

# Reducing Shrinkage: Hitting the Hot Spots in the Supply Chain

Berlin, 15 May 2003

# Welcome

Colin Peacock

The Gillette Company

Co-chair, Shrinkage Working Group ECR Europe

# Seminar Overview

- Purpose
  - Enthuse the ECR community about the ECR shrinkage reduction methodology
- Objectives
  - Illustrate retailer & supplier collaboration
  - Promote the Road Map
  - Present new knowledge

# Agenda

- Introduction to project team
- Introducing the Road Map, case studies and Blue Book
  - Paul Chapman, Cranfield School of Management
- Exploring Risk: The ‘Hot’ Concept
  - Adrian Beck, University of Leicester
- Shrinkage Seminar Series
- Future Plans

# Agenda

- Introduction to project team
- Introducing the Road Map, case studies and Blue Book
  - Paul Chapman, Cranfield School of Management
- Exploring Risk: The ‘Hot’ Concept
  - Adrian Beck, University of Leicester
- Future Plans

# The Project Team



# Academics



**Excellence in  
Crime and Security  
Management**



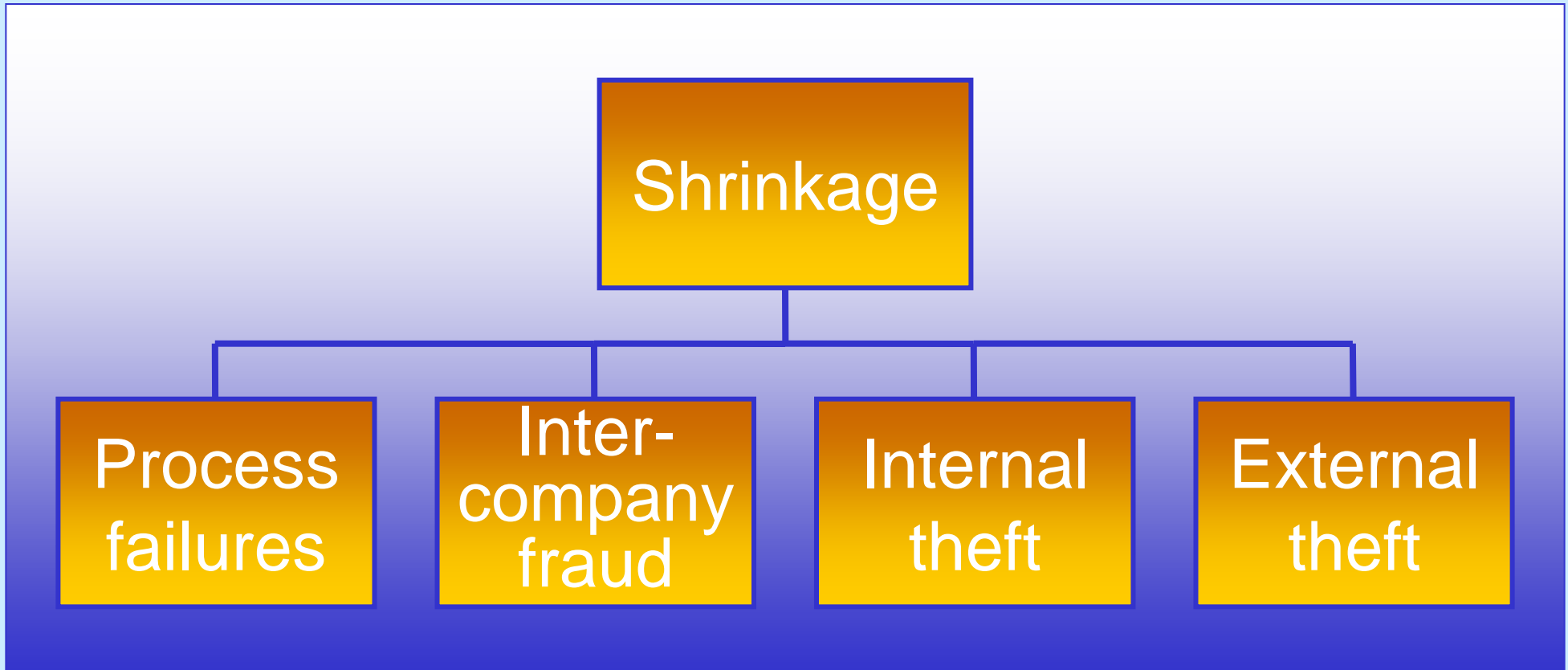
**Supply Chain and  
Logistics  
Expertise**

# Agenda

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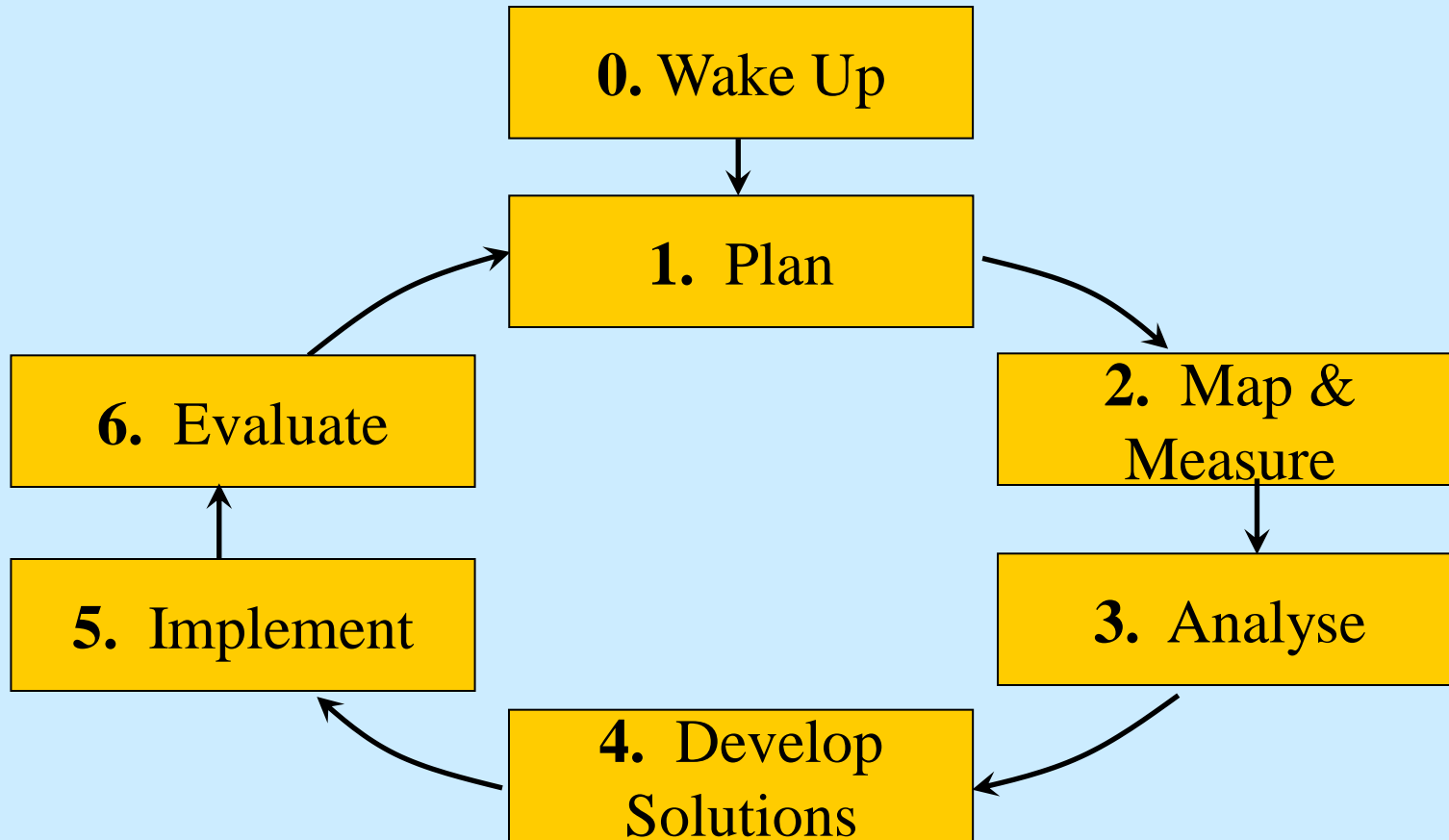
# Shrinkage Defined



# Need for a New, Collaborative Approach

- Stock loss = Lower on shelf availability
- Stock loss = €18 billion
- Existing approaches are failing
- The underlying cause is “poor management”
- The Road Map works

# The Road Map Works



# Case Study Reports

- *Taking a Short Cut*
  - Ahold (Poland)
- *A New Approach to an Old Problem*
  - Sainsbury's & Allied Domecq (UK)
- *Reducing Stock Loss in Yoghurts*
  - Jerónimo Martins & Danone (Portugal)

# Case Study Reports

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# ‘Taking a short cut’



**John Fonteijn**  
**Ahold Corporate Risk & Security**  
**Retail Co-chair, ECR Europe Shrinkage**  
**Working Group**

# Executive Summary

- Results
  - 36% shrink reduction
  - No negative influence on sales figures
- Key Messages
  - Implemented quick wins during process
  - Support of supplier and dedicated store associates: 'awareness, alertness, attitude'
  - Embed solutions in processes

# Retailer Profile

- 164 Supermarkets
- 18 Hypermarkets
- 8.850 Employees
- Annual turnover 2001:  
€ 553.000.000





# Supplier Profile



- Supplier to Ahold Poland since 2000
- 2002 sales: 15m PLN, 10% of smoked-meats category



- Supplier to Ahold Poland since 1997
- 2002 sales: 5,4m PLN, 5% of meat category
- Iglomeat is a Sokolow company!

# Product Profile



Szyńska Babuni



Salami



Krakowska Sucha

# Project Scope

Project stores:

- Tarnow
- Konin
- Olkusz
- Kedzierzyn

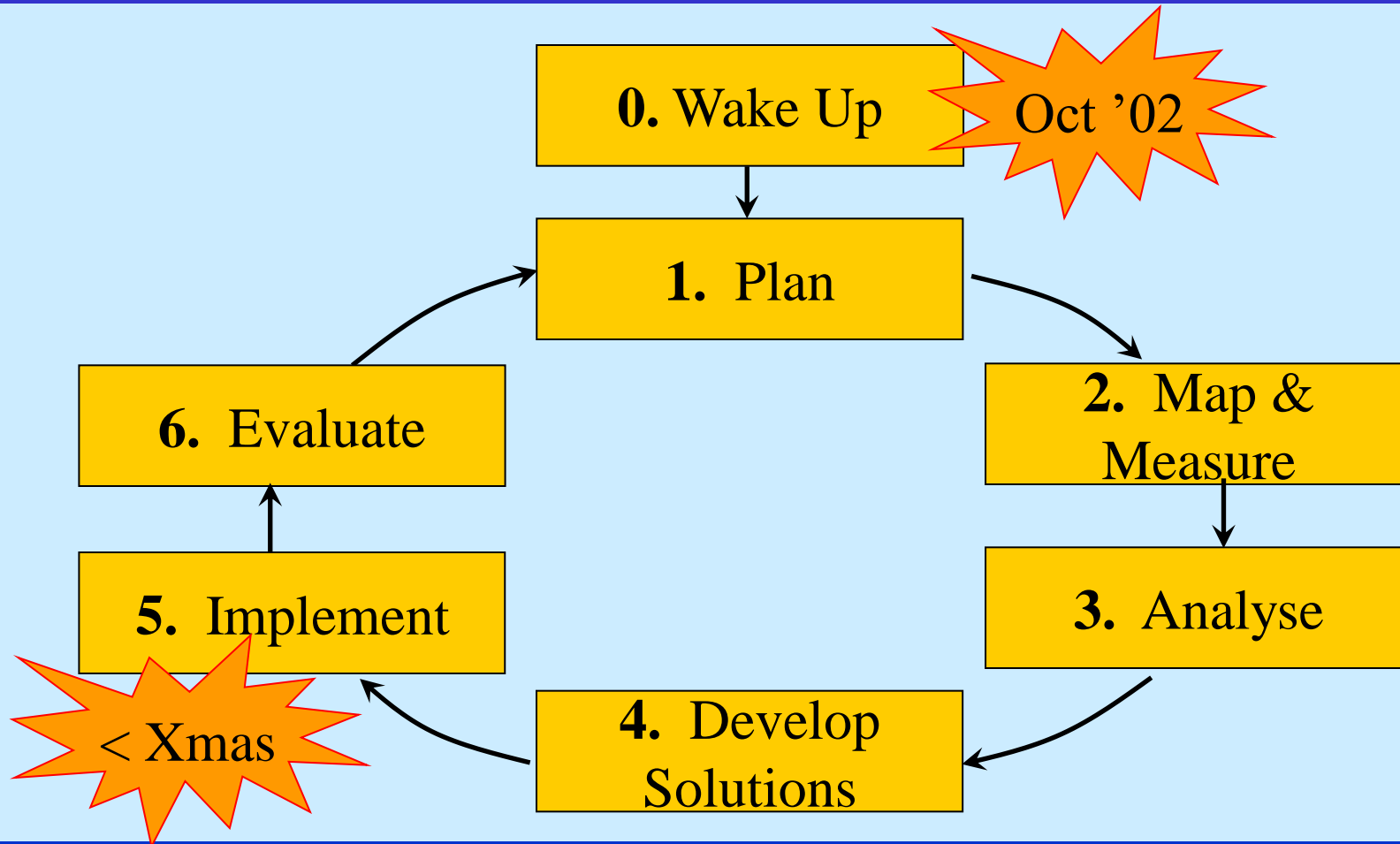
Product	Supplier	Logistics
Salami	Iglomeat	Iglomeat
Krakowska sucha	Morliny	Morliny
Szynka babuni	Soko.ów	Soko.ów

DSD min. one delivery per week

# Objectives

- Need for project:
  - 3.53% shrink in fresh smoked meats
  - Lack of transparency of shrink figures in fresh (sausages)
- Collaboration
  - Increase involvement of supplier and store associates to create more awareness, alertness and attitude

# Methodology



# Process

Manufacture

Transport

Receiving at store

Checking

Cold storage

Production

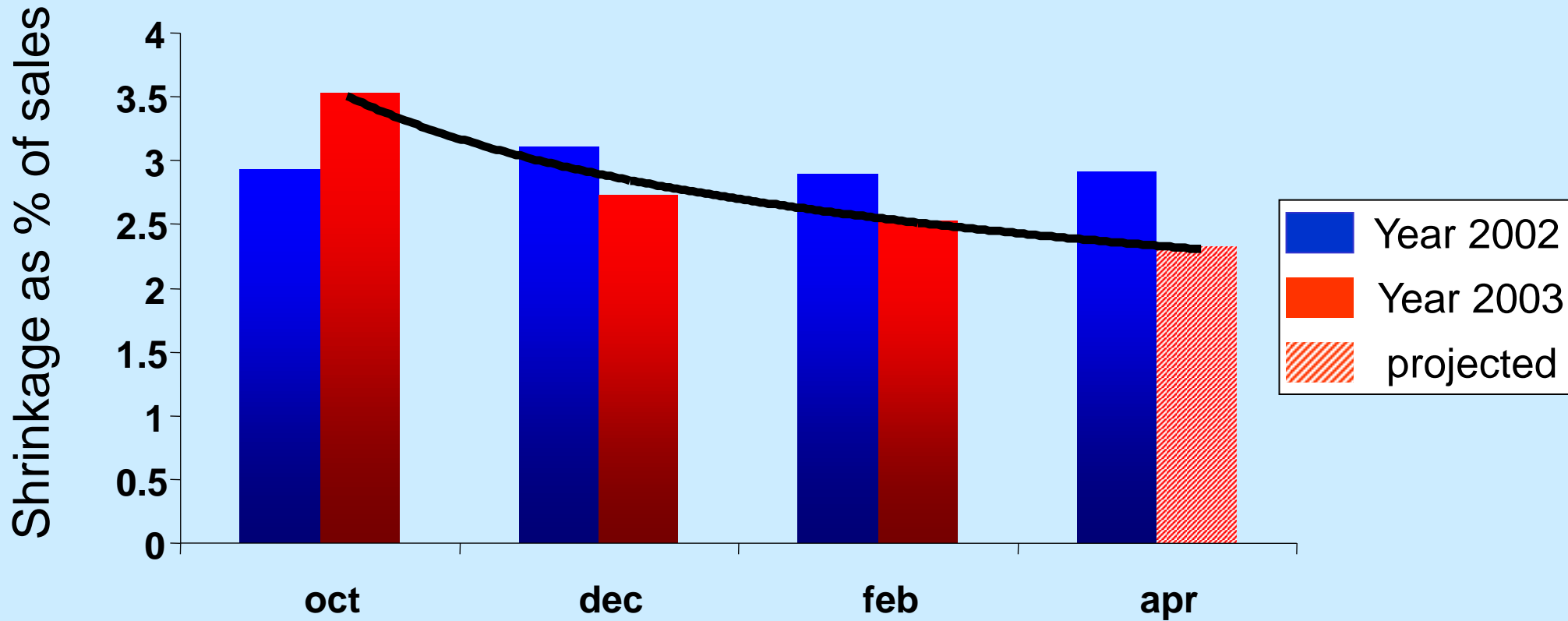
Sales

# Key Success Factors

- Full commitment of company management
- Dedicated interdisciplinary team
- Realistic planning
- Sufficient analytical tools
- Create quick-wins and best practices
- Celebrate success!

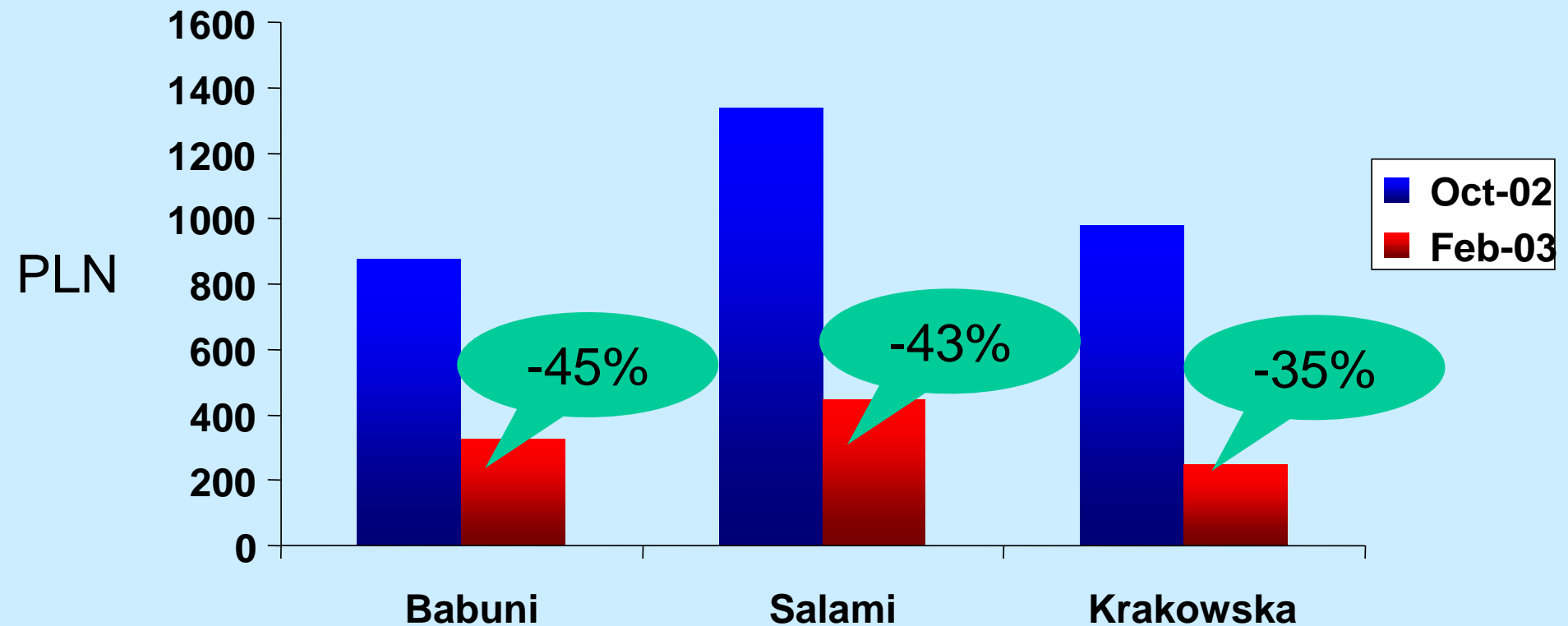
# Hard Results:

## Shrink as % of sales (fresh smoked meat)





# Hard Results: Shrink in 'Hot' Products



# Soft Results

- Redesign of processes to create better control over receiving, production and sales
  - Check weight of product at receiving
  - Control quality and security of stocked meat
  - Use transparent foil for packaging to detect 'errors'
  - Registration system of leftovers for sale, production or destruction

# Soft Results

- Improvement of store training programmes
  - Receiving, production and cashiers
- Increase of awareness, alertness and attitude of store associates
  - Ideas, quick wins and best practices
  - Associates embrace the problem

# Next Steps at



- ECR Road Map will be the basic approach for future shrink projects (corporate policy)
- Install a permanent Shrink Team to initiate, budget, plan and execute shrink projects

## Thank You

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# A New Approach to an Old Problem

Chris Price – J Sainsbury

Alistair McArthur – Allied Domecq

15<sup>th</sup> May 2003

# Executive Summary

- Applied ECR Road Map in 2002 to understand spirits category shrinkage
- Reduced shrinkage in spirits by 40% in test region
- Extending lessons learnt to 3 new product categories in 2003

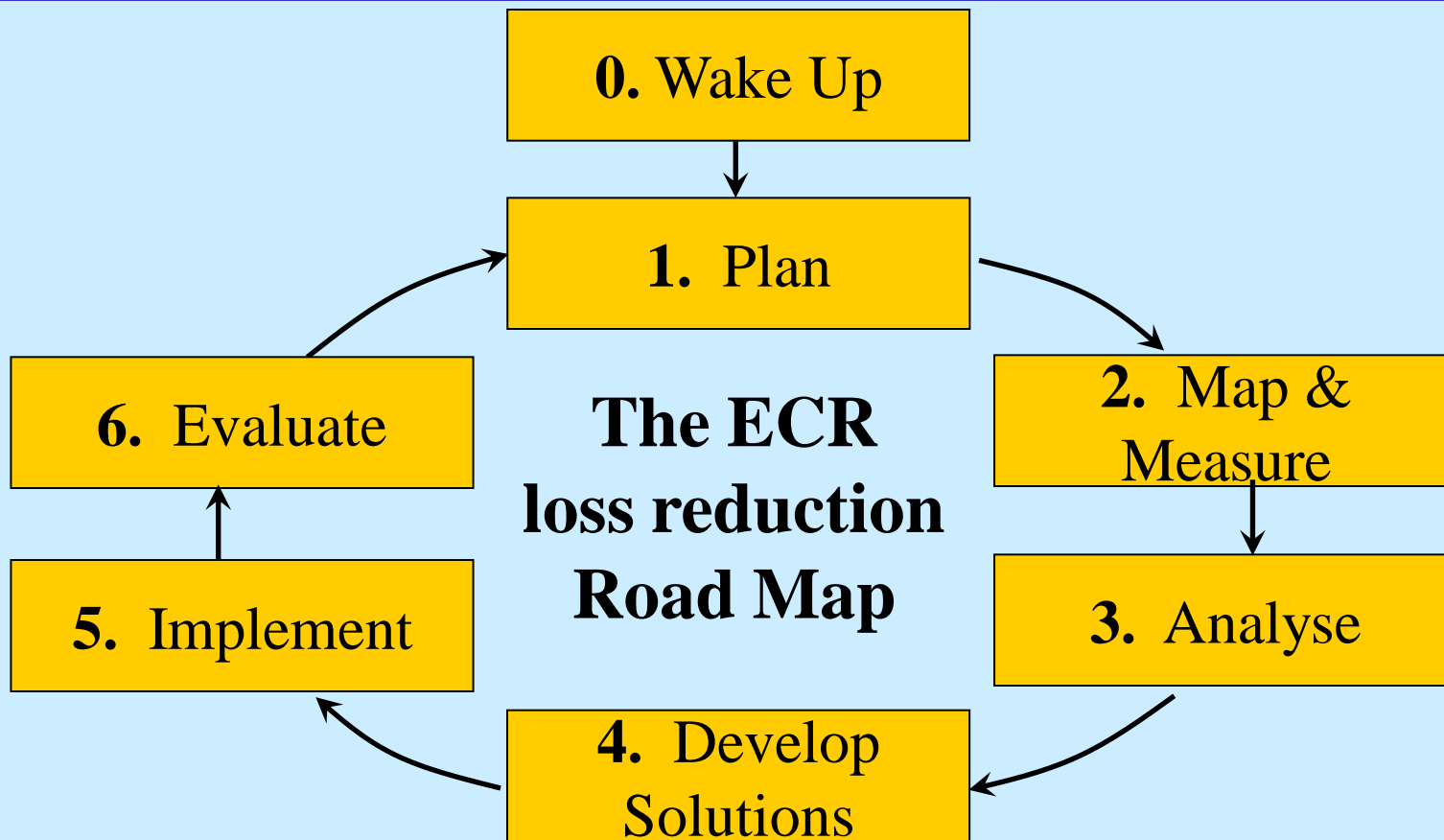


# ECR Project 2002

- Scope – spirits and wines
- J Sainsbury & key suppliers
- ‘End to End’ analysis of supply chain
- Identify ‘root causes’ of loss
- Identify and agree actions



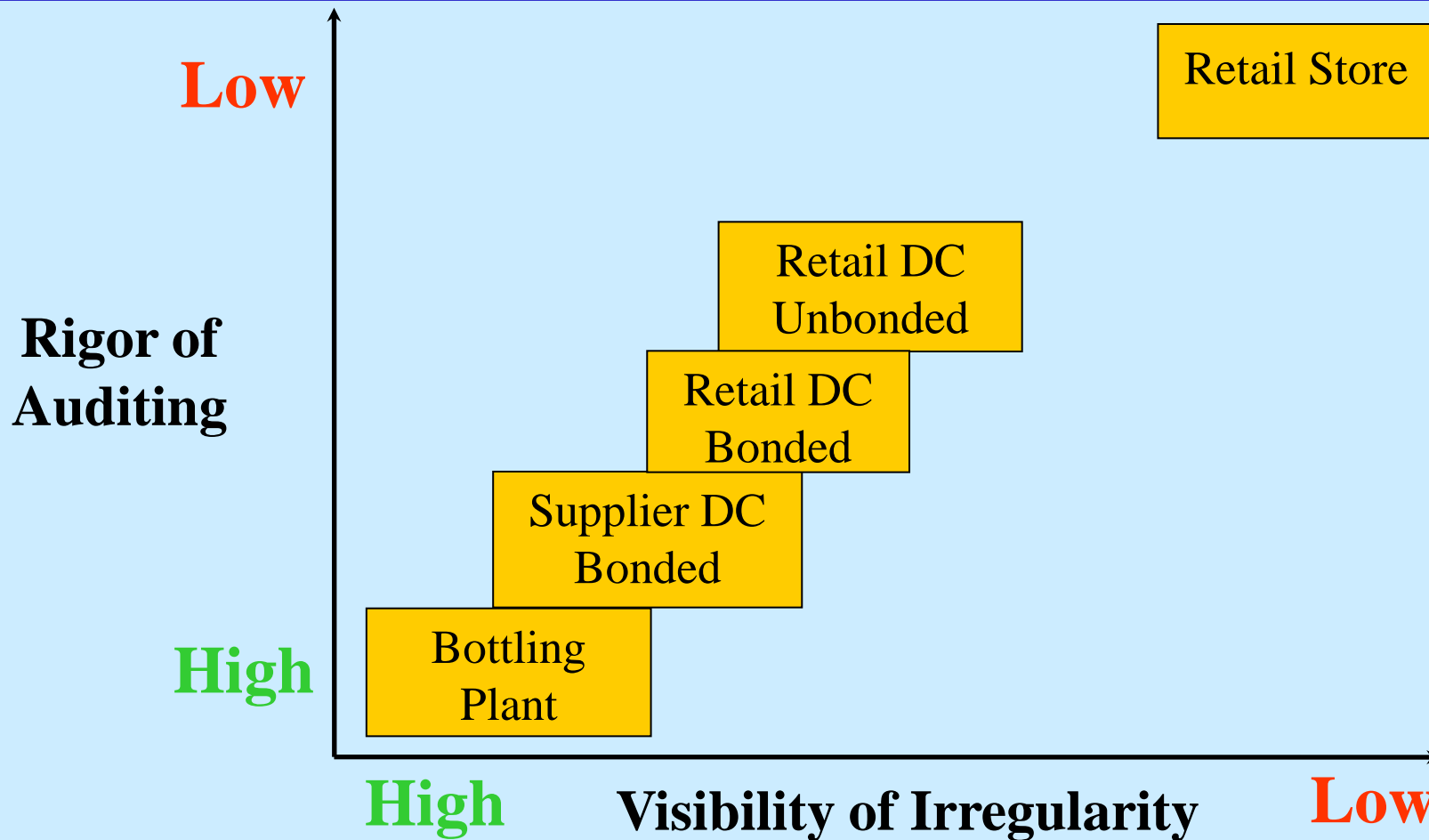
# The 'New Approach'



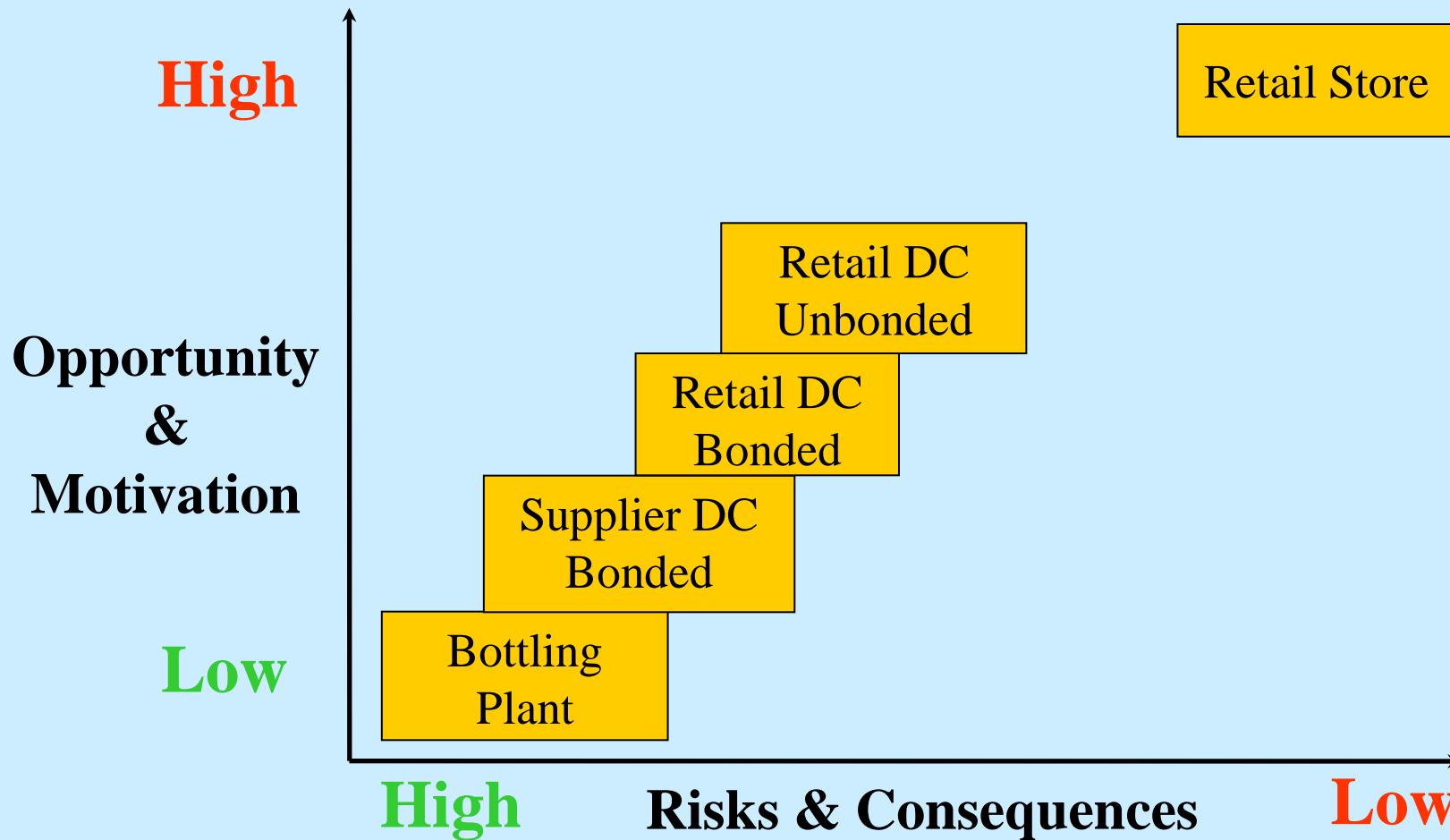
# The BWS Supply Chain



# Results: Operational Robustness



# Results: Site Threat



# Priority Actions to Remove and Mitigate Risk

- Improve staff awareness - provide focussed information
- Increase perceived risk to shoplifters - focus and motivate staff
- Improve supply chain operations - remove temptation

# Increase Perceived Risk to Shoplifters

Method	Action to increase effectiveness
Staff Presence	Direct effort using loss data
CCTV	Link to shelf stock counting
Store Guard	Maintain motivation
Counting	Be systematic
EAS Tags	Trial EAS 'Bottle Tags'

# EAS Bottle Tag Trial

- Tag all spirits over €15 (£10)
  - Used EASyBottle tags with 'RF' system
- Implemented in 'highest loss' region
  - Region 21<sup>st</sup> out of 21
  - 25 stores in trial
- Results:
  - Reduced loss by 40% measured with SKU level data
  - Region now 7<sup>th</sup> out of 21

# Action for 2003 - Pilot New Efforts

- Trial changes to operations, new methods and technologies
- Perform rigorous experiments
  - Perform ‘shake down’ tests on ideas
  - Acquire ‘investment grade’ data
- Quantify impact on losses and sales



# ECR Project 2003

- This step is about real action!
- Then take the lessons into practice in other sectors!

# J Sainsbury

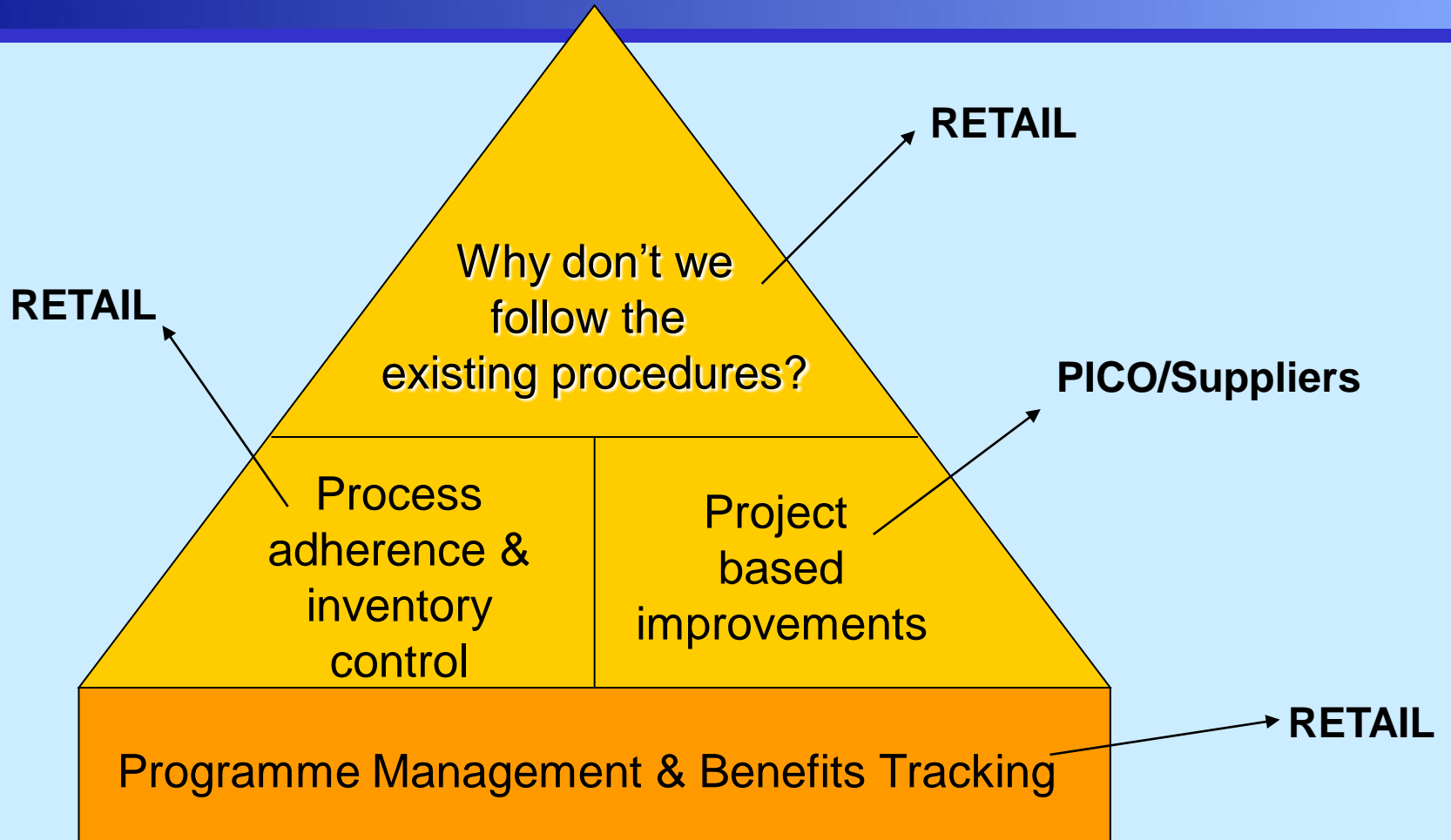
## 2003 - Project Background

- Scoping document (4-5 weeks)
- Stock loss increasing
- Significant opportunity to improve 2003/4
- Time for a new approach
- Stock loss is always on the agenda

# Conclusions from Scoping Phase

- General
  - Scope for reducing loss and increasing profit
  - Better 'cross functional working'
  - Improvement lies in reducing 'unknown stock loss'
  - Resource focus
- Process
  - Successful model exists
  - 60% of unknown loss is due to process, 40% to theft

# Solution



# Cross Functional Project Improvement

- Systematic approach to identify, analyse, implement, measure savings from projects
- Follow up from Cranfield/Allied Domecq project
- Pilot 3 high loss areas
- 35% of 2002/3 unknown stock loss is:
  - Kiosk (cigarettes, mobile phones and top up cards)
  - Counters (meat and fish)
  - Spirits/'Ready to Drink' flavoured alcoholic beverages

# Project Activity

## Approach:

- Focus on areas through ‘data analysis’
- ‘End to end’ (process map supply chain)
- Determine action
- Obtain consensus
- Take action
- Inject pace
- Review potential after 12 weeks
- Measure results
- Roll out solutions to other categories

# Conclusion & Recommendations

- Look at 'end to end' processes
- Liaise with suppliers and look for best practice (partnership)
- Break away from opinion/anecdote (old way)
- Take decisions based on fact
- Proper trials with control groups
- Results must be audited

# Next Steps

- J Sainsbury and Allied Domecq support the ECR Hot Product/Hot Store Project
- We will share results and best practice
- We will tell you more in 2004!

**Thank you**



# Case Study Reports

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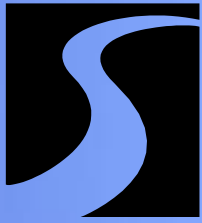
# Reducing Stock Loss in Yoghurts

Armando Mateus, Jerónimo Martins

Gonçalo Vieira, Danone



# Executive Summary



- 45% decrease in shrinkage
- Introduced collaborative, supply chain solutions
- Learnt to:
  - Get basics right
  - Work together and share information
  - Get people and management attention
- A long way still to go



# Who We Are ...



- Owned by Jerónimo Martins Retail, second largest Retail Company in Portugal
- 24 Stores from 3.000 sqm to 10.000 sqm
- 3rd Hypermarket Chain with a 11% share

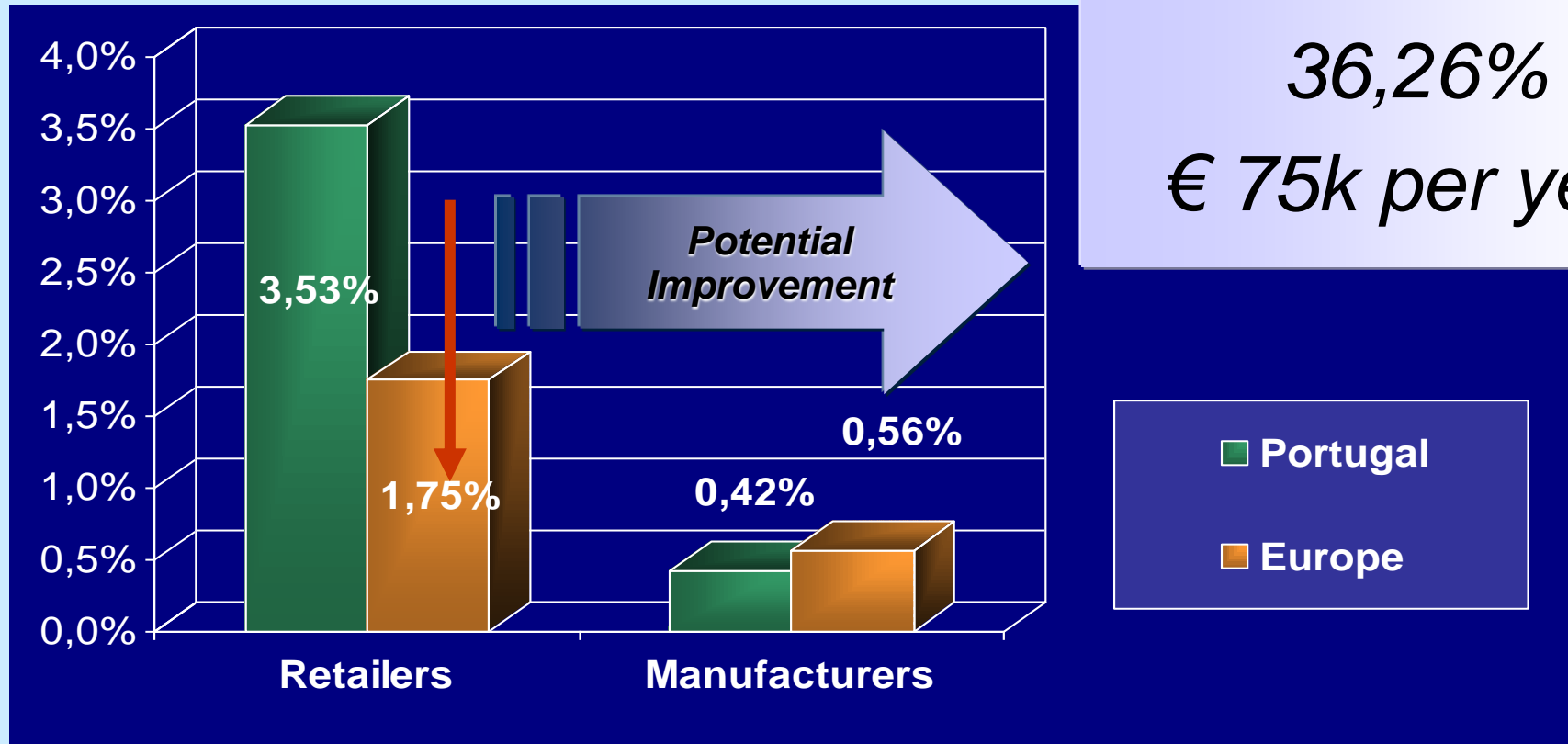


- International Company:
  - Dairy
  - Waters
  - Biscuits
- Present in more than 12.000 stores in Portugal
- Market Leader in Portugal with a 40% share

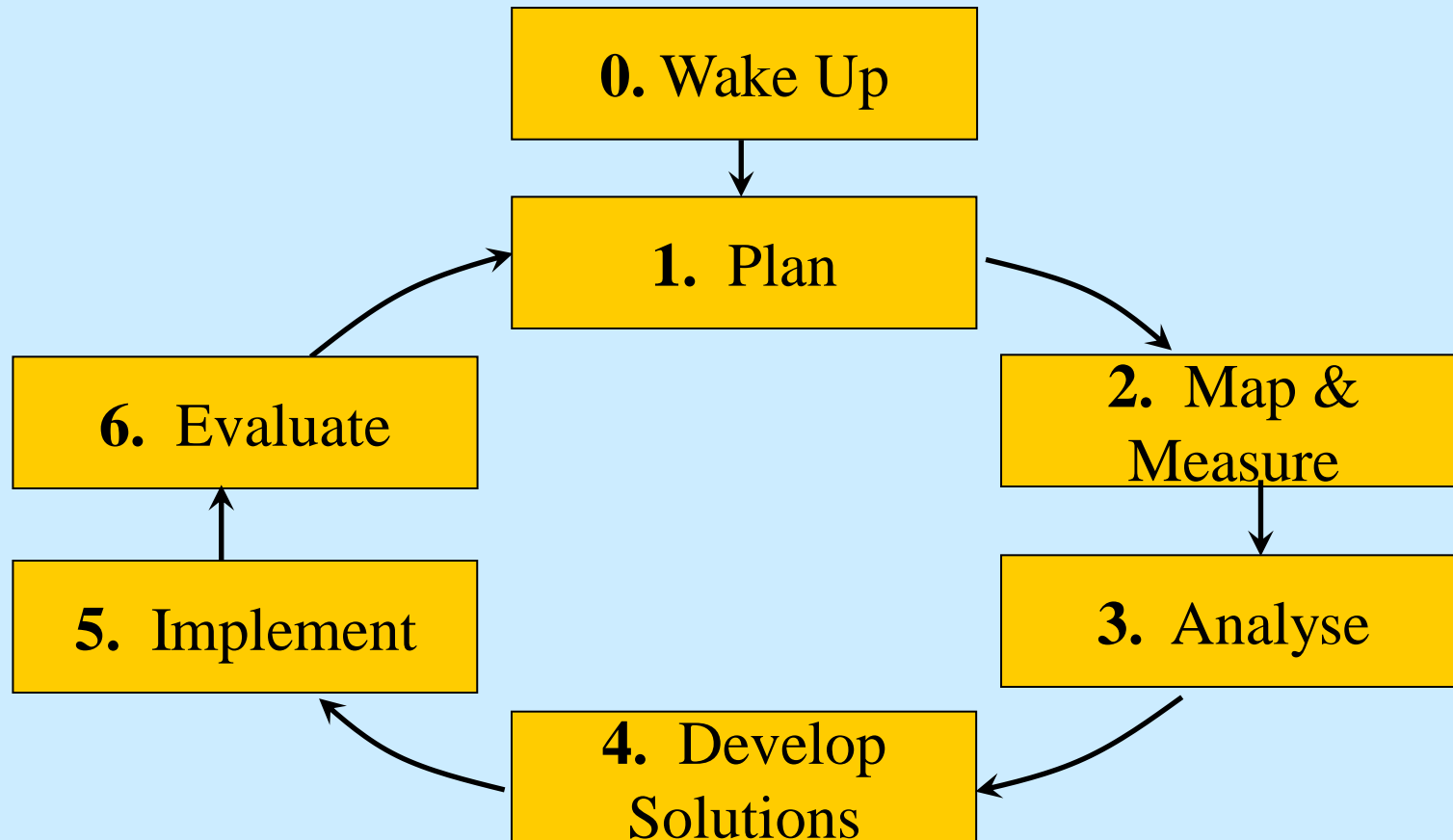




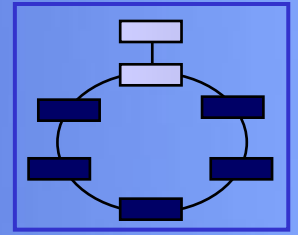
# Where Can We Get ...



# Methodology

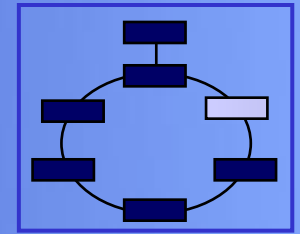


# Wake Up & Plan

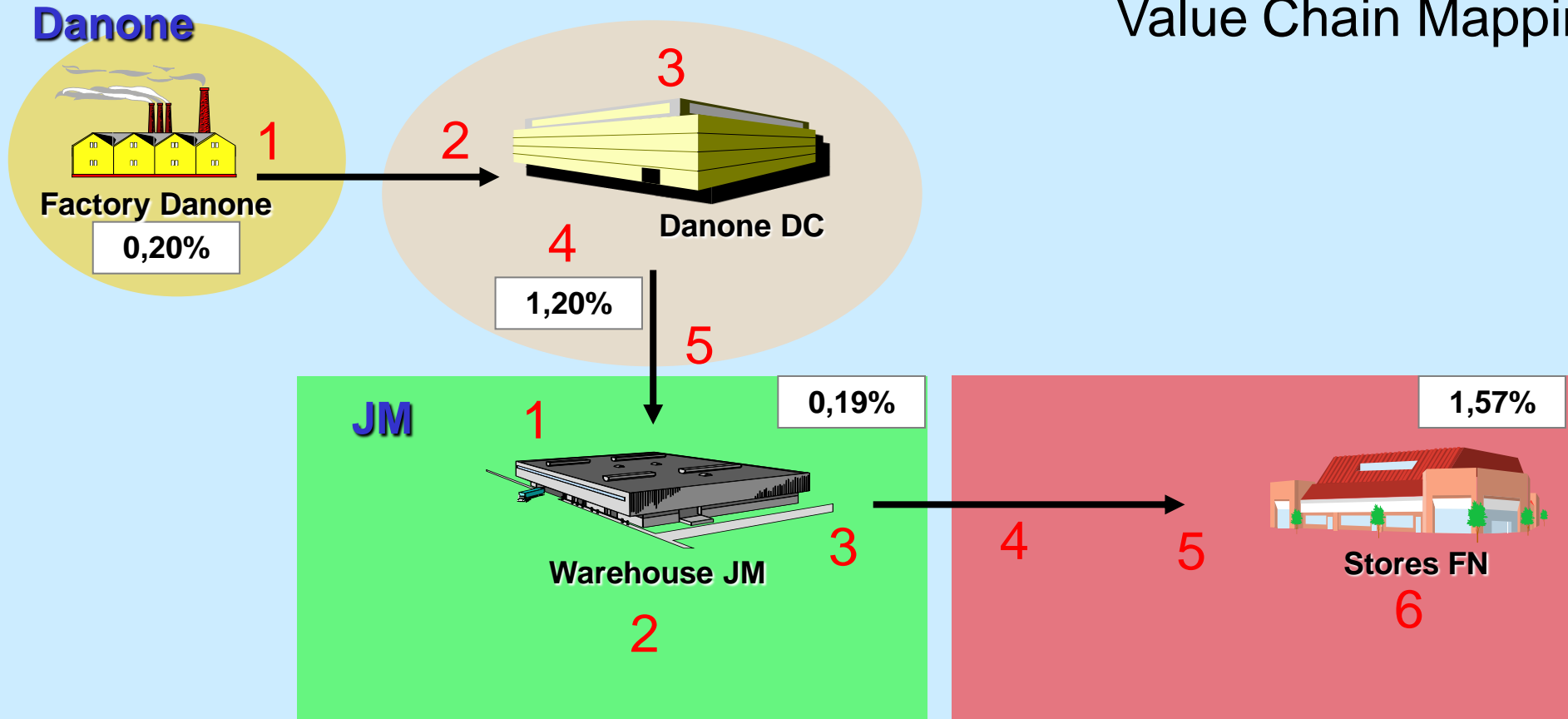


- Sharing:
  - Common problem
  - Information exchange
  - Joint solution development
  - Commitment from all levels of both companies
  - Development of an activity plan
  - Establishment of KPIs and objectives

# Map & Measure

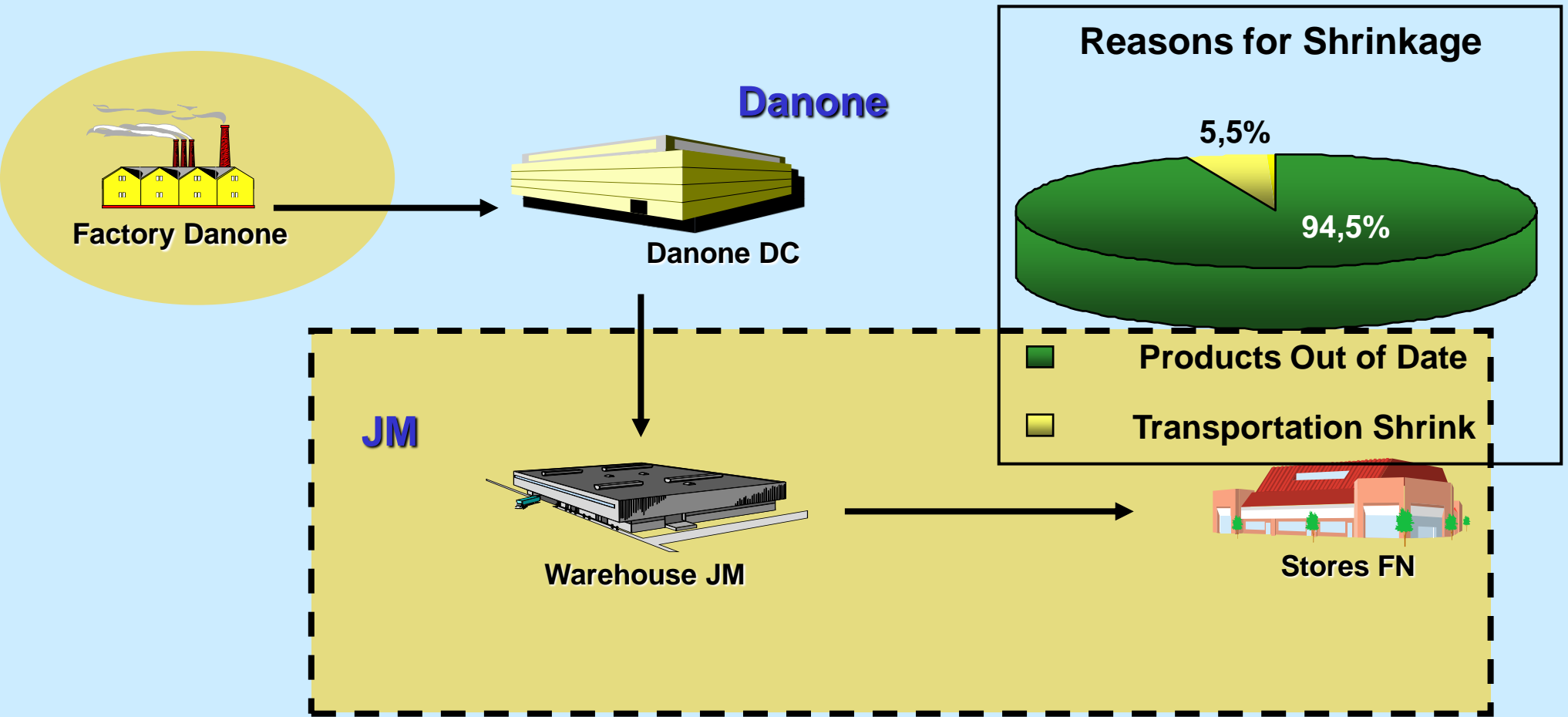
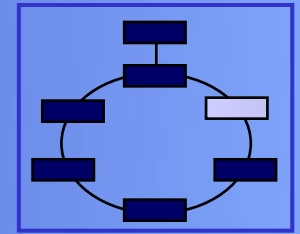


## Value Chain Mapping

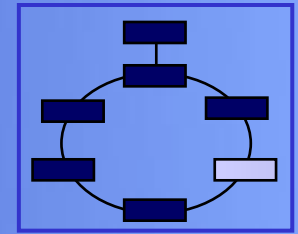




# Map & Measure

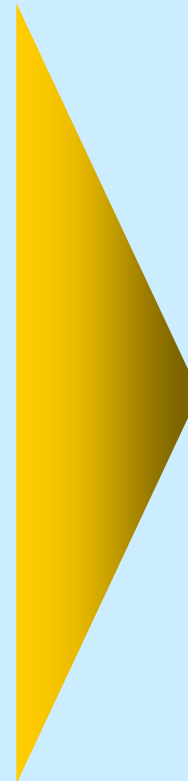


# Analyse



## Stores visits based on criteria:

- ▶ Value and/or percentage of shrink vs. supplier or category pattern:
  - *Hot Stores*
  - *Best practices*
  - *Strange Values*
- ▶ Category value sales
- ▶ Store type (hyper/medium surface)
- ▶ Geography (North/Center)



▶ Valongo

▶ Penafiel

▶ Sintra

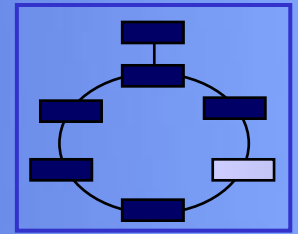
▶ Aveiro

▶ Póvoa St. Adrião

▶ Telheiras

▶ Barreiro

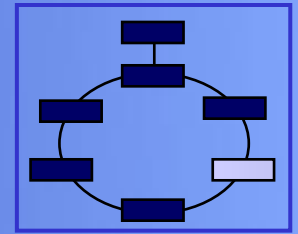
# Analyse



## Get the Right People



# Analyse



## Main Problems:

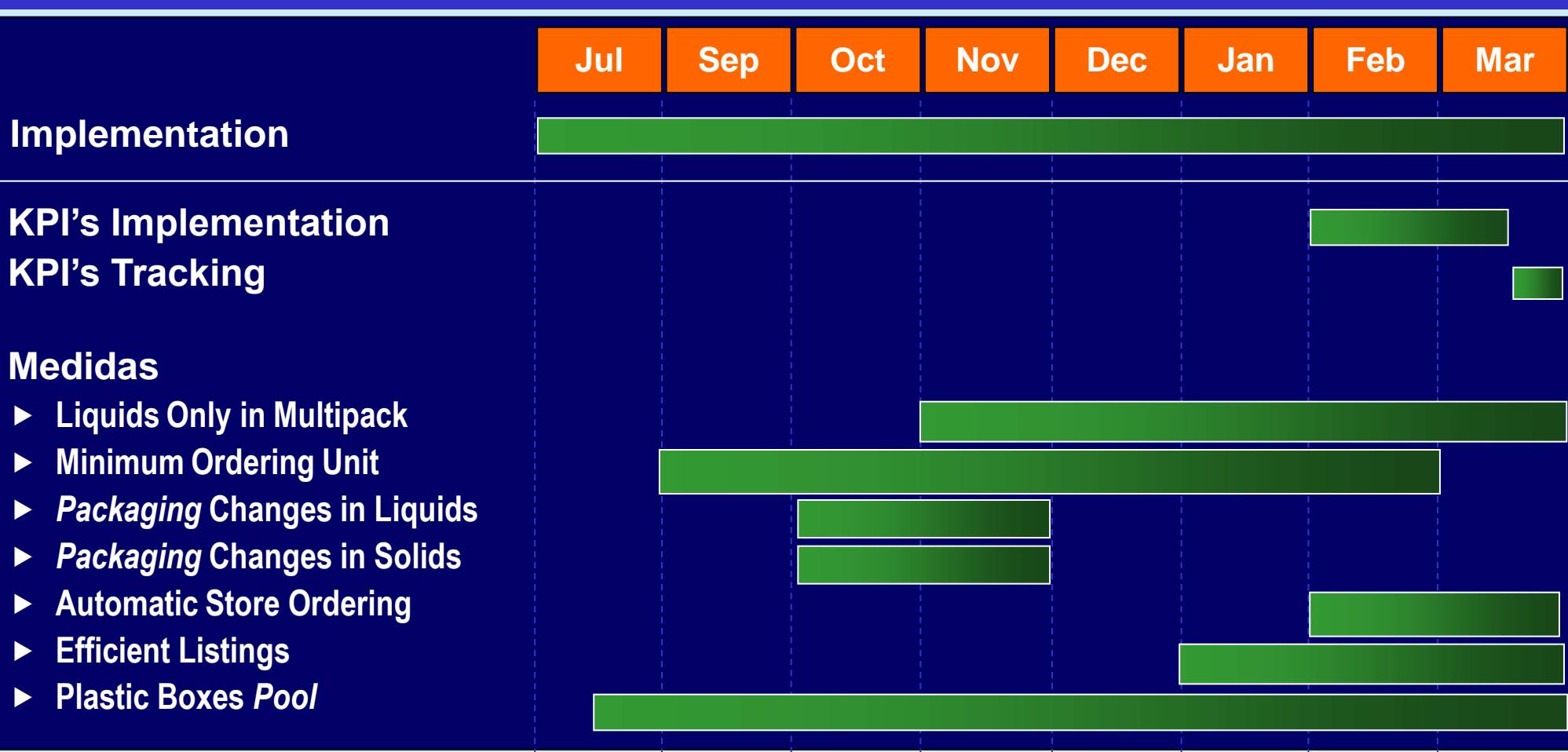
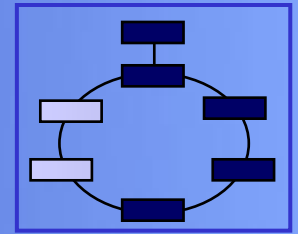
### During transport

- ▶ Cardboard damaged
- ▶ SKU grouping not adequate
- ▶ Boxes damaged in loading/unloading

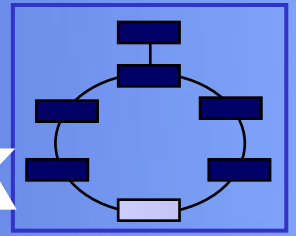
### In Store

- ▶ Out of date products
- ▶ In store consumption
- ▶ Exterior card damaged by consumers
- ▶ Errors in check out

# Implement & Evaluate



# Liquids Only in Multipack



## ▪ Liquids only in Multipack

### Objectives:

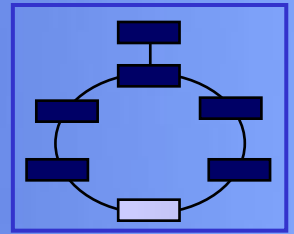
- ▶ Reduce in store consumption
- ▶ Reduce check out errors

### Results:

- ▶ Purchases to Danone only in multipacks
- ▶ EAN position change in 100% of packs
- ▶ Need to reapply in promotional items



# Minimum Ordering Unit



- Between DC's
- From JM DC to stores

## Objectives:

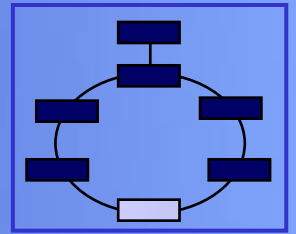
- ▶ Reduce out of date shrinkage
- ▶ Reduce transportation shrinkage

## Results:

- ▶ Complex due to store asymmetries
- ▶ Need for IT support



# Packaging Changes in Liquids



- Better date visibility
- Better exterior package

## Objectives:

- ▶ Reduce shrinkage through exterior package damage
- ▶ Avoid separation of units

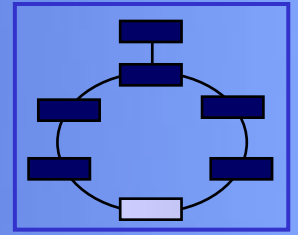
## Results:

- ▶ Packaging change in 100% of multipacks
- ▶ Fit with marketing/ consumer needs





# Packaging Changes in Solids



- One design for all units
- “Date cut” in exterior pack
- No EAN’s in units

## Objectives:

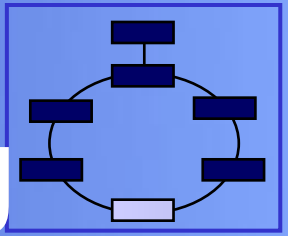
- ▶ Avoid separation of units
- ▶ Reduce shrinkage through exterior package damage

## Results:

- ▶ Date cut in 70% of packs vs. 55% in July
- ▶ EAN’s still in units
- ▶ Fit with marketing/ consumer needs



# Automatic Store Ordering



- **Algorithm based on past sales and future activities**

## Objectives:

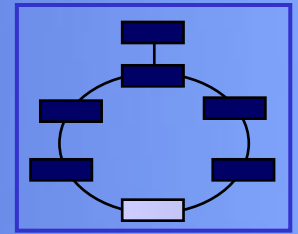
- ▶ **Reduce out of date shrinkage**

## Results:

- ▶ **Not yet implemented**
- ▶ **JIT changes the standard algorithm calculation**
- ▶ **Due: September**



# Efficient Listings



## Efficient listings

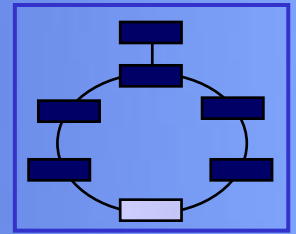
### Objectives:

- ▶ Reduce shrinkage of out of date in Danone DC due to delays in first order

### Results:

- ▶ Reduced by 30% to 4,4 days
- ▶ Shrinkage in Danone DC decreased from 1,2% to 0,9%

# Plastic Boxes *Pool*



- Joint project with other suppliers and retailers
- Involvement of Third Party

## Objectives:

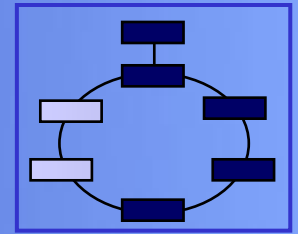
- ▶ Standard logistics process
- ▶ Reduce shrink in transportation and handling

## Results:

- ▶ 50% of Danone deliveries already in plastic boxes
- ▶ Alignment between retailers
- ▶ Conciliation between manufacturers difficult



# Implement & Evaluate



## KPI's

**1<sup>st</sup> KPI**  
Total Shrinkage



Global objective is to reduce shrinkage in the total value chain

**2<sup>nd</sup> KPI**  
Known / Total



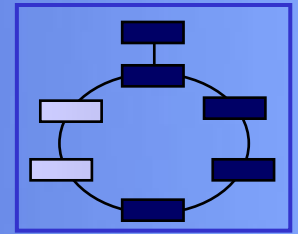
Evaluate efficiency to identify and register shrinkage causes

## Other KPI's:

- ▶ Specific at a solution level;
- ▶ Measure each solution efficiency;
- ▶ Do the follow up of its own type of shrinkage.

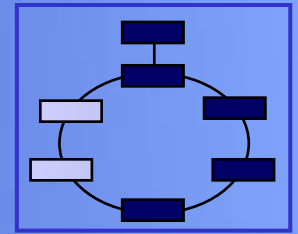


# Implement & Evaluate

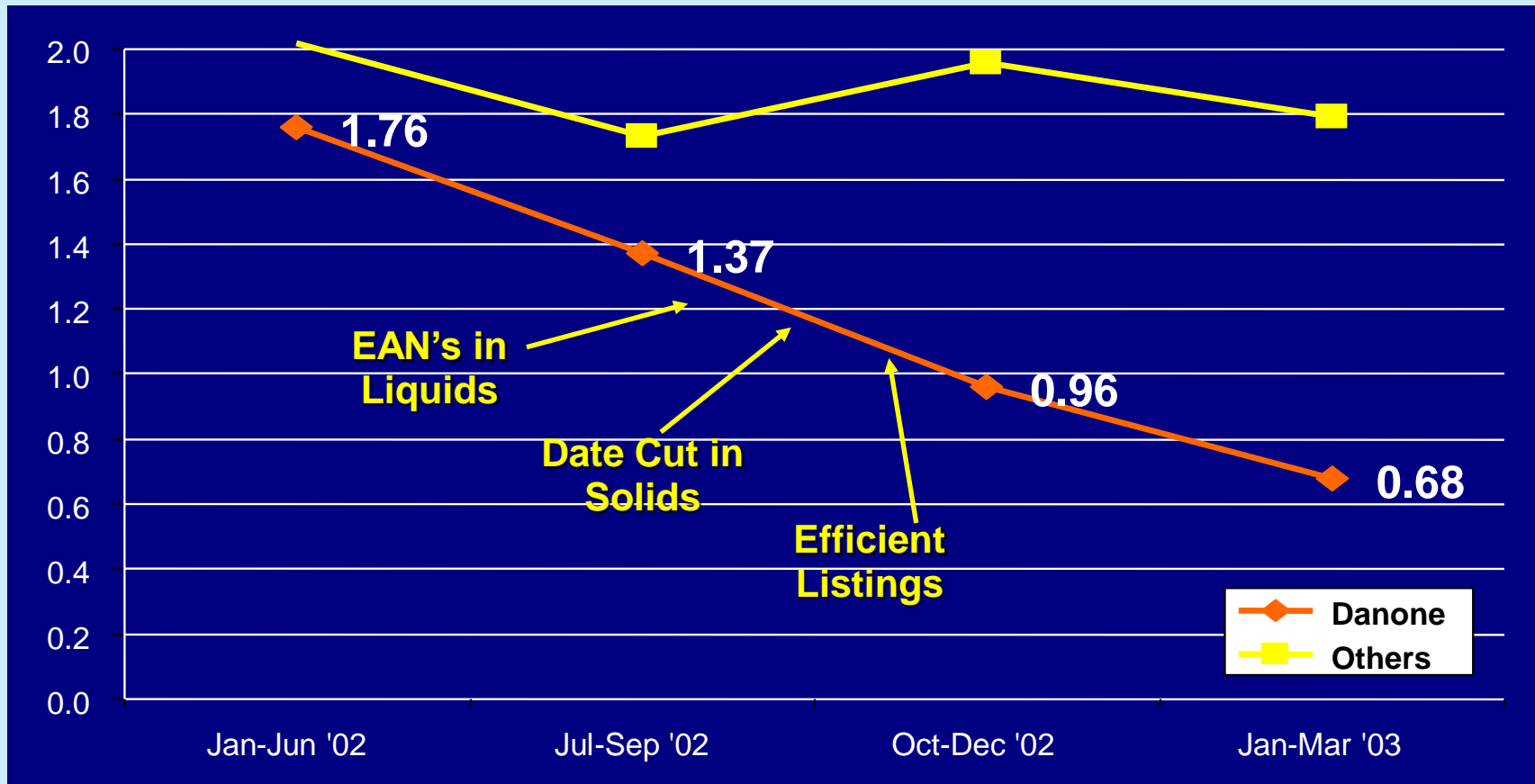


Solution	Objective	Hot Spot	KPI1	KPI2	KPI3
Liquids Only in Pack	Decrease Shrink by consumption Decrease Shrink in Check Out	Store Store	Shrink Total	Shrink Known / Shrink Total	Shrink unknown Shrink unknown
Minimum Ordering Unit	Decrease Shrink by out of date Decrease Shrink by damage	Danone Transport			Shrink out of date Shrink by deterioration
Packaging Changes in Liquids	Decrease Shrink by damage Decrease Shrink by Check Out	Store Store			Shrink unknown Shrink unknown
Packaging Changes in Solids	Decrease Shrink by unit separation Decrease Shrink by damage	Store Store			Shrink unknown Shrink unknown
Automatic Store Ordering	Decrease Shrink by out of date Decrease Shrink by out of date	DC's Store			Shrink out of date Shrink out of date
Efficient Listings	Decrease Shrink by out of date	Danone			Shrink out of date
Plastic Boxes Pool	Decrease Shrink in Transport Decrease Shrink in Transport	Transport DC's			Shrink by deterioration Shrink by deterioration

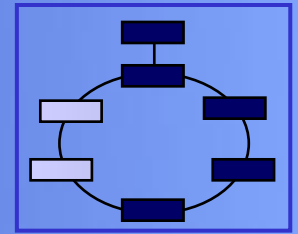
# Implement & Evaluate



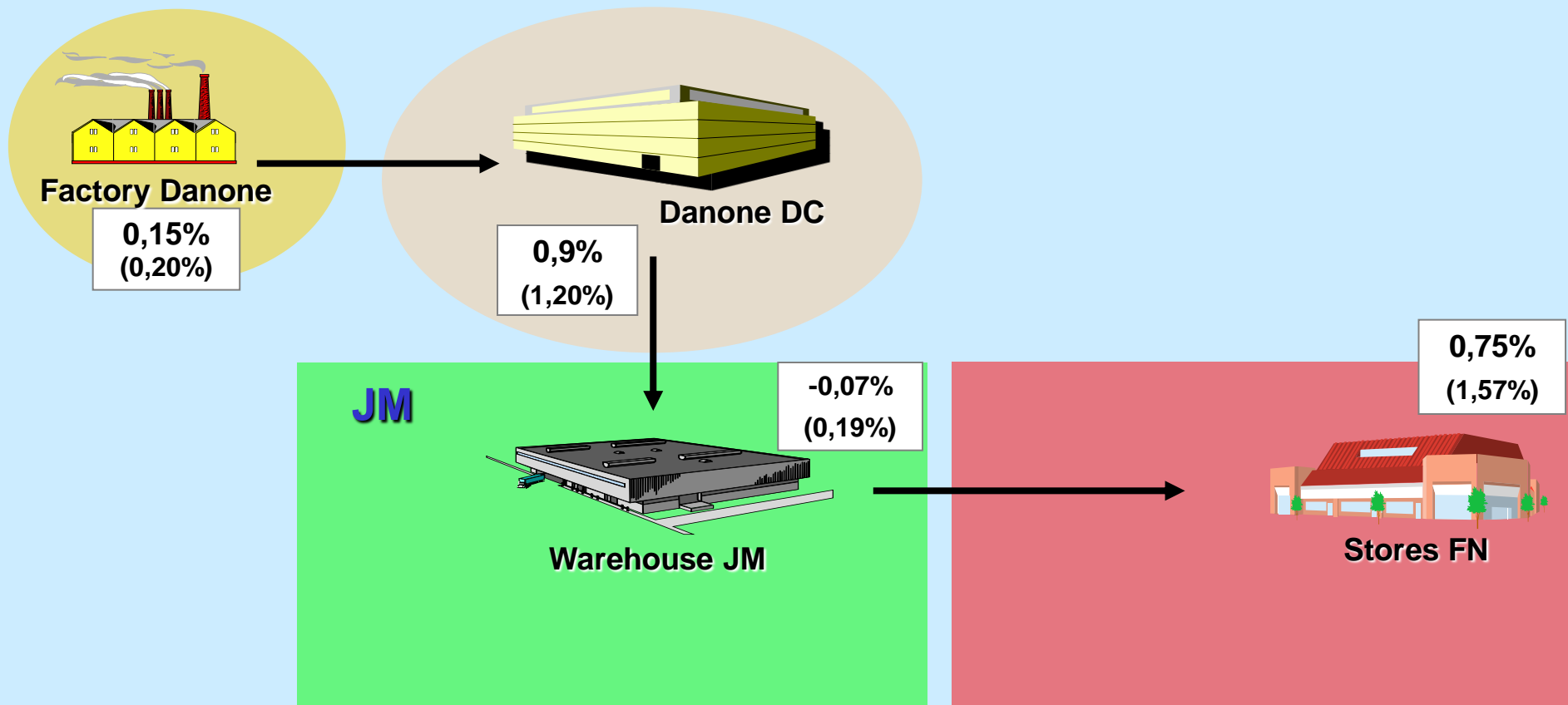
What we managed to do ...



# Implement & Evaluate

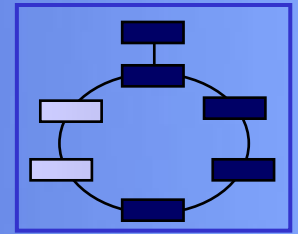


Results achieved to date ...





# Implement & Evaluate



## Results achieved to date ...

**1<sup>st</sup> KPI**  
Shrink Total



Reduced total shrinkage from 3,16% to 1,73%  
(Objective: 2,2%)

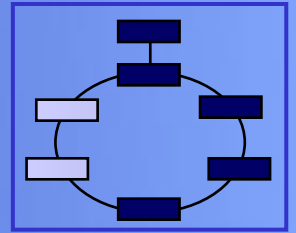
**2<sup>nd</sup> KPI**  
Known/Total



Increased from 27% to 36% (Objective: 60%)

**Annual Saving:**  
Danone: € 35k  
Feira Nova: € 255k

# Implement & Evaluate



## Lessons Learned ...

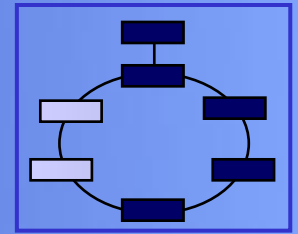
### Do's

- ▶ Get basics right - no need for complexity - work smart
- ▶ Work together
- ▶ Share information
- ▶ Get people and management attention
- ▶ Implement automatic systems

### Don'ts

- ▶ Set unrealistic targets
- ▶ Focus on what is accessory
- ▶ Lack follow through
- ▶ Define processes without systems

# Implement & Evaluate



## What we have still to finish ...

- ▶ Complete liquids only in pack
- ▶ Minimum ordering unit
- ▶ Complete packaging change in liquids
- ▶ Complete “date cut” packaging changes in solids
- ▶ Implement automatic store ordering
- ▶ Further improve efficient routing
- ▶ Plastic boxes process

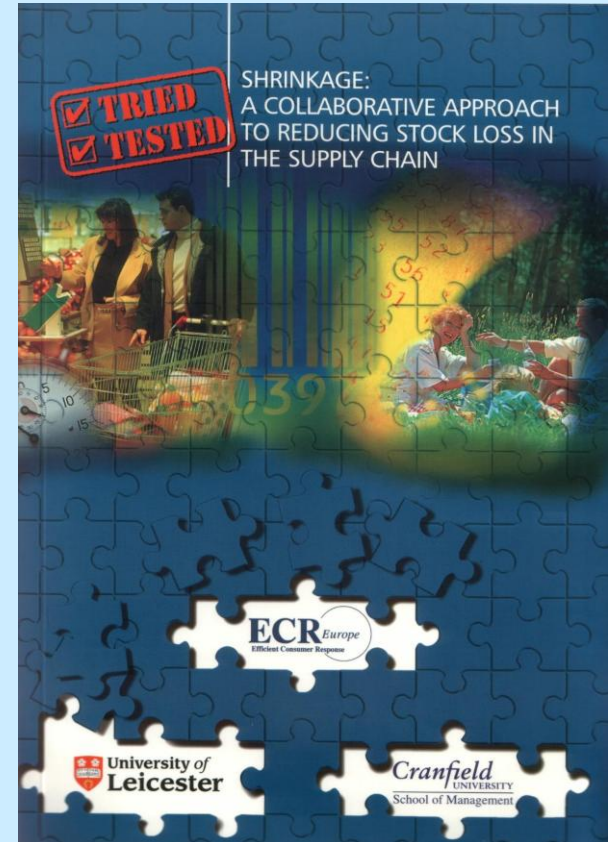
**Keep Attention**



# Thank You

# Shrinkage Blue Book 2<sup>nd</sup> Edition

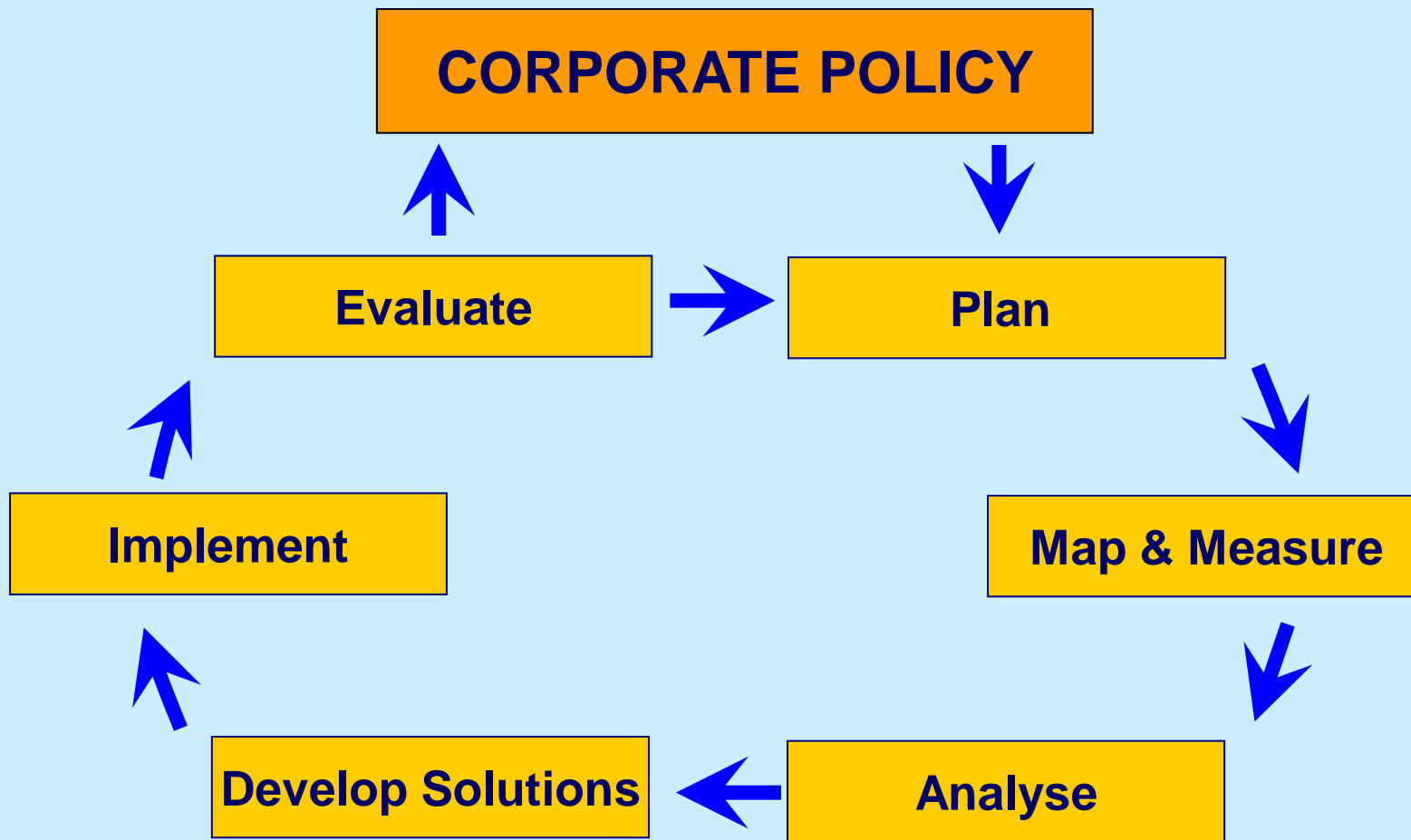
- Comprehensive guide
- Case studies
- CD
  - Project toolkit
  - Videos
  - Presentations



# Integrating Shrinkage into Corporate Policy

- Contextualise against corporate objectives
- Define accountability
- Devolve responsibility
- Develop measures
- Implement best practice
- Structured deployment
- Ongoing improvement

# Shrinkage Reduction Road Map



# Agenda

- Introduction to project team
- Introducing the Road Map, case studies and Blue Book
  - Paul Chapman, Cranfield School of Management
- **Exploring Risk: The ‘Hot’ Concept**
  - Adrian Beck, University of Leicester
- Future Plans



# Exploring Risk: The 'Hot' Concept

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# Background

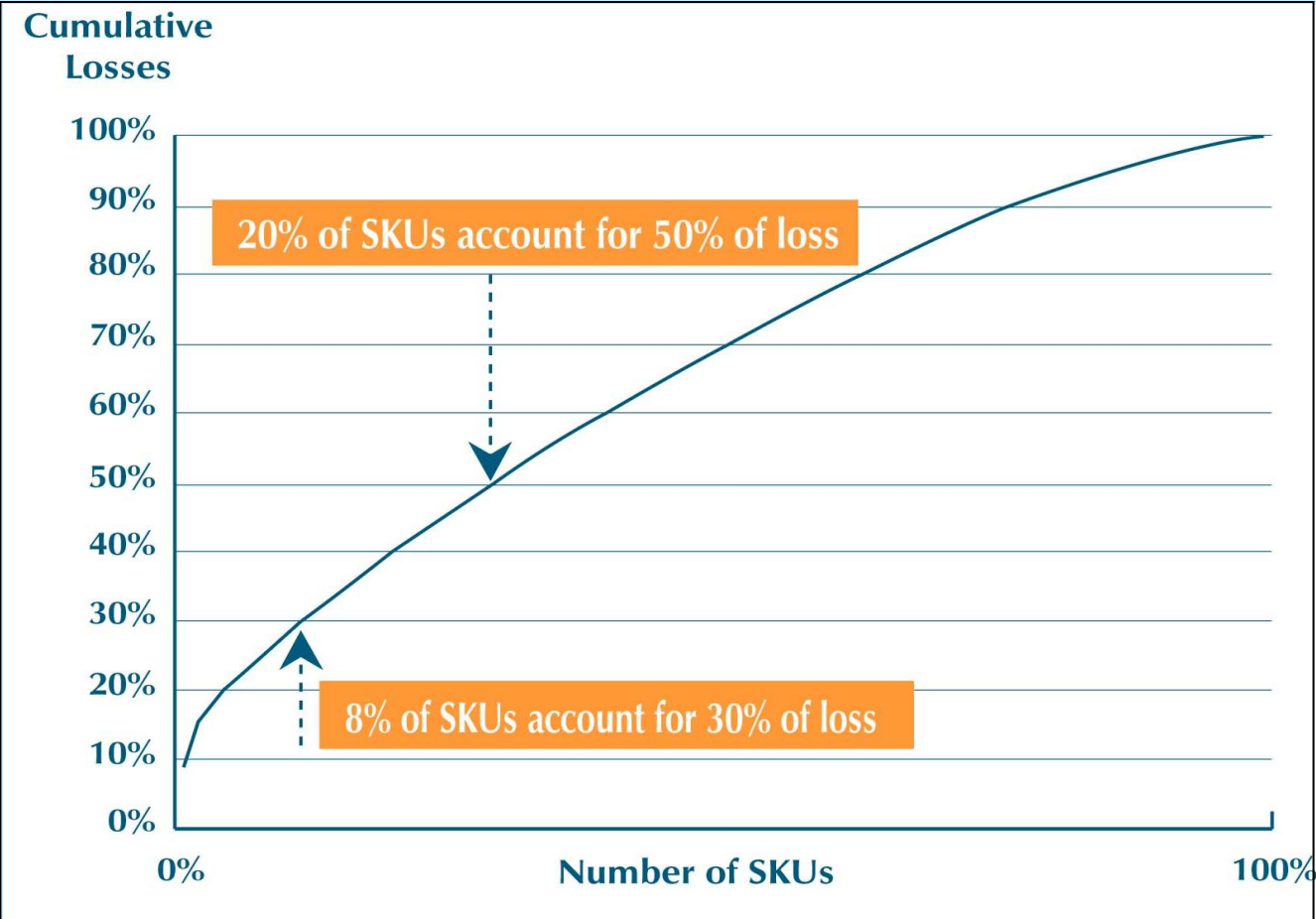
- Risk is not evenly distributed. It is focussed on particular products, places, people, processes
- Crime hot spots
  - 3% of locations in some cities account for 50% of recorded crime
- Hot products
  - Some products much more at risk than others

# What Causes Products to be Hot?

- **Concealable**
- **Removable**
- **Available**
- **Valuable**
- **Enjoyable**
- **Disposable**

**CRAVED**

# Hot Products



# Background

- Risk is not evenly distributed. It is focussed on particular products, places, people, processes
- Crime hot spots
  - 3% of locations in some cities account for 50% of recorded crime
- Hot products
  - Some products much more at risk than others
- Supply chain hot spots
  - Risk exists at particular points, e.g. delivery to store

# The Value of Understanding the 'Hot' Concept

- Avoids spreading valuable resources too thinly
- Focus on the vital few amongst the trivial many
- Rapid impact
- Greatest return

# Hot Store Mythology

- Social Geography
  - ‘Bad areas cause high shrinkage’
- Management
  - ‘Good results follow good managers’
- Supply chain partners
  - ‘They always complain when deliveries are under but never when they are over’

# Hot Store Mythology

## Hot Shop

My shrinkage  
is caused by  
external factors!





# The Hot Store Project: From Myth to Reality

- ECR project launched to understand the issues relating to store losses
- Research questions:
  - Across Europe, what is the profile of store losses?
  - What makes a store ‘hot’?

# Methodology

- Survey:
  - Contacted a sample of European retailers
  - Gathered shrink details for all outlets
- Case Studies:
  - 4 companies: Ahold (Czech); Feira Nova (Portugal); Tesco (UK); Wickes (UK):
  - Collected estate wide data
  - Visited 4 stores per company (2 'good', 2 'bad')
  - Interviewed key store staff

# European Store Shrinkage Rate



# Estate-Wide Findings

Factors	Correlation		
	Positive	Negative	None
Total shrinkage and staff turnover	✓		
Age of store and unknown shrinkage	✓		
Time of refit and shrinkage	✓		
Manager at store and shrinkage		✓	
Manager at store and staff turnover		✓	
Turnover of manager and shrinkage	✓		
Number of shoplifters and staff dismissals	✓		
Company risk category and shrinkage			✓

# In the Hot Stores ...

- Store manager and team see shrinkage as their responsibility BUT blame the environment, the staff, outsiders, the company...
  - ‘there is only so much we can do to control the situation’ (CS 2,1)
  - ‘the stock deliveries are never correct – we always inherit the problem’ (CS 4,2)

# In the Hot Stores ...

- Company doesn't make manager accountable for losses at the store
  - 'When managers move store they are not held accountable for what's left behind' (CS 1,1)

# In the Hot Stores ...

- Company procedures are not followed
  - ‘we should be doing 70 staff searches a week but we only ever manage 40’ (CS 4,1)
  - ‘we haven’t been having the weekly team shrinkage meeting’ (CS 4,2)
  - ‘staff don’t fill in the wastage reports properly’ (CS 4,3)
  - ‘the backroom area always looks like a bomb site’ (CS 2,4)

# In the Hot Stores ...

- The manager does not provide support, leadership and control
  - ‘I don’t trust my staff and they don’t do what I tell them to do’ (CS 2,4)
  - ‘There is collusion between the security guards and the cashiers. The cashiers are incompetent. The head of the cashiers knows what to do she just doesn’t do it.’ (CS 4,3)



# In the Hot Stores ...

- Store management does not know the extent of the problem
  - ‘I would have to say that Mach 3 is highly stolen in this store because that’s what everybody in the industry says’ (CS 1,2)
  - ‘I can never reconcile my inventory...’ (CS 3,4)
  - ‘We don’t keep a record of security incidents in the store – we tell head office and then throw the data away’ (CS 1,2)

# The 4 'A's to Preventing Stores Becoming Hot

- **A**ccountability
- **A**ction
- **A**ttitude
- **A**udit

# The 4 'A's to Preventing Stores Becoming Hot

- **Accountability**

- The manager owns the problem and prioritises it all day, every day
  - 'keeping my eye on the ball' (CS 4,2)
- The manager is highly committed to reducing shrinkage
  - 'as important as sales' (CS 4,1)

# The 4 'A's to Preventing Stores Becoming Hot

- **Action**

- Store context needs to be understood and appropriate actions taken to meet the challenges
  - 'this is a tough store but we know it and develop plans accordingly' (CS 4,4)
- All procedures must be adhered to consistently: they must be robust, standardised and institutionalised
  - 'we know what we need to do – good procedures already exist' (CS 2,3)
- Backroom areas - keep them neat and tidy as a message to all staff
  - 'there is no reason why the backroom shouldn't be as clean as the shopfloor' (CS 2,3)

# The 4 'A's to Preventing Stores Becoming Hot

- Attitude
  - Build a cohesive management team
    - 'Vision. Mission. Obsession' (CS 3,1)
    - 'You need the right people with you and for you. It's about having a common goal and sharing it' (CS 4,3)
  - Understand the staff, be consistent and recognise when staff need help
    - 'You have to be involved and talk to everyone in every department every day' (CS 1,3)
  - Be supportive and flexible
    - 'XXX has his finger on the pulse. He's a manager, you don't get many. Some people put the badge on but that doesn't make them managers' (CS 1,3)

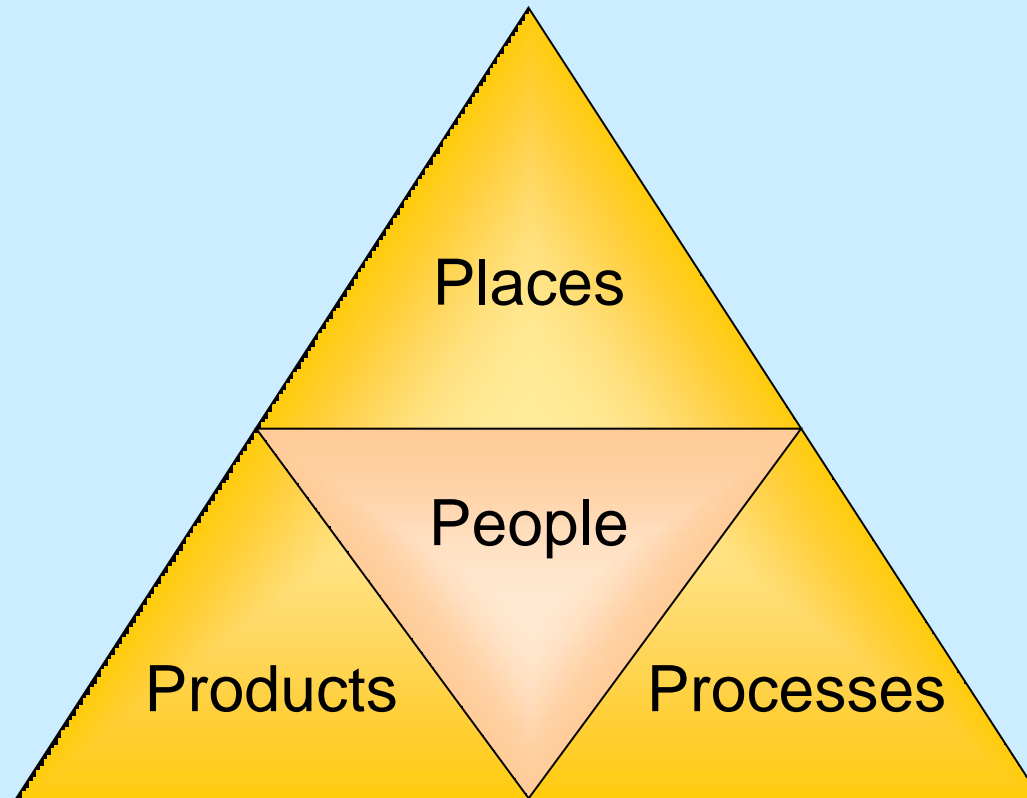
# The 4 'A's to Preventing Stores Becoming Hot

- Audit
  - Access and use high quality reliable data in order to understand the problems and how they change over time
    - 'Measure success and celebrate when good' (CS 4,3)
    - 'We have a daily control routine and update the store team weekly on results' (CS 1,2)

# These Findings Suggest That...

- High shrink in hot stores is mostly a function of poor management and lack of adherence to procedures
- The environment affects shrinkage but good management responds to the context and develops effective strategies to meet the challenge

# The Hot Concept





# Agenda

- Introduction to project team
- Introducing the Road Map, case studies and Blue Book
  - Paul Chapman, Cranfield School of Management
- Exploring Risk: The ‘Hot’ Concept
  - Adrian Beck, University of Leicester
- Future Plans

# Future Plans

- Hot Stores phase 2: From theory to action
  - Construct and calibrate a Hot Store audit tool
  - Implement 'Hot Store' findings
- Apply the Road Map in new categories
- Deliver seminar series

# Next ECR Shrinkage Seminar

***Turning Shrinkage into Profit:  
Developing Effective Solutions***

July 1<sup>st</sup> 2003

Sheraton Airport Hotel, Brussels

# Finally, an Invitation ...

- Join our working group
- Use the Road Map
- Share your results

**THANK YOU**

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**QUESTIONS**

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**SEMINAR FEEDBACK FORMS**