

ECR Breakout Session: Barcelona 2009

**SHRINKAGE IN A CHANGING BUSINESS
ENVIRONMENT**

SESSION STRUCTURE

Introduction to the ECR Europe Shrinkage Group

Colin Peacock, Co Chair, P&G

The Impact of Shrinkage

Colin Peacock, Co Chair, P&G

Responding to Shrinkage

Adrian Beck, University of Leicester

Managing Shrinkage in Practice

Terry Poole, J. Sainsbury's

Guidelines on Anti-Shrink Packaging

Ben Blydenstein, SCA Packaging

Questions and Wrap Up

GOALS OF THE SESSION

Provide details on how shrinkage impacts upon retail companies in a changing economic environment

Offer advice on how to respond effectively to the challenges of shrinkage and turn losses into profits

Share experience of a retailer who has woken up to the potential effective shrinkage management can bring to the business

Highlight the importance of collaboration by providing new insights into how manufacturer packaging can play a role in reducing shrinkage

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The ECR Europe Shrinkage Project Team



BACARDI-MARTINI



MARKS &
SPENCER

BILLA

L'ORÉAL

Sainsbury's

P&G

ICA

ASDA

METRO Group

TESCO

WAL*MART



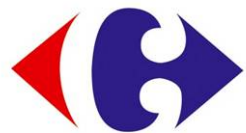
LUND
UNIVERSITY

Wilkinson

 **Ahold**







Carrefour

BDF ●●●●●

Beiersdorf



A.S. Watson Group



University of
Leicester



oxford
SAID BUSINESS SCHOOL

PURPOSE OF ECR SHRINKAGE GROUP

- ✘ Established in 1999
- ✘ 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
- × **Anti Shrinkage Packaging Guidelines - 2009**
- × **Understanding Self Scanning and Shrinkage – 2009/10**



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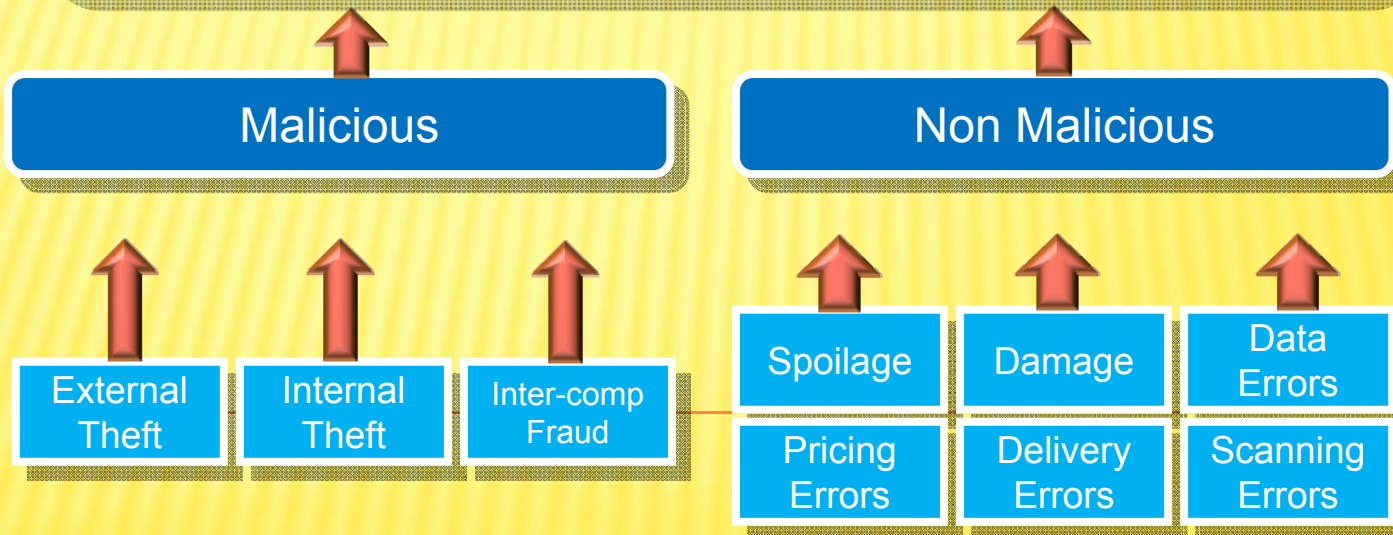
IMPACT OF SHRINKAGE

COLIN PEACOCK, P&G

DEFINING SHRINKAGE

Shrinkage / Stock Loss

intended sales income that was not and cannot be realised



RECENT SURVEYS: SHRINK AS % OF SALES

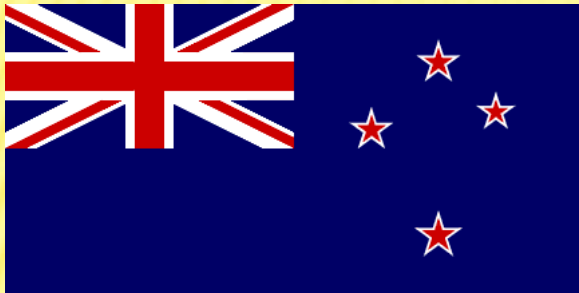
Year	Source	Size (%)
2003	National Supermarket Research Group (US)	2.32
2005	ABRAS Supermarket Shrinkage Survey (Brazil)	2.05
2004	ECR Europe Shrinkage Survey (18 European countries)	1.84
2003	Retail Council of Canada	1.75
2007	Food Marketing Institute (US)	1.52
2002	ECR Australia	1.52
2003	New Zealand Survey of Retail Theft and Security	1.50
2008	National Retail Security Survey (US)	1.44
2008	Global Retail Theft Barometer (36 countries)	1.34
2003	Eurohandelinstituts (Germany)	1.23
	Average	1.65

COST OF SHRINKAGE

- × Annual global losses
 - + \$232 billion
- × Cost of managing shrinkage
 - + \$46.4 billion

WHAT DOES \$278 BILLION BUY?

New Zealand



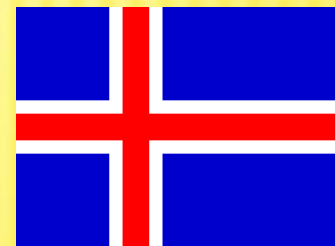
Kuwait



Luxembourg



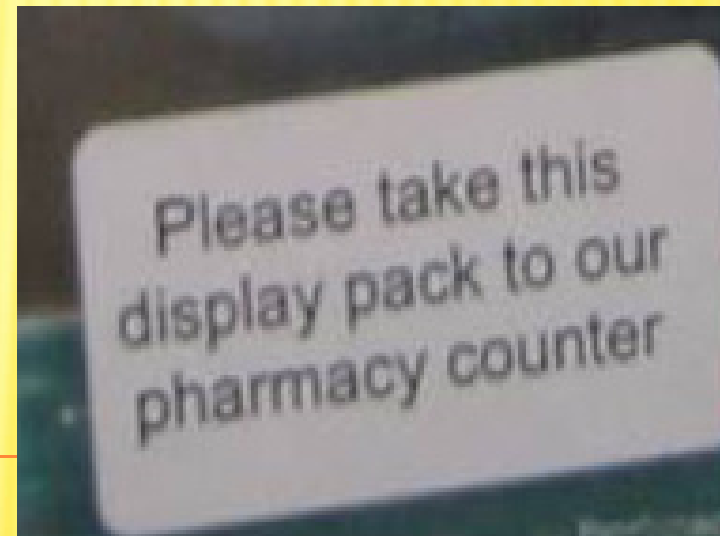
Iceland



COST OF SHRINKAGE

- × Annual global losses
 - + \$232 billion
- × Cost of managing shrinkage
 - + \$46.4 billion
- × Ignores consequential losses
 - + Additional transport, out of stocks, defensive merchandising etc

HEALTH & BEAUTY PRODUCTS BEHIND PHARMACY



BEAUTY PRODUCTS – LOCKED UP



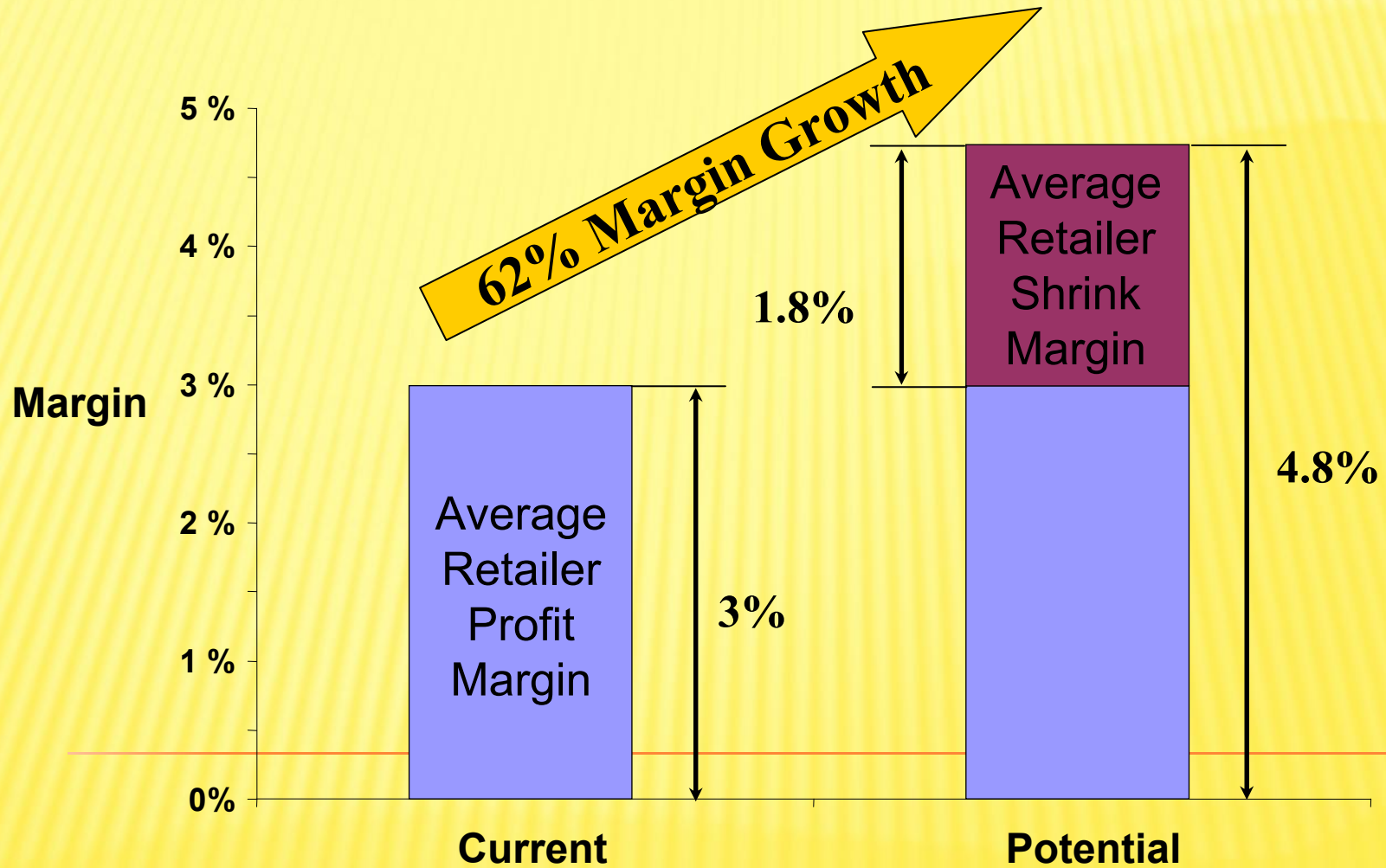
HEALTH & BEAUTY PRODUCTS IN VENDING MACHINES



OUT OF STOCKS



SHRINK – OPPORTUNITY FOR GROWTH



SHRINK – THE LAST FREE MONEY ON THE TABLE

	Net Income	Shareholder Value
€1m shrinkage reduction	€0.70m	€14m
€1m inventory reduction	€0.20m	€4m
€1m incremental sales	€0.15m	€3m

- Assumptions:
1. sales margin of 15%
 2. inventory holding cost of 20%
 3. net overhead cost of 30%
 4. share price is a multiple of 20 on net income

Winning In Challenging Times



EXERCISE

× Threat Levels

+ What specific changes have you observed?

× Resources Available

+ Have more resources to tackle shrink been made available or less?

× Retail Context

+ Has the retail environment in which you are operating promoted more or less shrink opportunities? Fewer staff? Less inventory? Improved loyalty? Greater focus?

THREATS

“Cash Robberies up 49%”

“Significant increases in theft of staple items such as meat and cheese”

“Civil Recovery (Shop theft) cases up 110% Vs prior year”

“No increase in robberies or shrink rates but last month 4 store managers fired”

“Armed Robberies per 2000 stores, averaged 6 per year in 2007/2008, in first three months of 2009, we’ve had 21”

RESOURCES

“Guarding budget intact”

“Guarding budget down 10%”

“300% increase in executive headcount in loss prevention”

“50% reduction in loss prevention headcount”

“Increased the number of store greeters, its proven to be our most cost effective shrink improvement driver”

RETAIL CONTEXT

“Others such as buying and HR have never been more engaged in the fight to reduce shrink”

“Huge awareness now”

“Higher awareness of the increased threat level has opened the door to dialogue that was previously not in scope”

“Shrink reduction is now becoming more integrated than ever before”

“Pre-employment screening now being implemented at the associate level after 5 years of lobbying”

CONCLUSIONS

- × Threat level has probably increased
- × Resources and the Retail Context requires us to work harder with fewer resources
- × The retailers we hear reporting good shrink results have implemented and embedded a more integrated approach to shrink reduction

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RESPONDING TO SHRINKAGE

ADRIAN BECK, UNIVERSITY OF LEICESTER

UNDERSTANDING SHRINKAGE



OPERATIONAL FAILURES

- × Any fault in the:

- + Design
- + Implementation
- + Operation
- + Monitoring
- + Control
- + Review

... of processes and procedures used within the retail environment which may lead to shrinkage.

- × Any point in the 'supply chain' – from point of manufacture to point of sale

EXAMPLES OF OPERATIONAL FAILURES

Problem: High value stock is being left outside the secure cage and is being stolen

Traditional response might be to: install CCTV

Underlining operational failures could be:

- + The key is lost
- + The lock is broken
- + The key holder is on holiday and did not give the key to another member of staff
- + The secure cage is full
- + Staff are too busy to put stock away
- + Not seen as a priority by staff or management

EXAMPLES OF OPERATIONAL FAILURES

Problem: A product is always out of stock on the shelf

Traditional response might be to: product is being stolen, try EAS tags

Underlining operational failures could be:

- + Staff can't easily find product in store room
- + DC short shipped
- + Stock sold out early and not sufficient replenishment stock
- + Product in store but displayed elsewhere
- + Shelves not big enough to hold sufficient inventory 'till next replenishment
- + Product placed in a vulnerable theft prone area
- + Lack of staff presence to deter thieves
- + Shelving too high to enable visual monitoring

EXAMPLES OF OPERATIONAL FAILURES

Problem: A product is always out of stock on the shelf

Traditional response might be: product is being stolen, try EAS tags

Underlining operational failure could be because the:

- + Product is actually in the store room, **but**
- + the replenishment team cannot easily find it, **because**
- + all packs seem to look the same, **because**
- + there is little differentiation other than by barcode, **because**
- + the packs were designed to suit the DC operation

ROLE OF OPPORTUNITY

- × Retail Environment is 'Pregnant with Opportunities'
 - + From self selection to self scan
 - + Low levels of staffing
 - + High levels of temptation
 - + The exercise of moral ambiguity
 - + Easy to 'blame' others

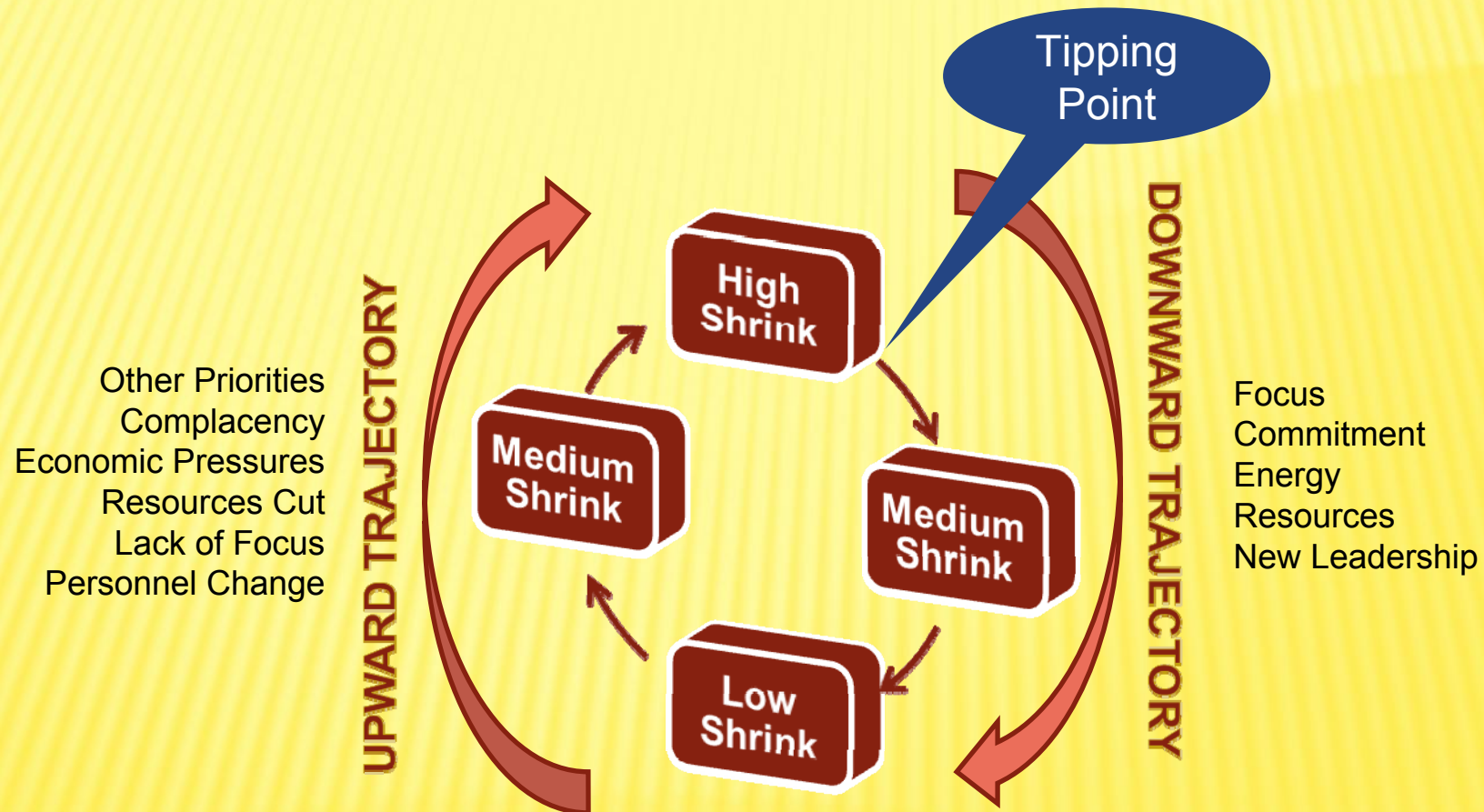
- × 'Crime Readiness' Continuum

- × Operational Failures
 - + Invitations to crime
 - + Choice structuring
 - + Readying process
 - + Impact of Risk and Consequence

- × Operational Failures = Opportunity Generators

- × How can opportunities be minimised through improving retail operations?

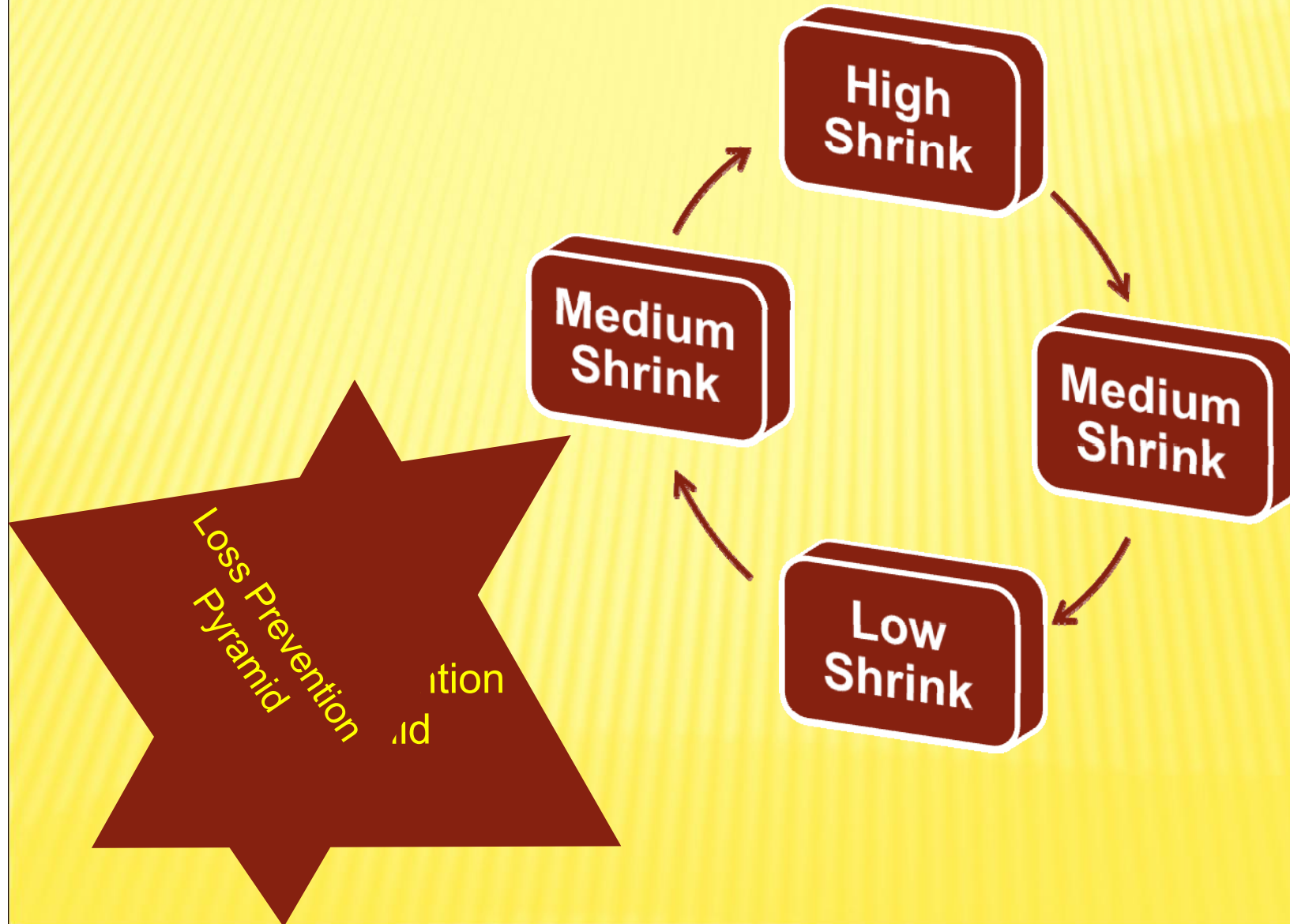
THE SHRINKAGE LIFE CYCLE



THE LOSS PREVENTION PYRAMID



STOPPING THE SHRINKAGE LIFE CYCLE



NEW LOSS PREVENTION

- ✘ Shrinkage represents an enormous opportunity
- ✘ Need to focus on controlling the controllable
- ✘ Need to identify root causes of shrinkage
- ✘ Understand the role of operational failures
- ✘ Avoid introducing solutions focussed on symptoms rather than root causes
- ✘ Manage organisational expectations
- ✘ Loss Prevention as 'Agents of Change'
- ✘ Interrupt the Shrinkage Life Cycle – use the Loss Prevention Pyramid

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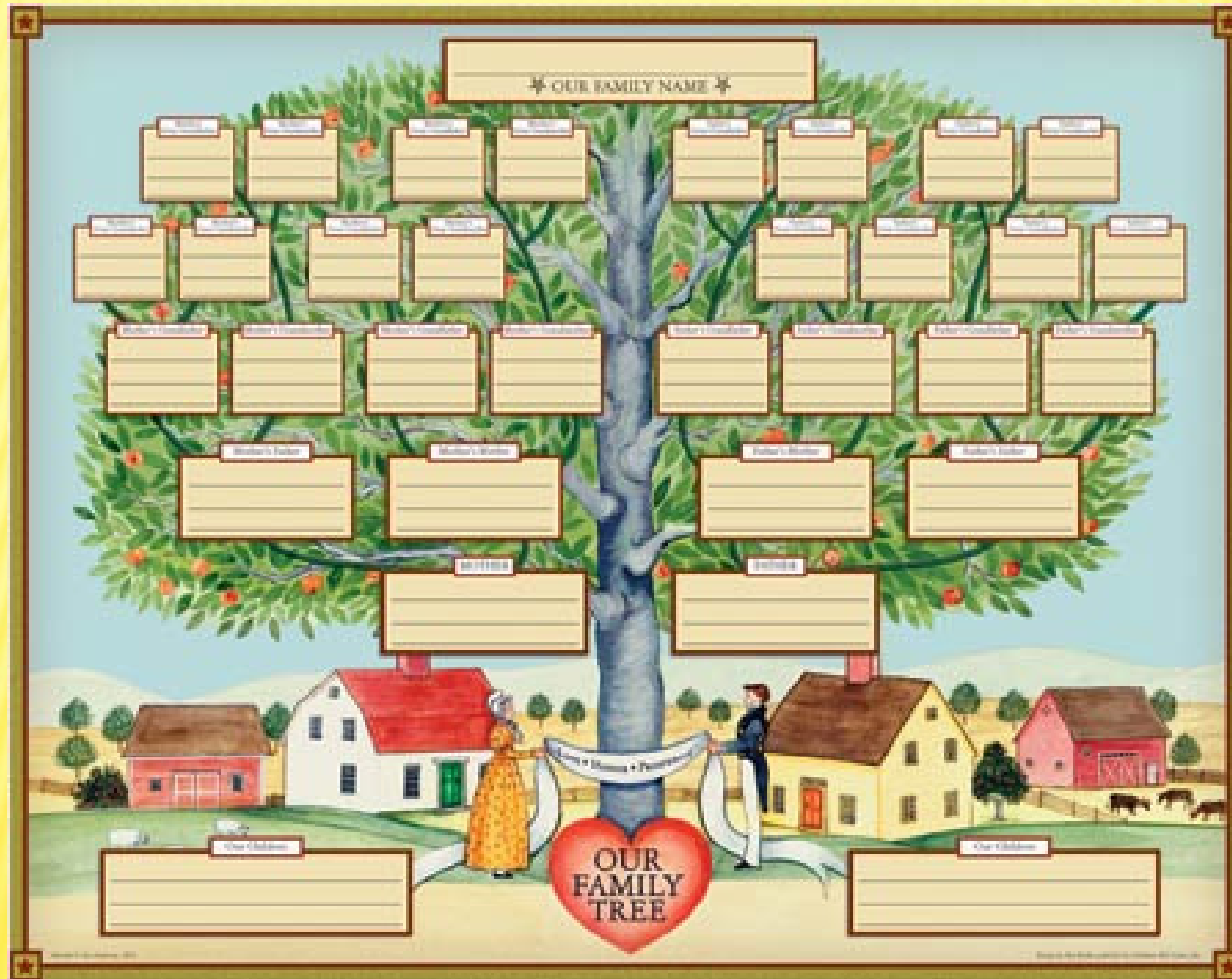
MANAGING SHRINKAGE IN PRACTICE

TERRY POOLE, J SAINSBURY'S

Sainsbury's
Try something new today



Sainsbury's
Try something new today



Sainsbury's
Try something new today



Sainsbury's
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Sainsbury's
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Ben Blydenstein, SCA Packaging

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ANTI-SHRINK PACKAGING GUIDELINES

BEN BLYDENSTEIN, SCA PACKAGING

Supply Chain Audit

Summer / Autumn 2008



Findings

Good..

Good, but..

Not So Good..

Good

62232 7 61080 8 62272 9 62939

ASDA BREAKPACK ITEM **Wincanton**

✓ PICK THIS **X NOT THIS**

4676294 - 6 Inners Per Case

6.4717740
S18.525.2
1 x 6 = 6
7292780000

Oral B
sonic
complete

Multiple Brushing Modes for:

- Powerful Plaque Remover
- Firmer, Healthier Gums
- Naturally Whiter Teeth
- Whiter Enamel

2 MODES

- Clean
- Soft

BRAUN

↑ V9468 61565

Good



Good



Good



Good, but...



Good, but...



Not so Good



Not So Good



Not So Good



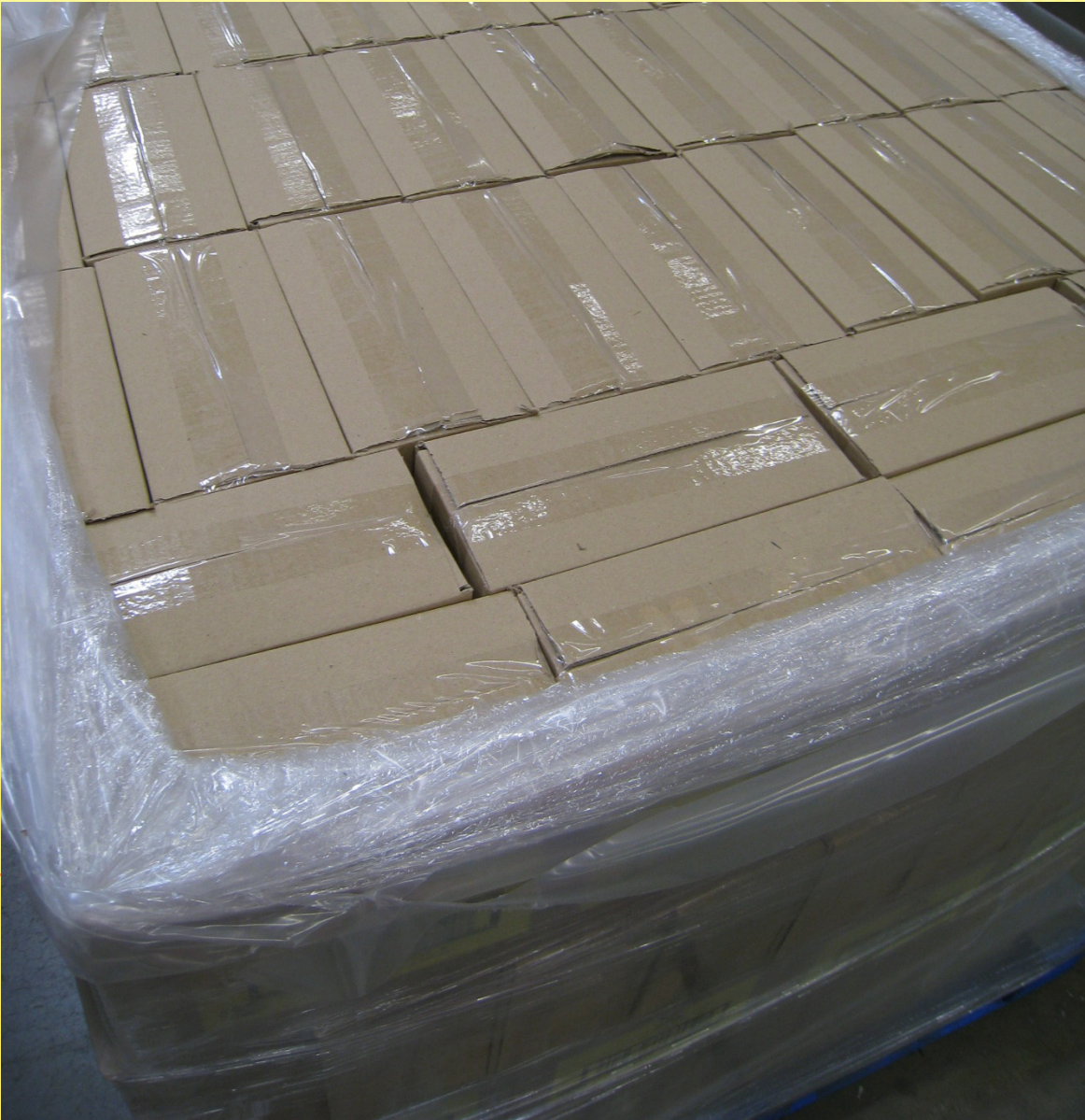
Not So Good



Not So Good



Not So Good



Not So Good





A blinkered approach
Single issue thinking
Narrow functional responsibility

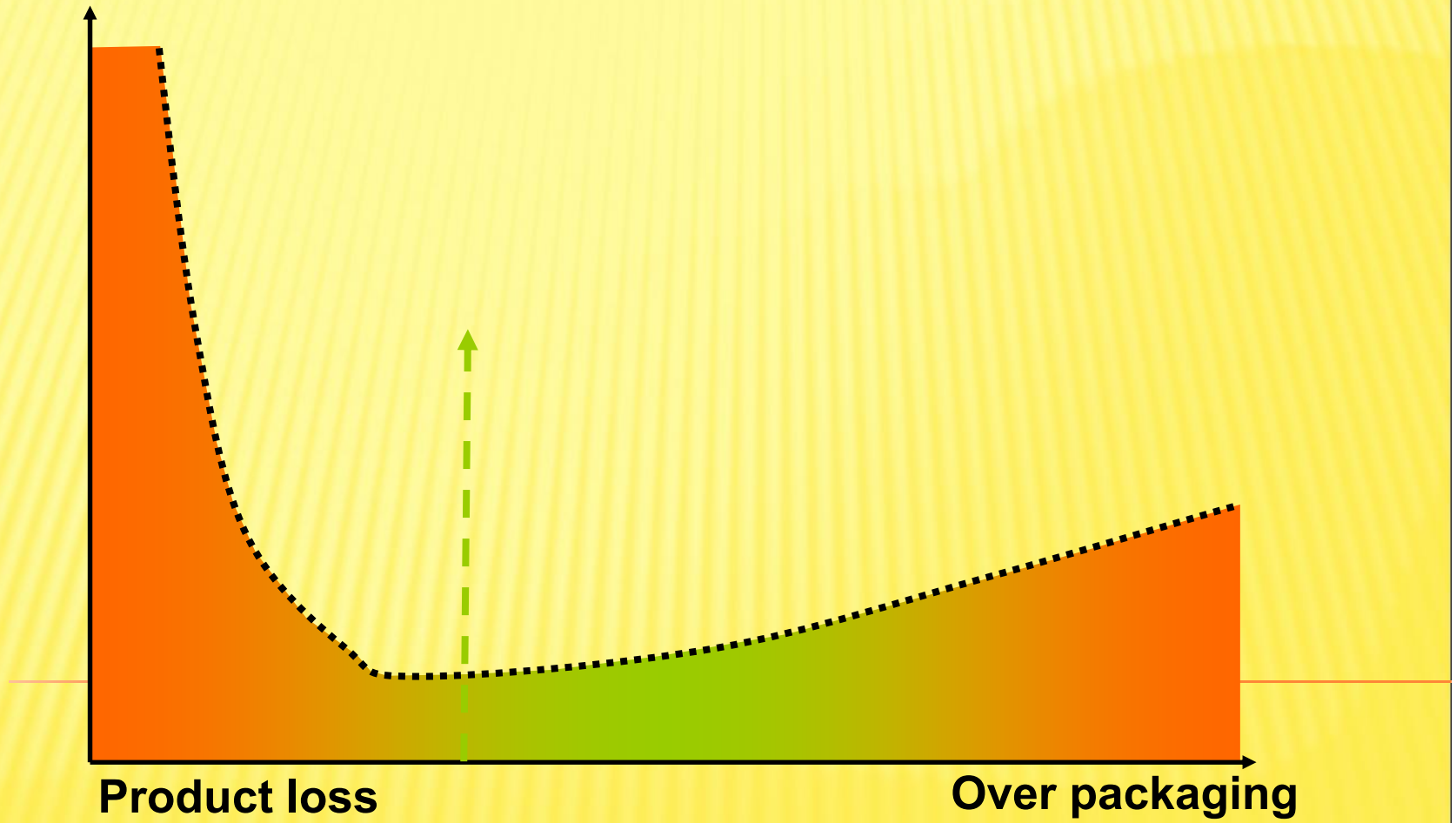
VS

Holistic approach
Multi issue thinking
Whole supply chain

Example



Environmental impact



Group Exercise

TRANSPORTATION e.g.

- Totes
- Roll cages
- Security



Distribution Centre e.g.

- Receiving
- Pick location
- Picking
- Break packs / outers

In- store e.g.




- Back of store
- Picking
- Shelf
- Check-out /scanning

Coming Soon....



ECR Bluebook
Anti-Shrink packaging Guidelines

Including

Process	Principles	Examples GOOD / BAD
Implementation of POS anti-shrink measures	<ul style="list-style-type: none"> • Where it is known in-store anti-theft equipment and measures are to be utilised then the measures themselves must be designed and sized correctly and the packaging must have appropriate features. • For example, where safer cases are to be implemented, the cases should be made in an appropriate size. The example (Fig.16) shows what an on-shelf cosmetics display can look like if this is not achieved. • Where anti-sweep J hooks are used (Fig. 17) then the packaging must be designed with slots the right size and shape and it must be strong enough to prevent a shopper from simply removing the product by tearing the packaging. • Ensure that no more than one anti-shrink measure is being utilised. In this example (Fig. 18) a transparent plastic wrap which enables a hard tag to be attached can be seen (an alternative measure to safer cases). But here a safer case has been used as well. 	 <p data-bbox="1406 639 1599 671">Fig. 16: BAD</p>  <p data-bbox="1406 1032 1615 1064">Fig.17: GOOD</p>  <p data-bbox="1451 1431 1637 1463">Fig.18: BAD</p>

Recommended Project Steps

- ID hot SKUs / Categories
- Analyse history
- ID key characteristics
- Prioritise SKUs to focus on (Ease of NPD vs Existing)
- Assemble team and conduct supply chain walk
- ID and summarise packaging vulnerabilities
- Joint solution development and prioritisation (Pain / Gain matrix)
- Pilot / test
- Business case development
- Continuous improvement

Anti Shrink Packaging Guidelines



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