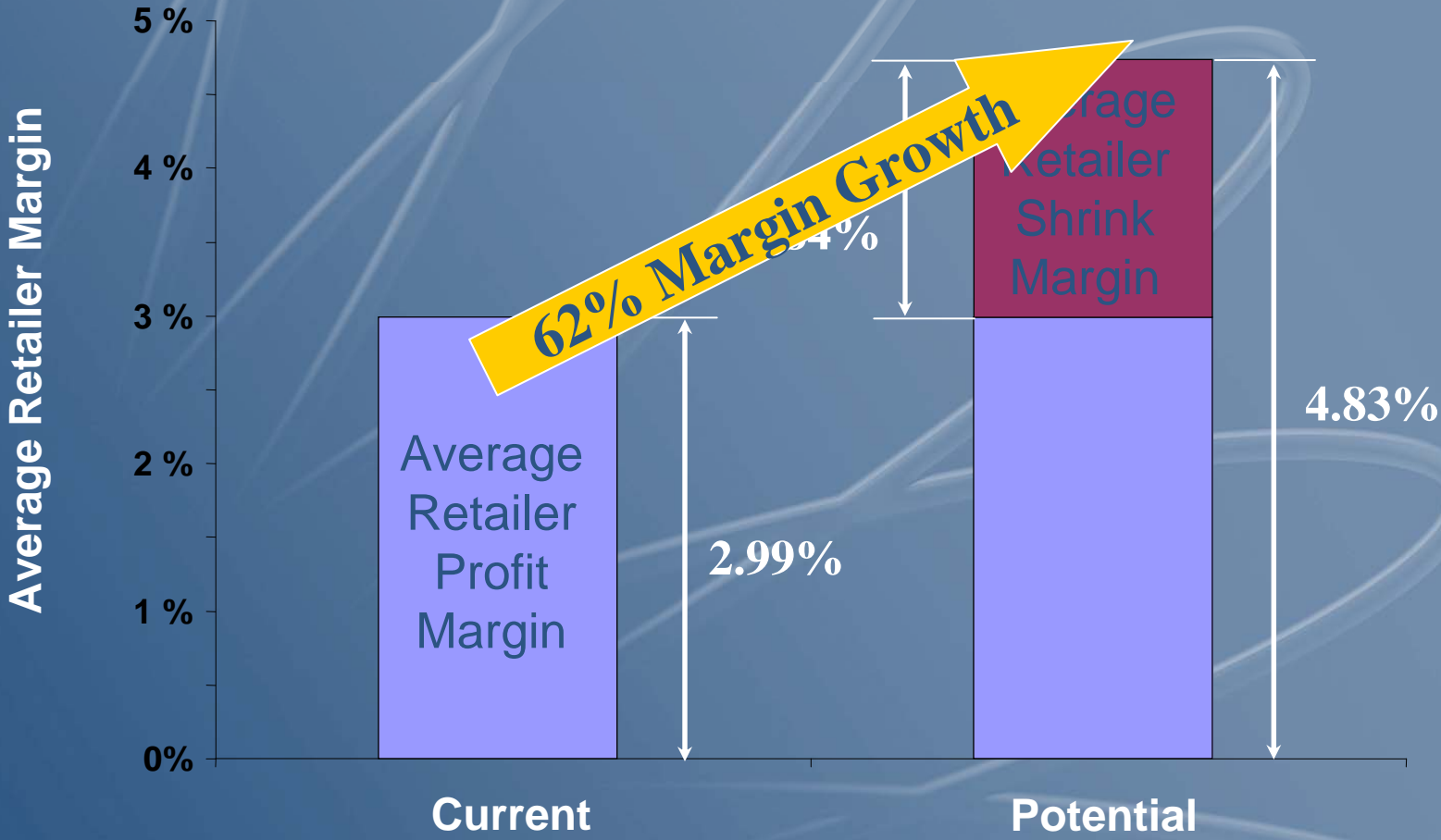


- Lack of visibility
- Lack of awareness
 - When did it happen?
 - Where did it happen?
 - How did it happen?
 - Who was responsible?
- Lack of accountability
- Prioritisation of the most visible/acceptable

Causes of Retail Stock Loss

Study	External	Internal	Process	Vendor
Otago Univ (New Zealand)	68	12	20	3
European Theft Barometer	49	31	14	6
ECR Europe	38	28	27	7
Retail Council of Canada	35	40	18	7
Food Marketing Institute (US)	35	38	18	8
ECR Australia	35	25	29	11
NRSS (US)	33	47	15	5
National S' market (US)	20	57	?	?

Retailer's Missed Profit Opportunity



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Background and Methodology

- Anecdotal evidence
- Usual suspects
- Findings from various shrink surveys
- Contacted 20 'world shrinkage experts'
- Ask to select their top 5 US retailers
- Compiled a composite list

Ranking of US Retailers

Position	Name of Company
1	Target
2	Limited Brands
3	BestBuy
4	The Gap
5	CVS

The background is a solid blue color with several white, glowing, abstract lines that resemble light trails or fiber optic paths. These lines are curved and looped, creating a sense of movement and depth. They originate from the top left and fan out towards the right side of the frame.

Senior Management Commitment

Senior Management Commitment

- Reaching a 'tipping point'
- Convince them of the opportunity
 - Show the impact on the consumer
 - Show the impact on profitability
 - Show the impact on shareholder value
- What senior management can provide
 - Generate urgency
 - Financial support
 - Ensure compliance



Organisational Ownership

Senior Management Commitment

Ensuring Organisational Ownership

- Become part of company culture
- Recognised as important
- Board level support
- Loss Prevention as 'Agents of Change'
- Encouraging a multi function approach



Organisational Ownership

Embedding Loss Prevention

Senior Management Commitment

Embedding Loss Prevention

- Make part of routine store activities
- Ensure other parts of the business buy into the idea and have it on their agenda
- Develop shrinkage as part of overall accountability

Strong LP Leadership

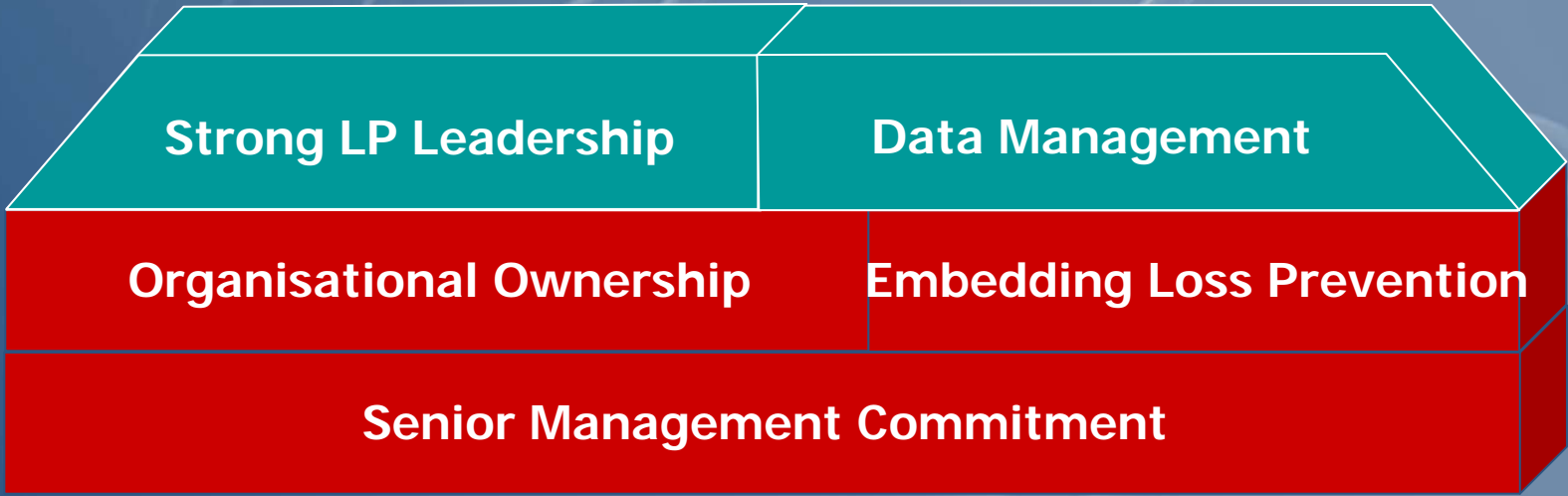
Organisational Ownership

Embedding Loss Prevention

Senior Management Commitment

Strong LP Leadership

- Provide the right outlook and attitude
- Drive the problem in the business
 - Personality
 - Energy
 - Determination
 - Team building
 - Relationship with the Board



Data Management

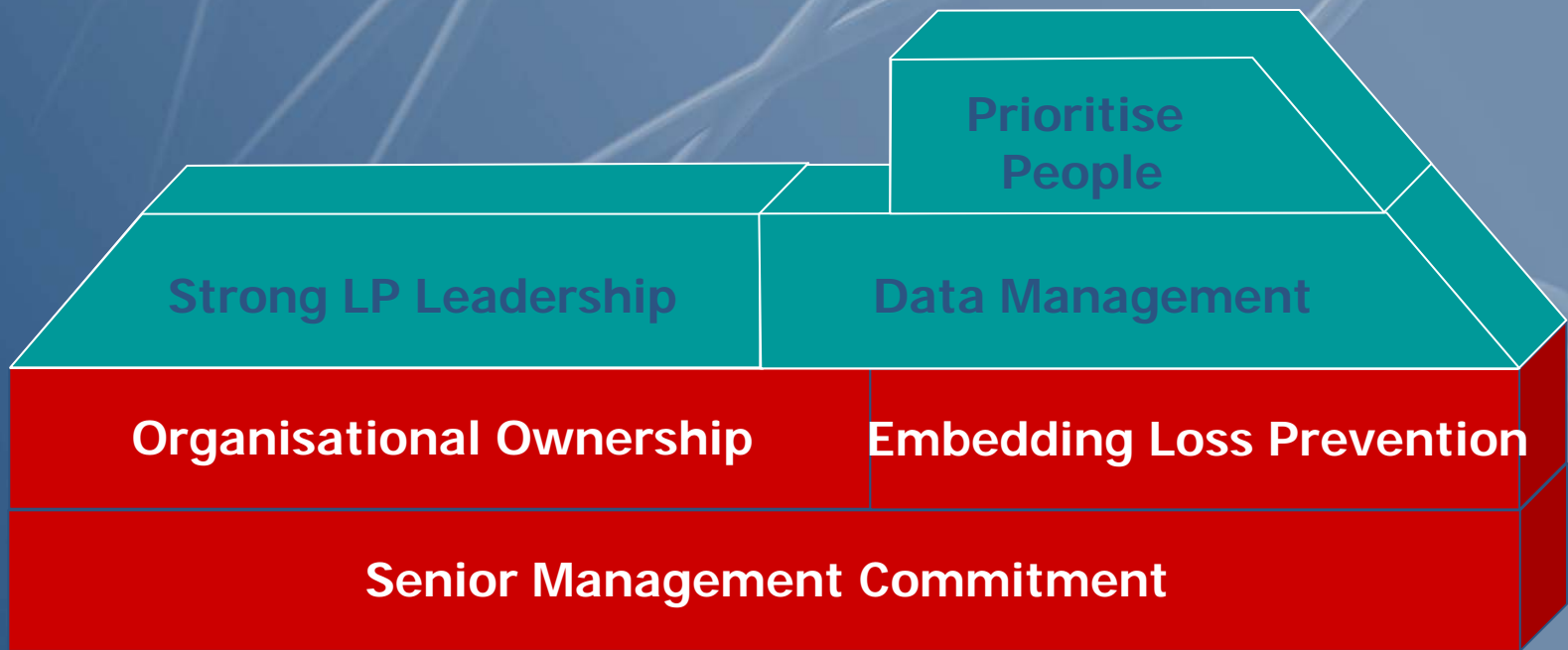
- Remove guesswork
- Develop analytical capability
- Stay on top of the data
- Make use of POS data – exception reporting
- Use data to monitor compliance
- Create focus – the 'hot' concept

The 'Hot' Concept

- **Unlock the value of the 'hot' concept**

- Products
- Places
- People
- Processes





Prioritise People

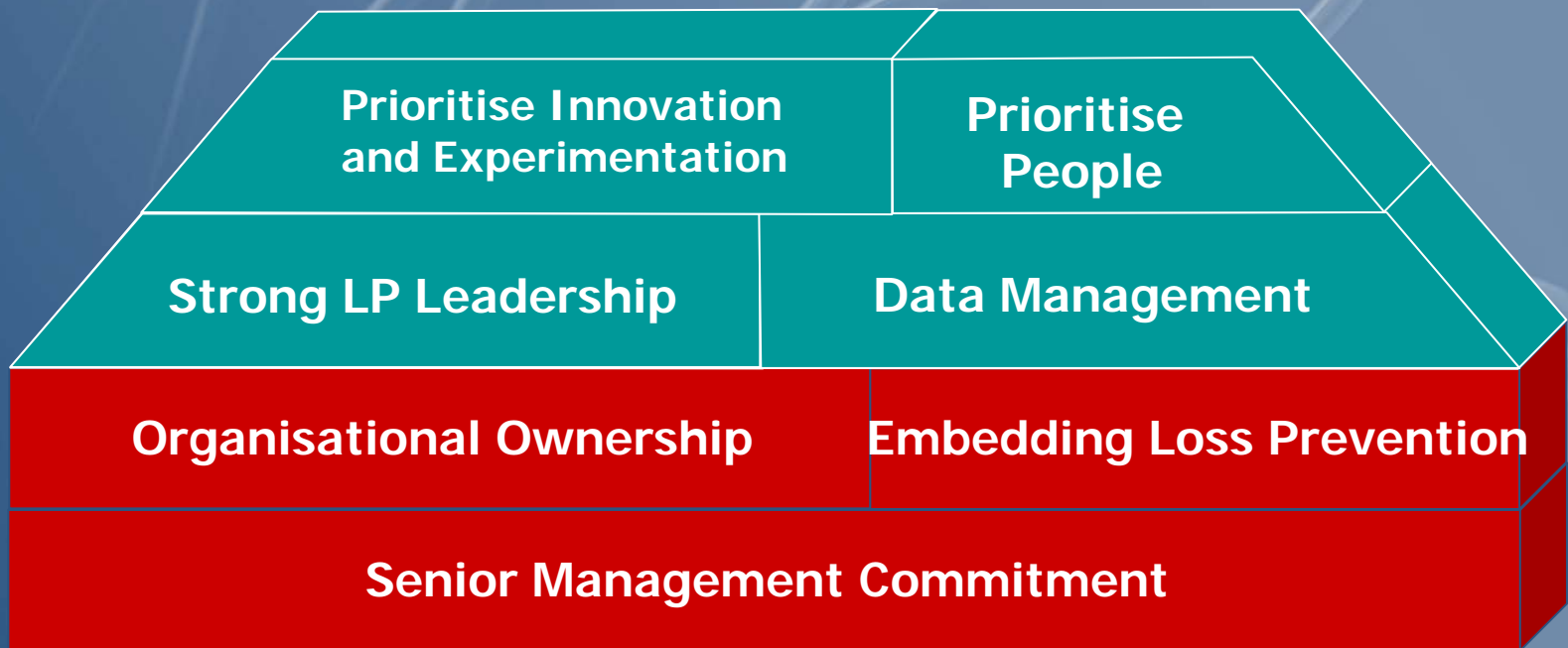
Organisational Level

- Reduce churn and turn of managers
- Listen to store staff
- Link personal benefit to shrink figure
- Pre-employment screening
- Education and training of store staff

Prioritise People

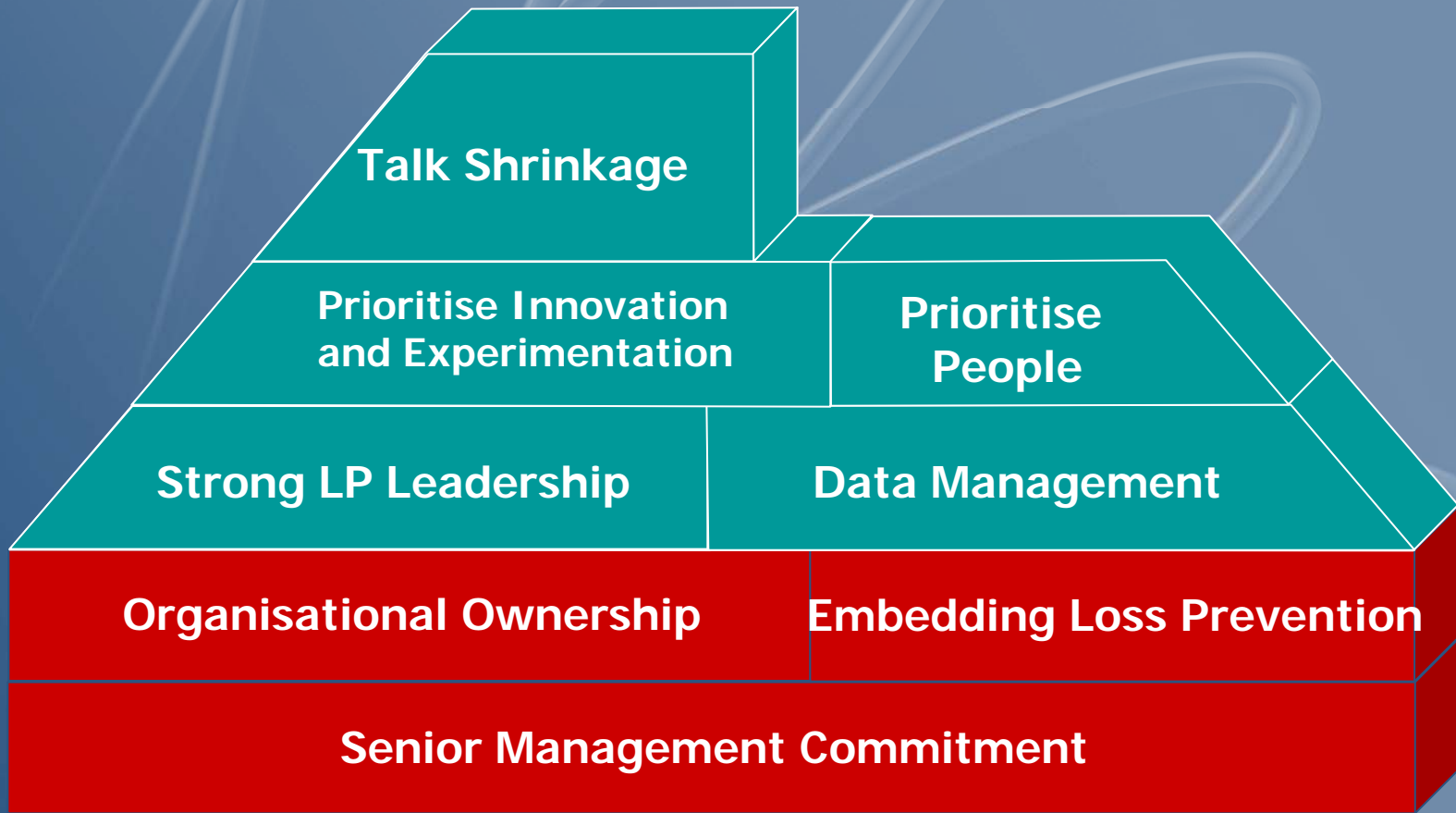
Loss Prevention Team

- Create a highly multi-functional team
- Reduce reliance on former police officers
- Prioritise training LP staff
- Develop analytical capability



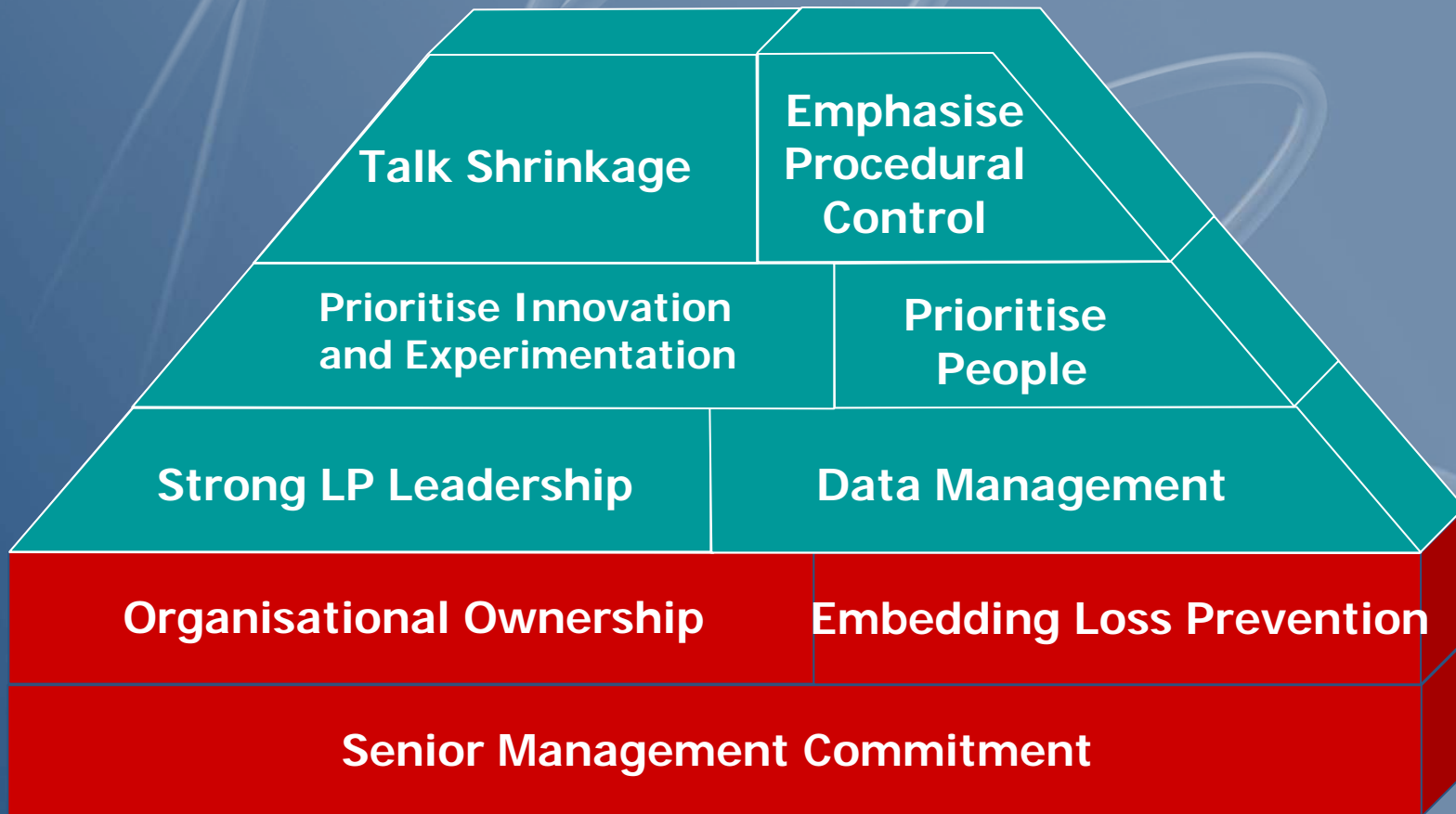
Prioritise Innovation and Experimentation

- Keep ahead of the game
- Initiate
 - Pilot studies on new ideas
 - Benchmarking against industry surveys
- Experiment.....
 - New solutions
 - New store layouts
- ECR survey showed that retailers who innovated and experimented most had 20% lower shrinkage



Talk Shrinkage

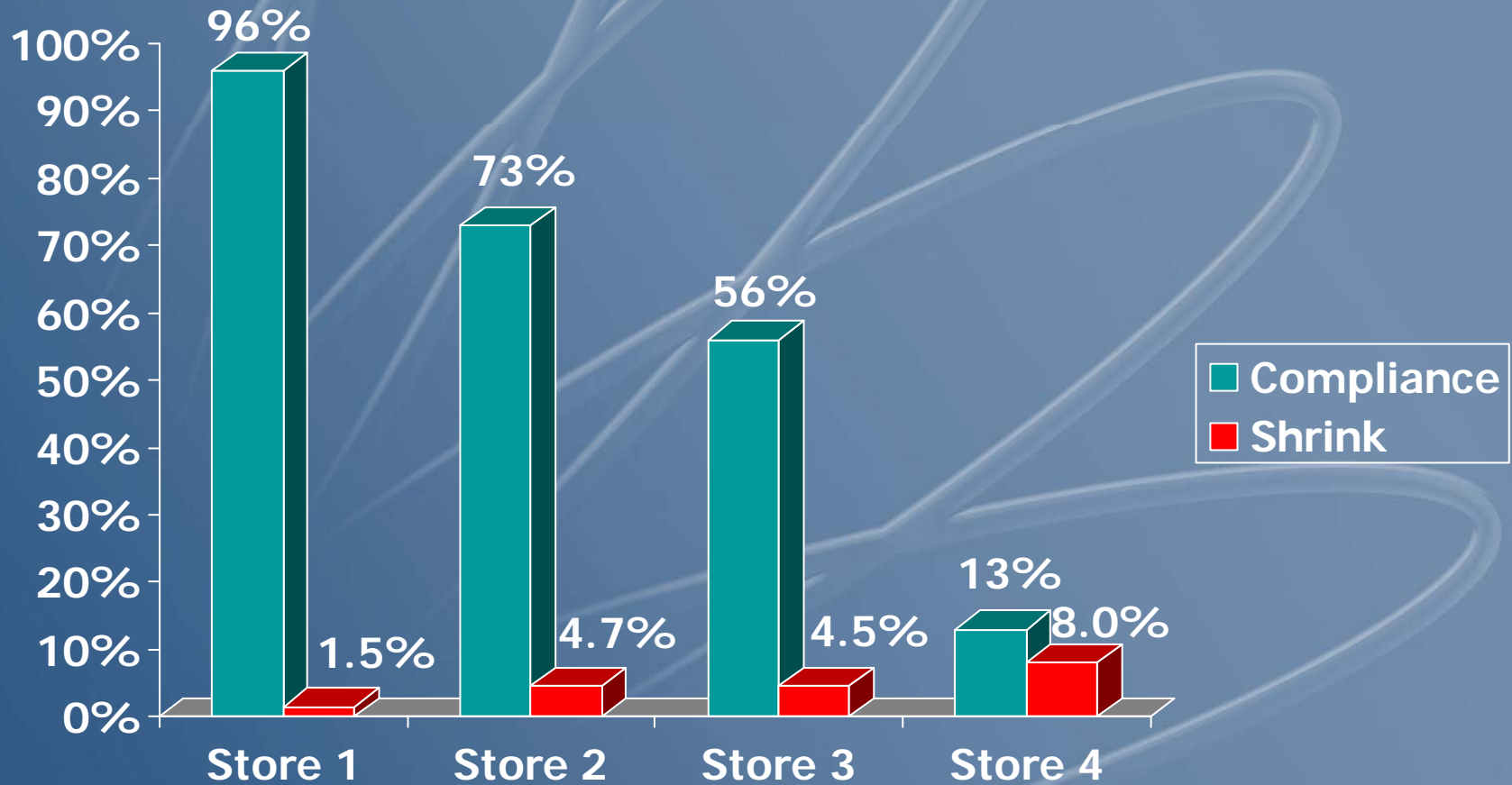
- Disseminate the message up and down the business
- Get shrink on the agenda of other functions
- Make sure store teams are informed – no excuses
- Think creatively about updating the message



Emphasise Procedural Control

- Removes opportunity
- Masks malicious activity
- Delivers ...
 - Cost effective wins
 - Quick wins
 - Sustainable solutions

Process Compliance & Shrinkage



Source: Ahold Hypermarkets: Czech: 2004



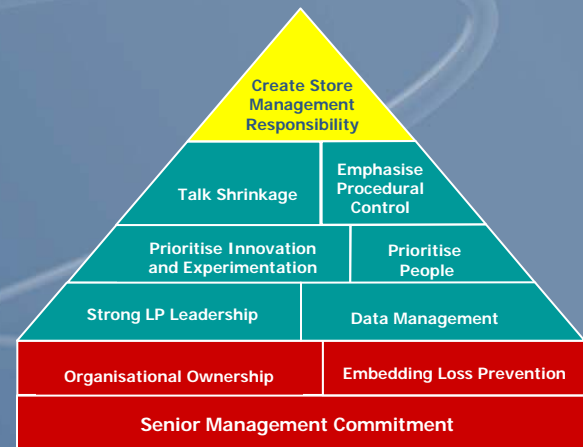
Create Store Management Responsibility

- Provide the tools and the data
- Give them training and stability
- Incentivise
- Listen to them
- Make them accountable



Conclusions

- Importance of senior management commitment
- All building blocks need to be in place if store staff are to deliver
- Provides a benchmarking opportunity ...



Benchmarking Your Business

- Score yourself against the Loss Prevention Pyramid!
- Feedback composite score at the end of session

Benchmarking Scoring System

9 = The company is completely aligned on this issue

5 = Some progress has been made in this area but much more needs to be done

1 = Completely non-existent within our organisation

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5	The company has available actionable, reliable and timely data on shrinkage.

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6	The company is willing to innovate and experiment to deal with the problem of shrinkage.

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6	The company is willing to innovate and experiment to deal with the problem of shrinkage.
7	The company has developed a strong multi functional and diverse team to deal with shrinkage.

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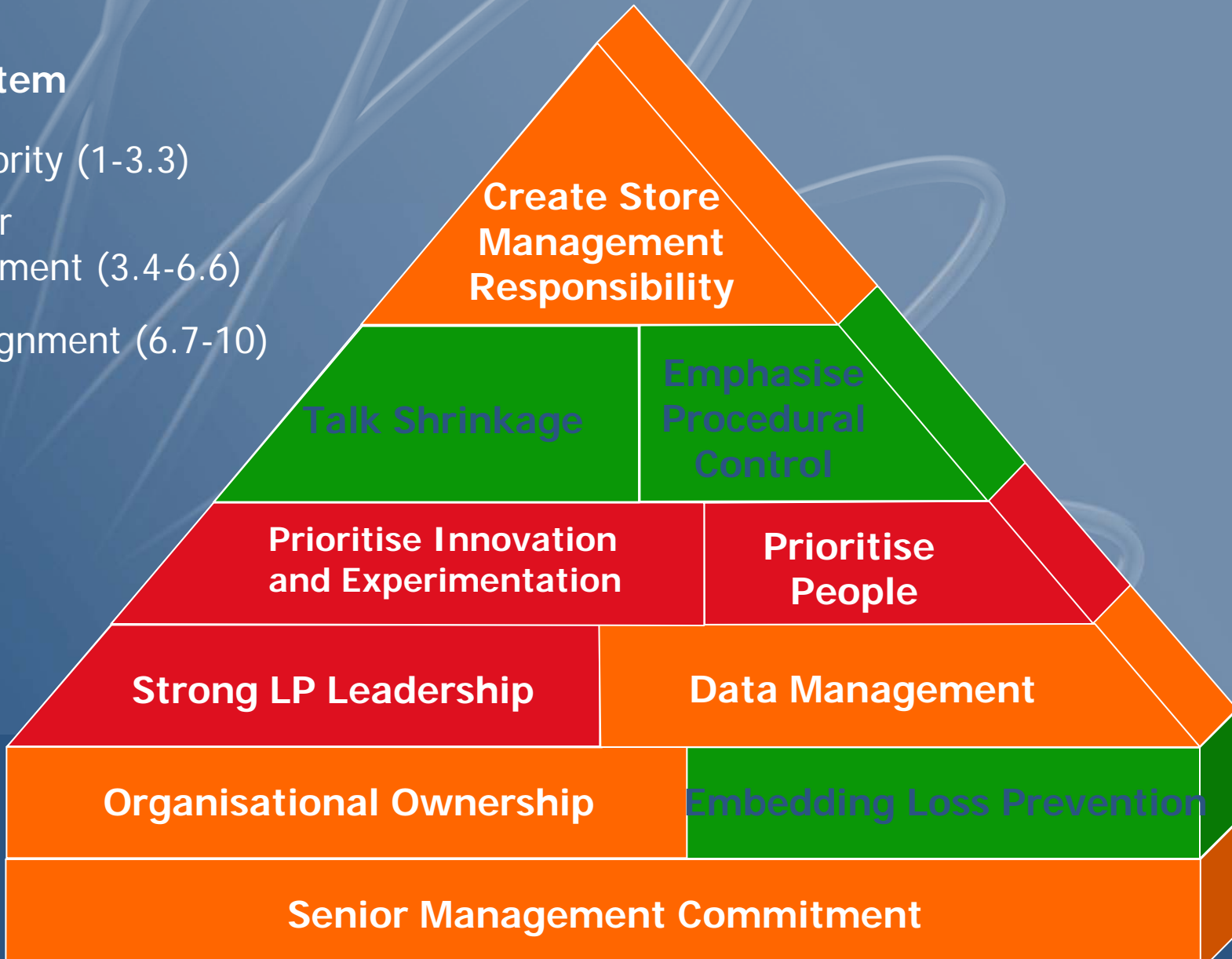
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7	The company has developed a strong multi functional and diverse team to deal with shrinkage.
8	The issue of shrinkage is clearly and regularly communicated across the organisation.
9	All parts of the company recognise the link between poor process adherence and shrinkage.
10	Store managers and associates are given the necessary data, tools and training to enable them to deal with shrinkage effectively.

Benchmark Results: Example




Scoring System

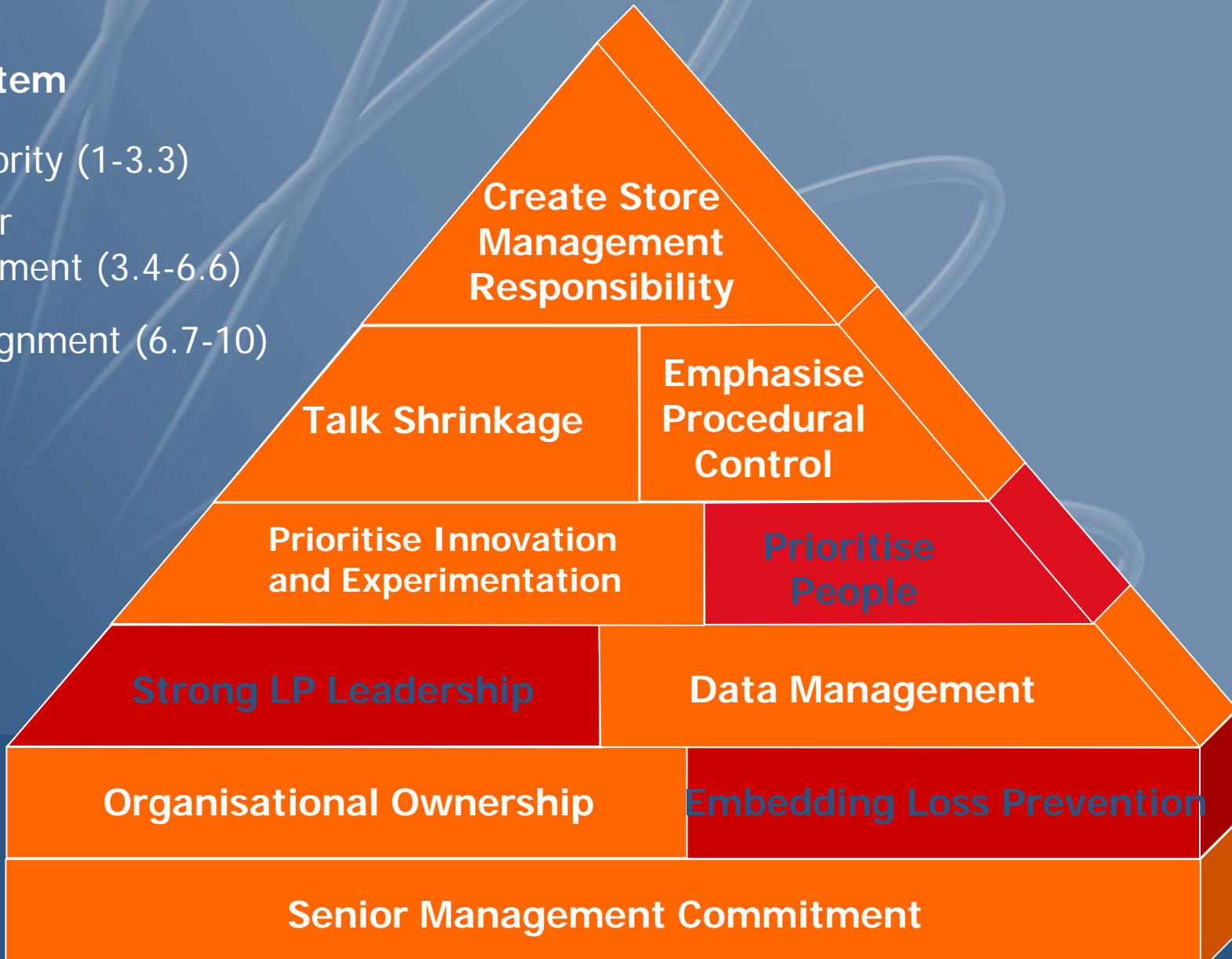
-  High Priority (1-3.3)
-  Room for Improvement (3.4-6.6)
-  Good alignment (6.7-10)



Benchmark Results: Russian Retailers

Scoring System

-  High Priority (1-3.3)
-  Room for Improvement (3.4-6.6)
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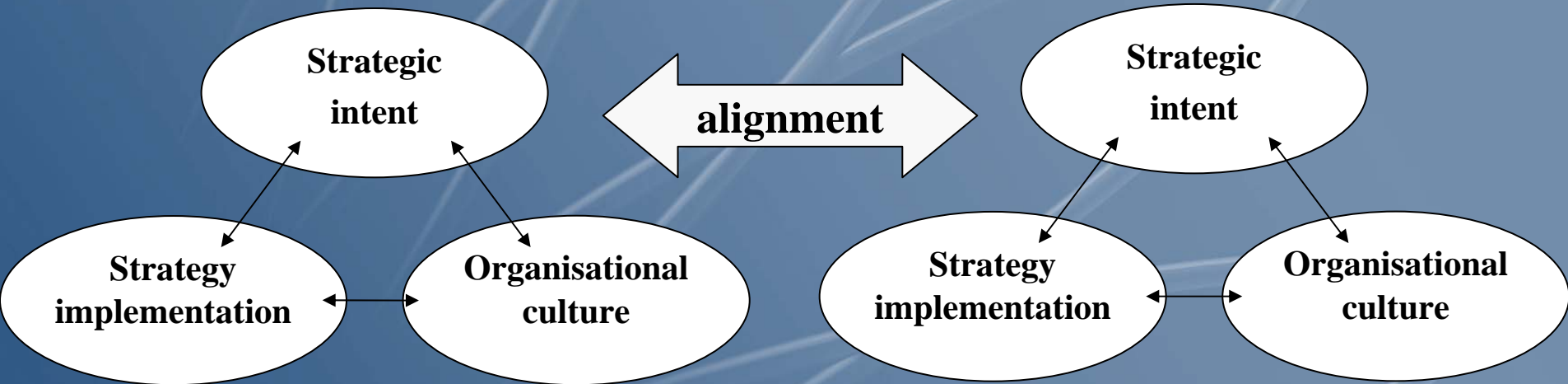
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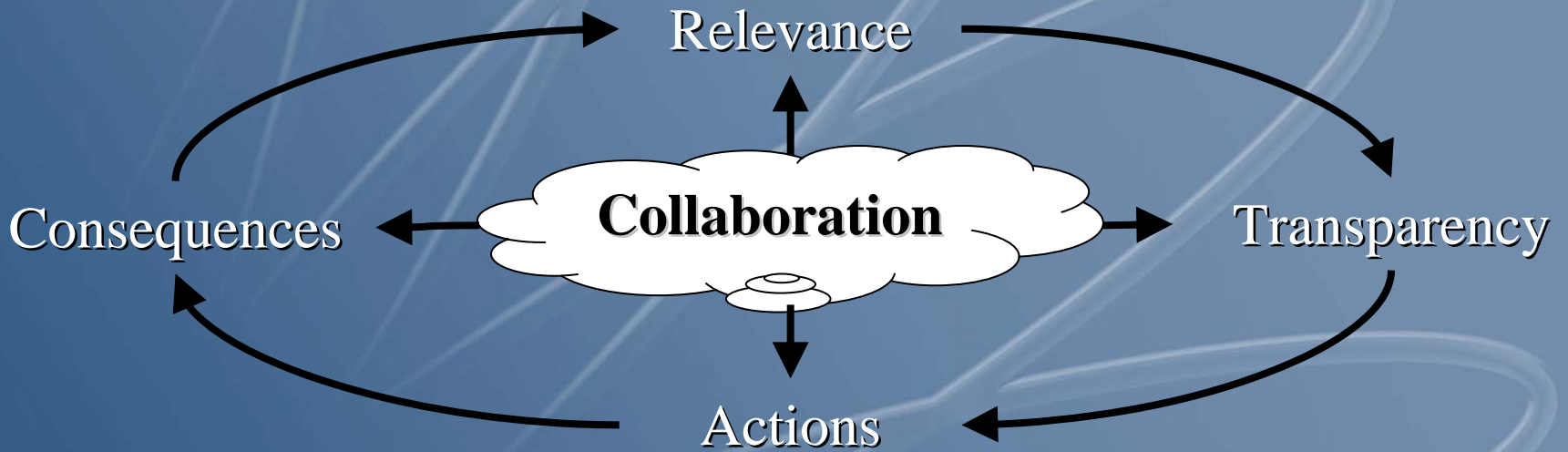
Collaboration context

Manufacturer

Retailer



The Cycle of Collaboration



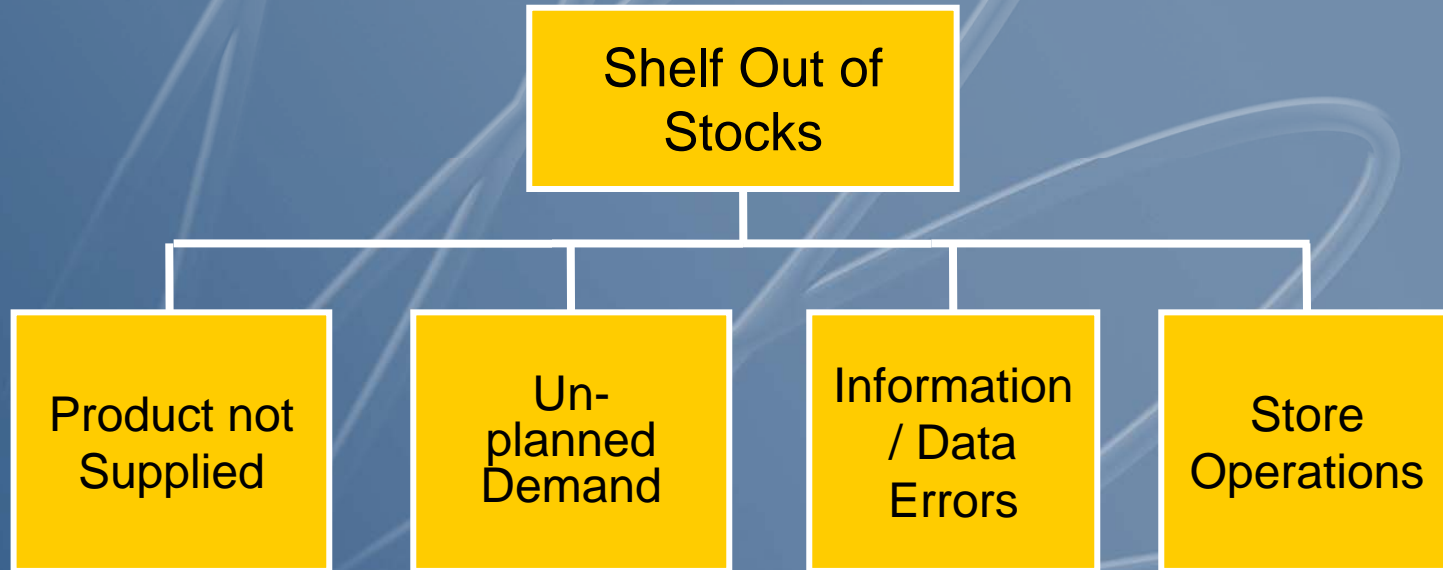
Case Studies

Case	Initiative	Focal firm	Partners
1	Pay on scan	Retailer 1	Five suppliers
2	Supplier engagement	Retailer 2	Two suppliers
3	Product launch	Supplier 1	Four divisions of Retailer 3

Enablers and inhibitors of collaboration

Factor	Enabler	Inhibitor
Relevance	<ul style="list-style-type: none"> - Executive commitment - Clear link between shrinkage and sales: lose less, sell more 	<ul style="list-style-type: none"> - Competing priorities - Viewing shrinkage as 'lose less, sell less'
Transparency	<ul style="list-style-type: none"> - Shrinkage and sales data, by line - Easy access to data - Relevant reporting across functions 	<ul style="list-style-type: none"> - Lack of timely data - Reluctance to share information - Poor communication
Actions	<ul style="list-style-type: none"> - Identify points of leverage - Design in solutions - Engage cross functional team 	<ul style="list-style-type: none"> - Unstructured approach
Consequences	<ul style="list-style-type: none"> - Isolate effects of actions - Use success to reinforce relevance 	<ul style="list-style-type: none"> - Inability to measure direct effects

Link to Shelf Out of Stocks



- Examples:
- Mis-picks
 - Late deliveries
 - Theft in Transit
 - Damages

- Master Data Errors
- Wrong Bar Codes

- Not placed an order
- Unrecorded In-Store damage
- Mis-scan
- Mis-count
- Theft
- Unrecorded waste

Empty Shelves



Approaches to collaboration

Stage	Steps
Relevance	<ul style="list-style-type: none">- Quantify impact of shrinkage (and fear of shrinkage) in terms of:<ul style="list-style-type: none">- direct measures: lost sales and additional costs,- indirect measures: shopper satisfaction; supply chain relationship.- Identifying role of supply chain partners in addressing shrinkage to create new value.- Link reward and recognition across functions to addressing shrinkage.
Transparency	<ul style="list-style-type: none">- Collate line level data on shrinkage and sales.- Provide timely access to relevant information.
Actions	<ul style="list-style-type: none">- Identify points of leverage, e.g. new product development; product launch; annual reviews; contract (re)negotiation.- Reach into each other's organisations to find opportunities.- Engage cross functional team to co-create solutions.
Consequences	<ul style="list-style-type: none">- Measure effect of work: new value created together- Disseminate and celebrate success

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Case Study B&Q and PJH Group





B&Q and PJH

Collaborating to Reduce Shrinkage

About B&Q and Kingfisher

- Kingfisher is the Number 1 Home Improvement retailer in Europe & 3rd Largest in the World - 700 stores in 11 countries
- 75,000 employees and serve 6m customers per week
- 324 UK B&Q Stores 3000 – 16000 sq m
- Castorama & Brico stores across European - France, Italy, Spain, Poland & Russia
- Strategic alliance with Hornbach Germany
- Over 50 stores in China, Korea and now Hong Kong

Introducing PJH Group

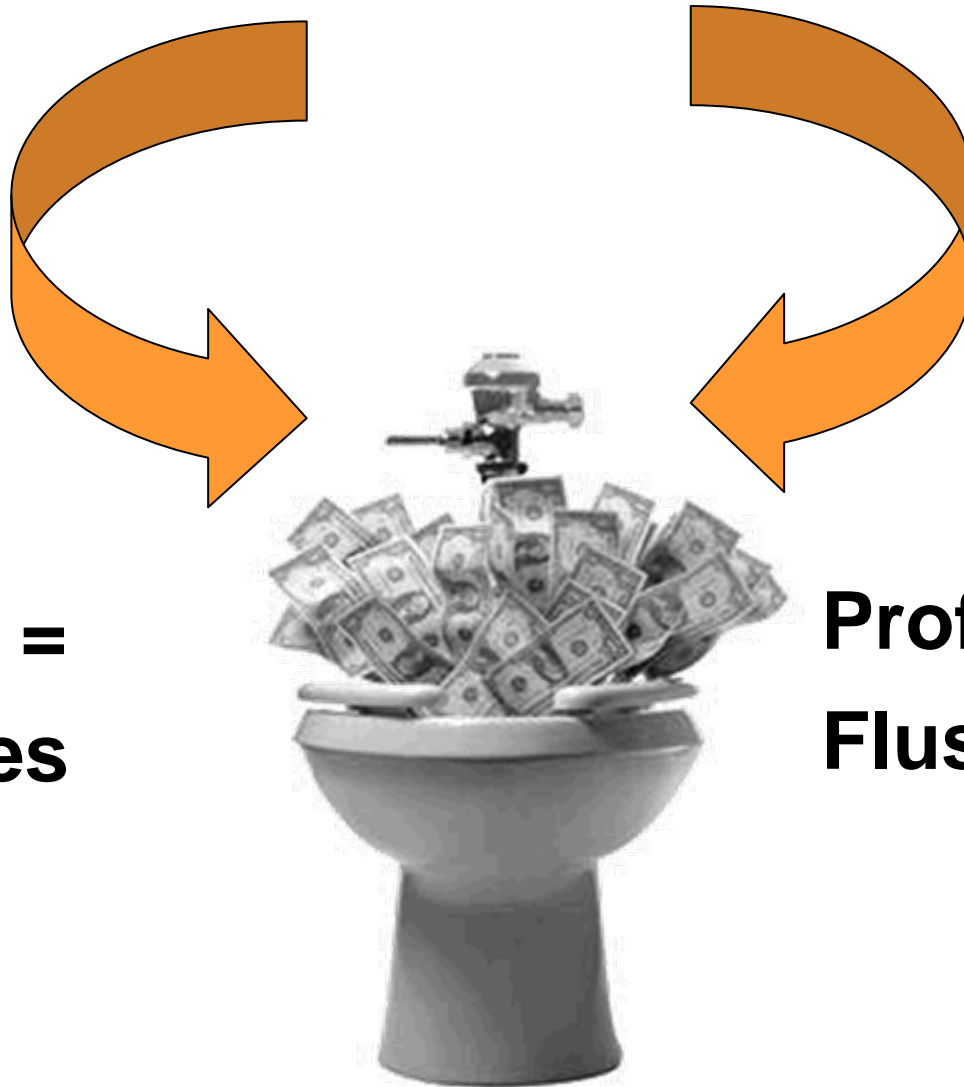
- UK Number 1 Distributor supplying Kitchens, Bathrooms and Appliances
- Sales Channels include B&Q, National House builders and High Street Retailers
- Part of Globe Union Group of Companies – Worldwide locations in Asia, North America and Europe
- 7 Distribution centres in the UK each with customer call centres
- Over 50,000 sq mtr , E.25m stock holding for fast efficient service
- 800 Staff
- Global sourcing incl. Turkey, Italy, Germany, Spain, Asia, Egypt
- Own Delivery Fleet 135 vehicles – Delivering to Store and to Home

PJH are B&Q's biggest Supplier of...

- Bathroom Suites
- Individual Bathroom components
- Showers
- ..and soon bathroom taps
- Products are sold from B&Q stores or delivered directly to B&Q customers



2004 - PJH is B&Q's Highest Shrinkage Vendor



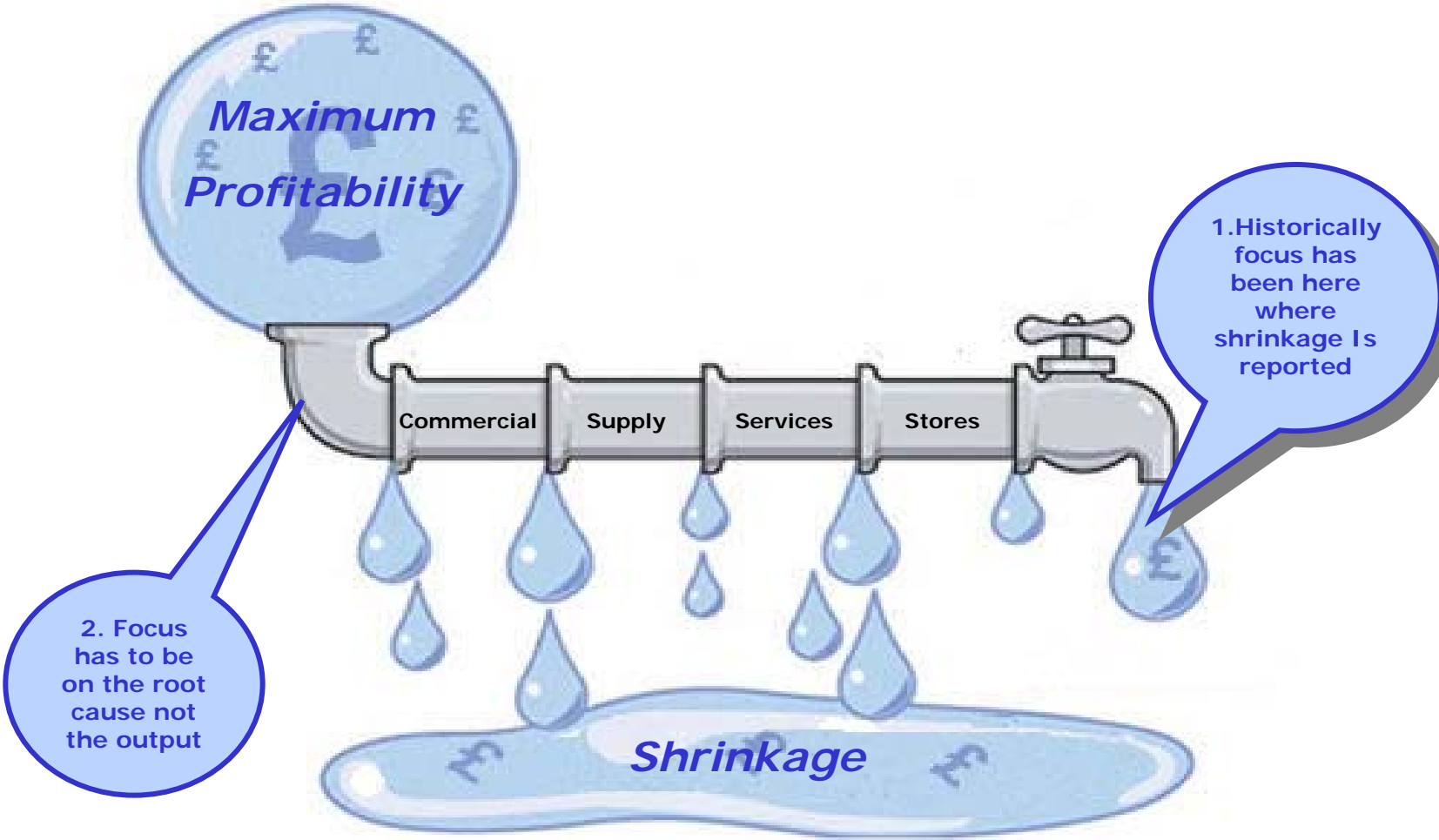
**Shrinkage =
5.70% Sales**

**Profit =
Flushed Away**

Starting the Journey to Lower Shrinkage

- Commitment by senior management in both organisations from the outset. **“It must be fixed”**
- SKU level shrinkage data, with trend data
- Demonstrating low shrinkage = higher sales
- Engineering shrinkage out of the product & packaging
- Isolating shrinkage “cause and effect” in each area of the supply chain
- Development of a “shrinkage pipeline” approach to cross functional working

The Shrinkage Pipeline – deal with root cause



Aligning our Approach

- Education Programme for Store Staff
- Showroom Roadshow Events
- Consultants – external health checks
- Joint Initiatives & Action

50:50



Interactive Staff Education:

***“Who Wants to
be a PJH
Millionaire”***

15	●	£1 Million
14	●	£500,000
13	●	£250,000
12	●	£125,000
11	●	£64,000
10	●	£32,000
9	●	£16,000
8	●	£8,000
7	●	£4,000
6	●	£2,000
5	●	£1,000
4	●	£500
3	●	£300
2	●	£200
1	●	£100



What does PJH supply to B&Q?

- 15 ● £1 Million
- 14 ● £500,000
- 13 ● £250,000
- 12 ● £125,000
- 11 ● £64,000
- 10 ● £32,000
- 9 ● £16,000
- 8 ● £8,000
- 7 ● £4,000
- 6 ● £2,000
- 5 ● £1,000
- 4 ● £500
- 3 ● £300
- 2 ● £200
- 1 ● £100

50:50



A: Kitchens

B: Bathrooms

C: Paint

D: Garden Furniture

Roadshow Training Events.....



Sharing Data Across Both Organisations

JIL RETURN SUPPLIER!!!!

QUICK LINKS

PJHgroup

[PJH Contacts](#)

[PJH Process flow chart](#)

[Mira Process flow chart](#)

[PJH Deliveries](#)

PJH Special Order stock should be sent direct to the customers address, and not via the store as this minimises the amount of handling involved and therefore reduces the risk of damage. Check whether your store has redirected any customer orders to the store address.

[PJH NOSDD's](#)

Raised by store

This shows NOSDD's raised by store for YTD up to current week.

[PJH Damages](#)

Check the value of damages processed by your store per week. Ensure all damages are processed accurately, but remember to use the swap over process where applicable.

[PJH Nil Returns by store](#)

BEWARE!!! If you have any entries on this sheet, you are not following the process correctly!! Please refer to the above flow charts to ensure the correct procedure is used.



Spare Parts Available for Stores



Anti-Shrink Packaging





Pro **£** it
Protection

Results so Far....

Store Compliance Improving



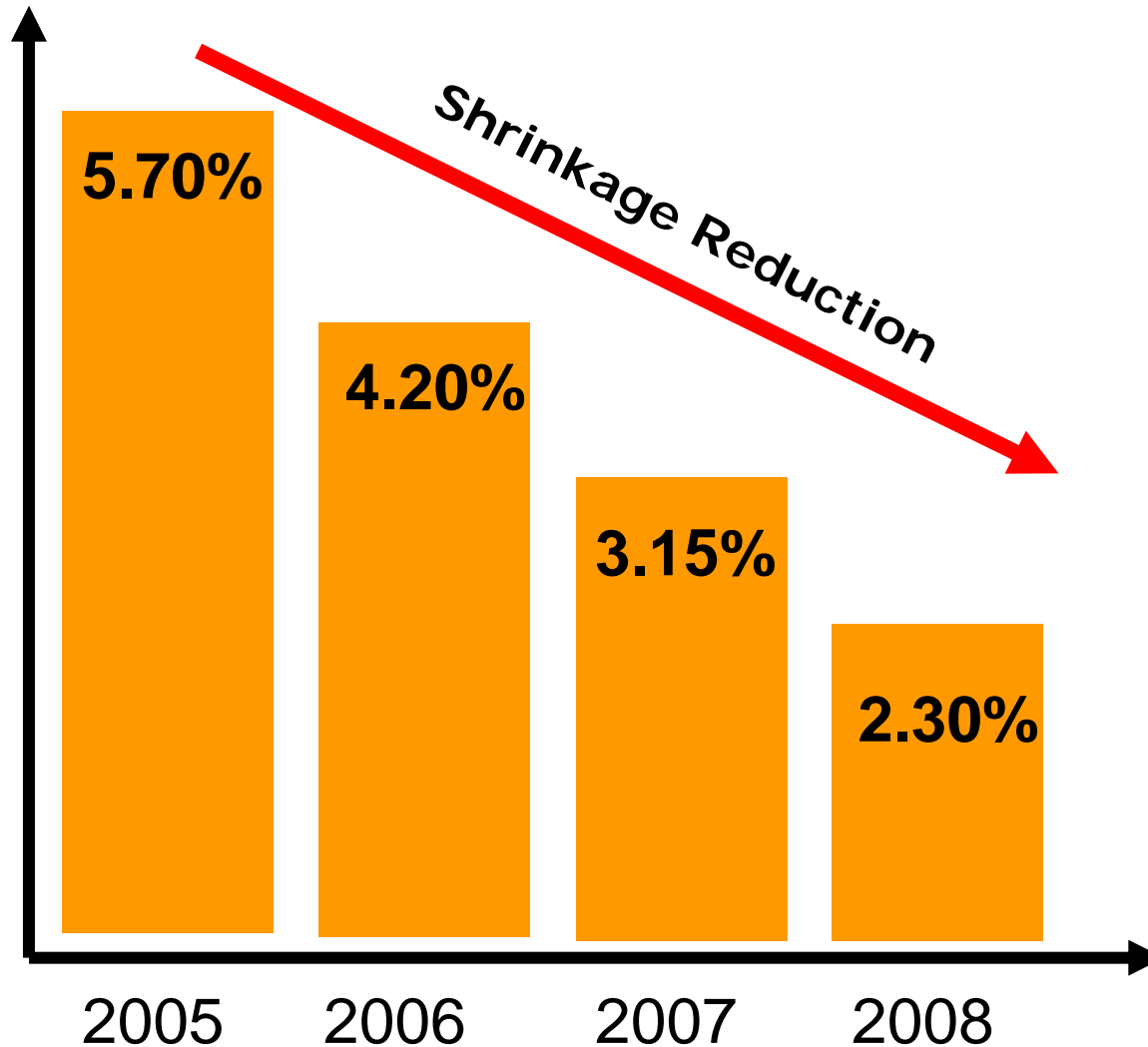
A Full Range On Sale to Customers



Sales are increasing....



...and Shrinkage is Reducing





Any Questions?

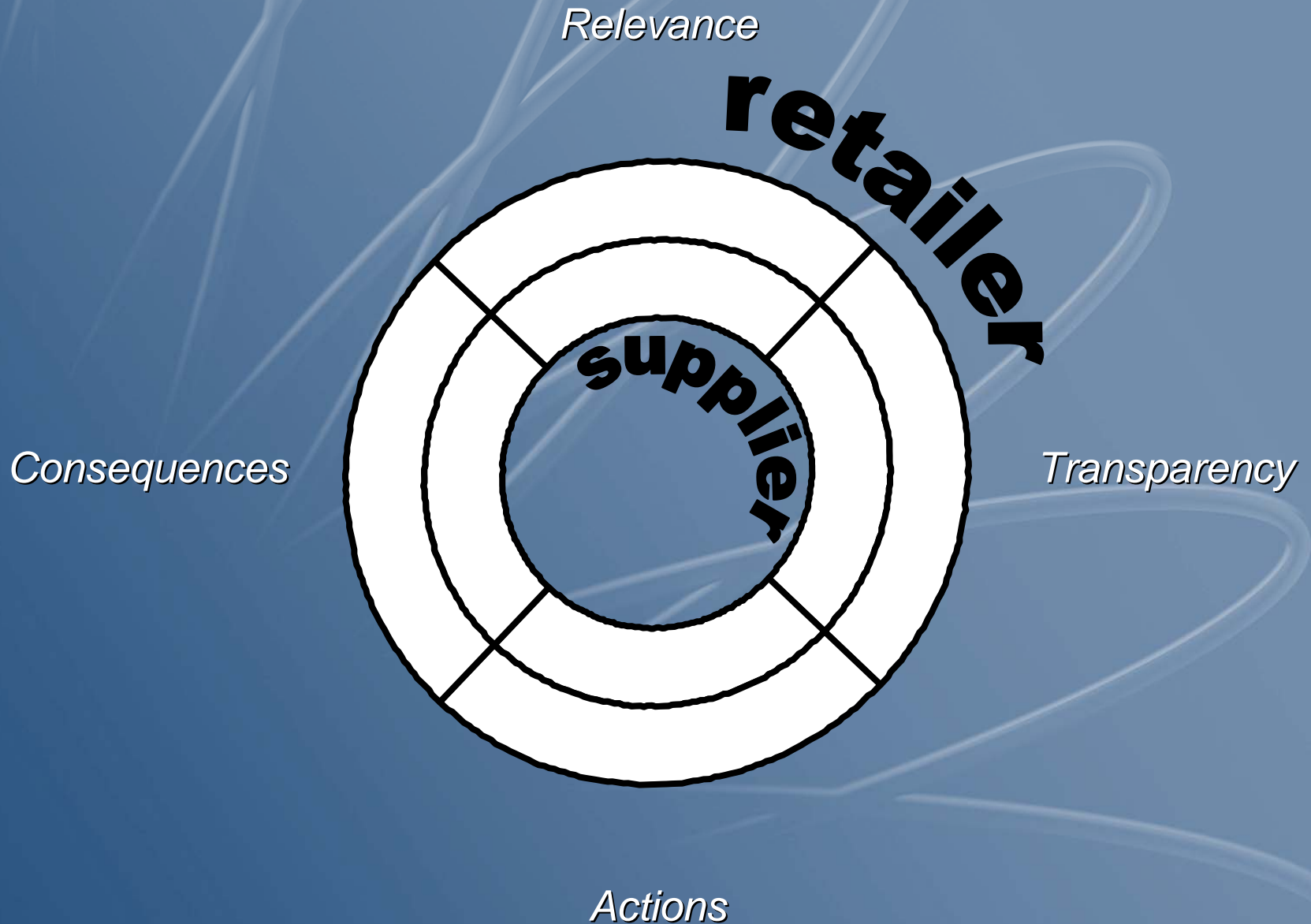
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Interactive session

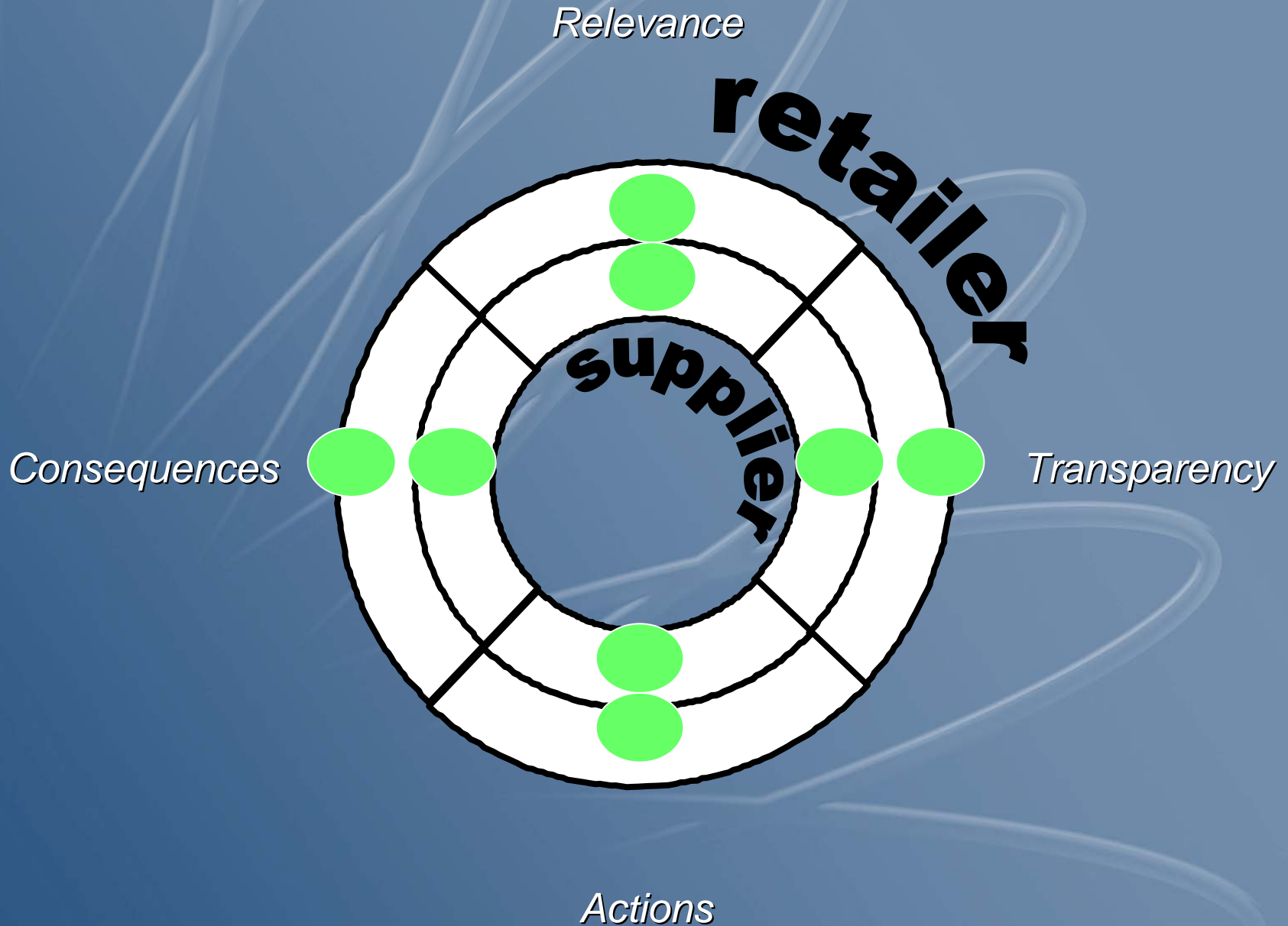
- Each table divides into two groups
- Each group reviews one case study (A or B)
- Use the collaboration cycle template to benchmark (i) retailer and (ii) supplier
- Contrast your case study with the other group on your table
- Highlight actions to improve collaboration

Collaboration Cycle template



	Relevance	Transparency	Actions	Consequences
High	<ul style="list-style-type: none"> - Clear link between shrink and sales. - Top management buy-in. - Shrink linked to objectives across functions. 	<ul style="list-style-type: none"> - Detailed shrinkage and sales data. - Data mining. - Data openly shared. 	<ul style="list-style-type: none"> - Structured projects. - Cross-function, multi-company teams. - Co-create solutions. 	<ul style="list-style-type: none"> - Measurable, direct benefits. - Celebrate success.
Medium	<ul style="list-style-type: none"> - Unquantified link between shrink and sales. - Shrinkage owned and managed in one function. 	<ul style="list-style-type: none"> - Reasonable data, not easy to access. - Basic analysis. - Ad-hoc communications. 	<ul style="list-style-type: none"> - Ad-hoc projects. - Internal teams. - 'Off the shelf' answers. 	<ul style="list-style-type: none"> - Occasional wins. - Direct benefit difficult to measure. - Benefits mostly indirect.
Low	<ul style="list-style-type: none"> - Shrink and sales seen as separate. - LP works in isolation. - No ownership. 	<ul style="list-style-type: none"> - Low resolution data. - Difficult to access. - No sharing / communication. 	<ul style="list-style-type: none"> - No work to identify 'root cause'. - Impose unilateral 'solutions'. 	<ul style="list-style-type: none"> - No measurement. - No benefits. - Nothing to celebrate.

Collaboration Cycle template



Case A

Relevance

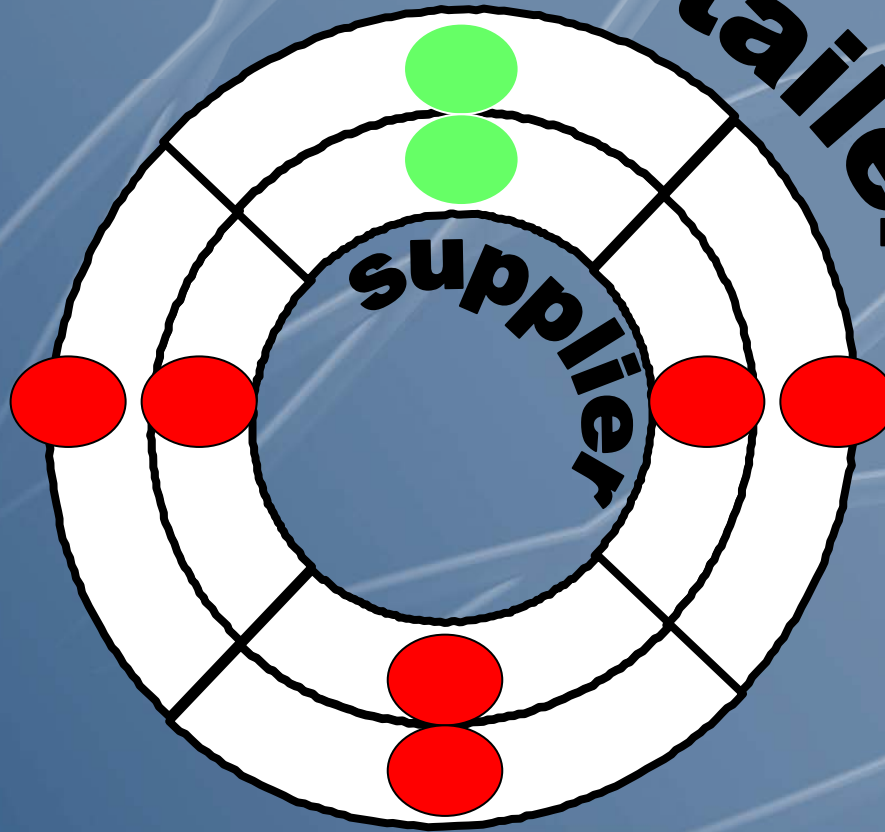
retailer

supplier

Consequences

Transparency

Actions



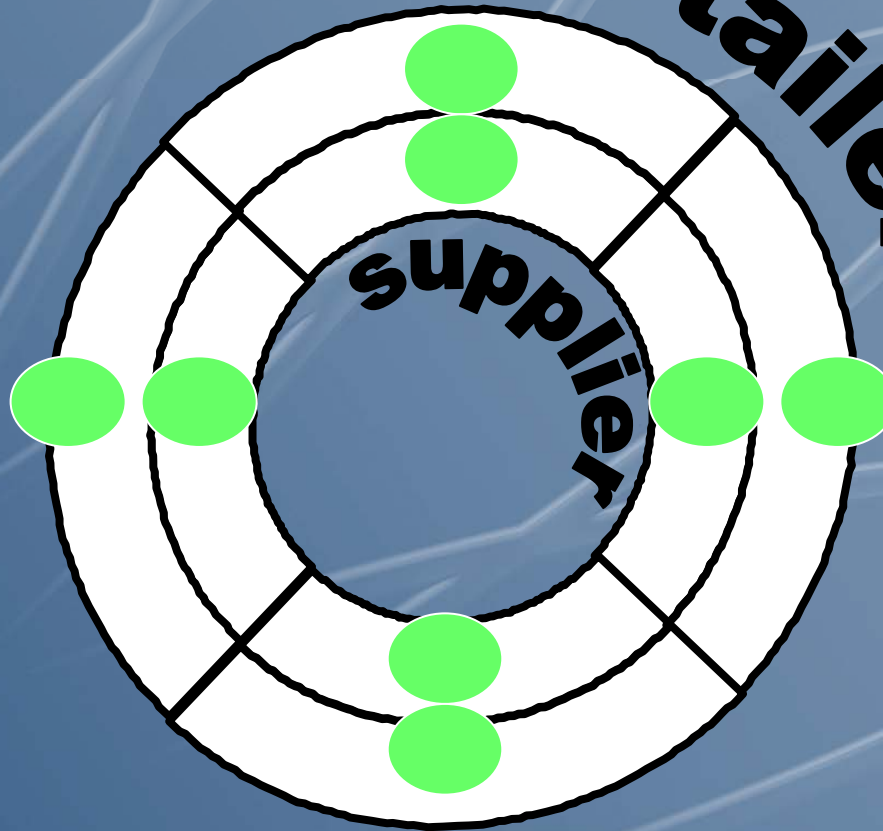
Case B

Relevance

retailer

Consequences

Transparency



Actions

Breakout Structure

- Introduction to the ECR Europe Shrinkage Group
- Scale of the Problem and the Size of the Prize
- Identifying Leadership in Loss Prevention
- Creating Collaborative Partnerships to Reduce Shrinkage
- Interactive Session on Collaboration
- Benchmark Feedback and Wrap Up

Wrap Up

- Thank you
- Invitation to join the ECR Europe Shrinkage Working Group

