Agilence

Hidden Operational Losses

Addressing the Hidden Losses Impacting Profit Margins

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Executive Summary

Operational shrink, including losses caused by systemic issues and poor promotion execution, is more common and costly than fraud. However, many loss prevention solutions are unable to identify these hidden issues, and as a result, retailers do not realize the full extent of losses taking place that are not fraud-related and that are significantly impacting their bottom lines. To identify operational shrink quickly and before they cause substantial losses, retailers require solutions that: enable them to efficiently investigate every irregularity, provide both data and corresponding video, and deliver data as quickly as possible.

Operational Shrink: Hidden and Costly

Point-of-sale (POS) losses cost retailers 40 billion dollars annually and substantially impact bottom lines. While some of this shrink can be attributed to employee theft and fraud, the majority of it is actually caused by common and costly operational issues. Operational shrink is much more significant than retailers realize and often goes unnoticed. While fraud is typically isolated to a single employee, operational shrink, including losses caused by systemic issues (UPC incorrectly entered, manufacturing issues) and poor promotion execution (unclear promotions, promotions not dropped to the POS) often span the entire chain and are exponentially more costly.

As staggering as 40 billion dollars is, it is actually an underestimate of the true loss that is occurring. The problem is that many retailers' loss prevention tools are not designed to find certain patterns of operational shrink, their focus is purely on fraud and individual people. Thus, these types of activities are unknown to retailers and unaccounted for in the statistics.

Because of the inefficiency and limited impact of current loss prevention solutions, retailers and loss prevention (LP) professionals are only seeing the "tip of the iceberg." The reality is that there is a substantial amount of operational shrink that retailers are unaware exists and that are directly impacting their profitability. Retailers need to see and be aware of everything, including small operational errors, because these mistakes quickly add up, and new data shows that these losses are much more significant than previously thought.

Systemic Issues

Operational shrink is much more common and costly than are fraud and theft. In fact, for every one fraud case, there are twenty-one operational incidents occurring at the point-of-sale and in the supply chain. Whereas fraud is isolated to a single person or a small group of people, operational shrink is many times systemic. If one cashier is making a particular mistake, then it is very likely that many cashiers are making the same mistake chain-wide.

For example, a West Coast grocery chain found that training and packaging issues were causing numerous scanning errors across their entire chain.

Like most supermarkets, they trained their cashiers to complete an order as fast as possible. In turn, the cashiers quickly scan an item, listen for the beep, and move on with the next scan. So, when cashiers scanned a case of water, they did not notice that they were scanning the barcode on the individual bottle, which is exposed through the case's clear, transparent plastic over-wrap, rather than the correct barcode on the bottom of the case.

As a result, customers were purchasing cases of water bottles costing $5.49 for $0.69, a $4.80 loss that can go unnoticed in a medium to large transaction. If this widespread error had gone undetected, it could have cost the chain over $80,000 annually.

Poor Promotion Execution

Retailers are increasingly running promotions and loyalty discounts for their customers. These promotions can range from basic buy-one-get-one (BOGO) free offers to more complex deals aimed at helping vendors launch new products. While these promotions are aimed at building loyal customers and improving sales, they are also common causes of significant losses. Sales circulars and loyalty discounts are changing all of the time and some promotions, such as Buy One A, Get One B for free, can be read incorrectly, causing confusion amongst employees and customers alike. Promotions and incentives must be executed correctly from the very beginning, but unfortunately many are often mishandled or poorly executed. Retailers are often unaware of these issues, or realize them too late, and as a result suffer huge losses.

Indeed, another grocer, this time based in Southern California, found many employees improperly scanning manufacturer buy-one-get-one (BOGO) promotions. In order for the promotion to work properly, the employee must scan both items. However, many employees were scanning the first item and not the second. Like most grocers, this chain paid for the product upfront and planned on billing the vendor back for the promotion.

However, without the item being scanned, they were missing a critical piece of the data required to do this. As a result, the chain lost money for every item that was given to the customers for Free. With this shrink activity exposed, the grocers analysts are now constantly analyzing their software to ensure that employees understand these weekly promotional programs and are executing them correctly.

Technology Considerations

Efficiency to View Every Irregularity
Several sources of operational shrink go unnoticed because most tools today do not allow analysts to view many transactions. Many solutions focus on trends and look for outliers, providing “top 10” or “top 100” results. This is because the solutions are not efficient enough to enable LP professionals to view every irregularity, leading them to simply look for abnormal exceptions occurring at the macro level. For instance, retailers consider a certain number of voids as expected and acceptable. As a result, they utilize reporting tools that only look for cashiers that process an inordinate amount of voids, which helps detect employee theft. This is limiting, however, because every irregularity within a transaction is potentially a symptom of an operational issue that is causing significant shrink, proving that no void should be considered normal.

A normal transaction can only be defined as a scan and anything beyond this, such as an open ring, a void, or a price check, is an irregularity. Unless retailers have the technology to view all voids, they will miss operational issues that are causing considerable losses. Therefore, they need software that enables them to review a large volume of suspect transactions. To do this, these solutions must be able to synchronize every scan and button push to corresponding video. The efficiency of immediately accessing data and associated video allows analysts to view several more transactions a day, thereby enabling them to identify patterns of hidden, costly operational losses.

Leverage Data and Video
Many retailers are still employing loss prevention tools that provide only data, giving them just a one-dimensional view of activities occurring at the POS. Video, however, enables retailers to dig deeper into data that reveals a potential shrink activity, giving them more visibility and insight into patterns of operational shrink that they are unaware of. For instance, the first chain mentioned above was able to identify the causes of high shrink rates at its self checkout registers by observing their video footage, which revealed that in over 70% of the transactions at the self checkouts, the podium clerk was not present. In many of these transactions, frustrated customers who needed help from the absent clerk left the orders behind, and many others simply left with the orders (soft shoplifting). With this pattern exposed, they were able to enforce their existing policy of 100% coverage of the Remote Assistance Pod (RAP).

Immediacy of Data

Small mistakes can lead to big losses very quickly, making it essential for retailers to employ loss prevention technology that delivers data and video in real-time. This capability is especially critical when running promotions. To prevent losses from poor promotion execution, retailers require solutions that ensure weekly circular offers are entered correctly into the POS system and that store employees are properly executing the promotions at the point- of-sale. These offerings must be able to monitor and investigate the promotions as they begin and alert retailers to errors and training issues right away. Retailers can therefore correct the issues immediately rather than after the promotion ends, by which point they would have already suffered considerable losses.

The immediate availability of data was key in the second grocers ability to identify and correct an error within an hour of opening their stores and beginning a new promotion. They realized that customers were receiving $2 off of their purchases rather than $1, the result of the promotion not being properly established in the POS system. Within 15 to 30 minutes of identifying the issue, they corrected a widespread issue that would have caused considerable losses.

Both of these chains experiences with operational issues are not unique. Every retailer who runs promotional programs is likely to suffer losses from poor promotion execution. By leveraging solutions that monitor these programs, retailers can acquire detailed information about losses and proactively correcting them. Retailers with visibility into these issues can improve their promotion execution strategy and adjust the way they communicate promotion offers by detailing about how to correctly execute promotions.

Invest Wisely

Mistakes will always happen, and they will occur frequently. The problem is that many operational incidents are often overlooked by retailers, an omission costing them billions of dollars a year. In order to drill down further into point-of-sale data and discover the buried inefficiencies, retailers need to invest in technology that efficiently synchronizes data with video and delivers this information in real-time. These solutions will reveal issues that retailers would otherwise never discover nor would ever even know exist. Tools that identify not only theft and fraud, but also hidden operational shrink enable retailers to successfully address all losses that directly affect their profitability.

About Agilence

Agilence (www.agilenceinc.com) is the industry leader in data analytics and reporting solutions for operations and loss prevention. Agilence develops its cloud based 20/20™ solution for retail, food and beverage, and hospitality markets. 20/20 is a highly flexible and powerful application that provides organizations with a complete view of their business, empowering them to make informed decisions faster, to increase efficiency and improve profit margins across the enterprise.

Founded in 2006 Agilence is headquartered in Mount Laurel, NJ. To learn more about Agilence, please email sales@agilenceinc.com or call 856-366-1200.

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