

**A Randall Data Systems White Paper**

# Shrinkage: The Real Profit Robber

**Practical tips to prevent, measure and eliminate theft in your store**

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Randall Data Systems, Inc. is a Michigan-based company dedicated to providing retailers with the finest in automation solutions. These solutions are designed to help the retailer control their inventory, monitor sales activity, promote gift cards and loyalty programs, manage the operational aspects of their business and provide for the information needs of the progressive retailer.

Established in 1982, Randall Data Systems has been improving the lives and businesses of retailers throughout Michigan, the U.S. and Canada.

## Shrinkage – It Wastes Time and Money

When managing a store, fewer things are more frustrating than shrinkage—the difference between the amount of inventory listed in the paperwork versus what you physically count. Shrinkage comes from several factors, such as paperwork errors (errors in the delivery company's paperwork), internal theft (employees stealing), shoplifting (customers stealing) and overages (having more product than what's listed in the paperwork). The result? Precious time spent accounting for missing merchandise along with manpower and money spent identifying the culprit.

### Shrinkage: An Example

Shrinkage, no doubt, brings various images to mind. Perhaps one is of a nondescript customer coming in, friendly enough to seem unassuming but not too outgoing as to draw too much attention. The clean-cut customer, who no doubt wears a gray suit to further blend in, casually shops the store. After about 20 minutes, he purchases about \$20 in merchandise but leaves the store with 10 times that amount flawlessly stowed away on his person.

Surprisingly enough, this image represents a minority of the culprit for shrinkage. More than half the time store thefts originate from employees. And if you think it's as simple as the occasional food, drink or minor 99-cent item they never bothered to pay for, the cost of shrinkage indicates otherwise.

### Some Ways To Attack Internal Theft

Preventing internal theft involves many steps. Among them:

- Pay close attention to suspicious irregularities in inventories or transactions. Review register transactions, check for excessive drawer openings, cash refunds and returns. Do not allow your employees to work with an open cash drawer. Also examine sales reports detailing items that have been voided. Check your profit margin reports and see if anything seems low and if so, find out why. Finally, make sure your inventory count is accurate. It's a lot like balancing a checkbook: if it doesn't balance, then you need to find out why sooner rather than later.
- Preventing theft by employees includes enacting security measures like keeping the back door closed, locked and equipped with an alarm. Trying to get merchandise out of a store is much more difficult to do through the front where everyone can see than through the back.
- Frequently review security videos and check for any suspicious activity. Any such activity should be questioned, and any incontrovertible evidence of an employee stealing merchandise should be dealt with swiftly and effectively through termination and, if necessary, criminal prosecution. Doing so also sends a clear message to other employees: internal theft won't be tolerated.

Besides these measures, it's also a good idea to regularly inventory high-theft items and compare the count with what sales reports say have been sold. Hiring a mystery shopper can also be beneficial, since they tell you how customer service was while nonchalantly observing employees to see if anything suspicious is going on.

## Some Ways To Combat Shoplifting

When it comes to customers shoplifting, there are many ways to reduce the possibility of shoplifting. Greeting every customer is not only great for customer service, but it also lets potential shoplifters know you're watching them.

Your employees should also be briefed on the signs to be alert for in potential shoplifters. Does a customer wear bulky clothes that look too large? Do they seem nervous? Do two customers seem quick to split up while one of them seeks out employees with lengthy questions about a product or small talk? Maybe a customer seems to peruse the store much longer than what a normal customer would.

A few precautionary measures can go a long way towards preventing shoplifting:

- Install mirrors in strategic areas of the store. Shoplifters like blind spots, and with none to use, the risk escalates with the reward remains the same. The mirrors make it easier to see the entire store and deprive shoplifters of something that's vital for their theft—a low profile.
- Sometimes having a sign informing shoplifters they'll be prosecuted to the fullest extent of the law can be a major deterrent — whether it's a newbie who might think twice about taking the plunge or a veteran who realizes, again, the risk factor has just shot up while the reward stays the same. The more direct, the better: "SMILE, SHOPLIFTERS, YOU'RE ON CAMERA!" If that's not enough, a sign showing a somber person in a jail cell with a reminder that a shoplifting arrest and conviction could haunt them for the rest of their lives—especially when trying to land a job or when trying to purchase a home or automobile.
- To further try to cut costs of shoplifted merchandise, place expensive or items commonly stolen in open areas where they're easier to watch.
- Teach your employees to be alert of diversions. For some shoplifters, stealing merchandise in even an open area can be as easy as deterring an employee's attention for just a few seconds.
- Finally, never overestimate your ability to catch shoplifters. Some are professionals and are experts at blending in and taking merchandise without arousing any suspicion.

## Back Office Strategies To Deter Theft

Preventing shrinkage also means paying attention to paperwork and overages. Whenever a vendor drops off a load, instruct your employees to check all orders carefully for shortages; once an employee signs off on an order, even if a shortage is later discovered, it generally is too late to hold the vendor accountable. Employees should also make it understood that they won't sign off on the invoice until they've reconciled it with the supply delivered. Besides this, also have the vendors break down boxes before leaving the store to eliminate any possibility that product was miscounted or that a vendor hasn't tried to use the box to smuggle something out.

Finally, when it comes to overage, signs to be aware of include the recording of markdowns without actually reducing prices on price tickets; overstating the physical inventory; and including in the physical inventory count merchandise that has not yet been recorded in the book inventory.

## Conclusion

Every business has shrink. The key is to acknowledge it and take the appropriate steps to measure it. Only then can you take the necessary actions to deter and eliminate shrink in your store.

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*We invite you to discover the many benefits that our solutions can bring do your company by giving us a call, or sending us an email. Our consultations are always free and there is no obligation.*