FEATURE

GETTING TO GRIPS WITH LOSSES AND COSTS IN RETAILING

THE CURIOUS CASE OF NEWSPAPERS AND MAGAZINES IN THE UK GROCERY SECTOR

By Professor Adrian Beck and Colin Peacock

We are all familiar with use of the word "shrinkage" to describe the losses experienced by retailers, although it is impossible to find any industry-wide agreement on what it actually means or the types of losses that are typically included when it is used by different retailers. For some, it only refers to the difference in value between expected and actual stock levels, calculated through periodic inventory counting exercises (in effect losses where the cause is unknown). For others, it can be a much more inclusive bucket with a range of recorded losses being included, such as product markdowns, damages, and spoilage, and a range of process-related failures, such as pricing and product set-up errors. In this respect, comparing rates of shrinkage between different retailers can be a tricky business—differences may be more a consequence of differences in definition rather than an indicator of loss management proficiency. Where the shrinkage calculation is based exclusively upon differences in expected and actual stock levels (the most common definition used in the UK grocery sector), whether the resulting metric properly captures the true impact of a merchandise retailer's losses is highly questionable. Recent work focused on developing a definition and typology of total retail loss, an attempt to better understand how retailers experience a wider range of losses in their businesses, has begun to shed light on the true scale of the problem. But there could also be a range of additional costs associated with particular types of products that could also undermine their profitability, many of which can be hidden within the overall business model, making it difficult to surmise whether a given product or category actually generates a profit.

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Background

It is within this context that the current research is presented. The ECR Community Shrinkage and On-shelf Availability Group had become aware of growing concerns within the UK grocery sector about the losses they were experiencing relating to the sale of newspapers and magazines—a category not normally associated with high levels of loss. It was decided, therefore, to undertake a study to better understand the nature and extent of the problem—the key drivers of this loss. The study, undertaken by the University of Leicester, was fortunate to receive the active support of five of the largest UK grocers, representing nearly 72 per cent of the market, that were prepared to share their data relating to a wide range of losses and additional costs associated with newspapers and magazines (N&M).

Rather than just analysing the shrinkage number from each of the participating retailers, the study sought to capture a broader basket of losses and costs. The N&M category is perhaps unique in generating a range of additional losses and costs that are not typically associated with many other product categories grocers typically stock and that are driven by a combination of product-handling complexity and the process requirements of the wholesalers and publishers providing the stock. These unique factors include unresolved delivery losses, unresolved returns losses, carriage charges, and the extra staffing costs associated with dealing with a rather unique set of process challenges. (For instance, publishers set strict requirements for when and how unsold stock must be returned by the retailer, and failure leads to a loss of credit.) In this respect, the study offered a unique opportunity to go beyond just the shrinkage number and delve much deeper into how retailers can be impacted by a broader range of losses and costs not typically combined into one analysis.

The Results

It is interesting first of all to look at how the recorded shrinkage rate for the N&M category compares with the overall rate for the participating companies, and to compare that with some published industry numbers (Table 1).

As can be seen, the recorded rate of shrinkage for the N&M category (3.45 per cent) is considerably higher than the overall average rate of shrinkage for the companies taking part in this study—some 356 per cent higher. Even when estimates of shrinkage are used from two well-known surveys of shrinkage covering the UK, the recorded rate for N&M is still considerably higher. The rate of shrinkage for grocery captured by the Global Retail Theft Barometer in 2011 (considered the most reliable of the recent surveys undertaken using the Global Retail Theft Barometer name) was 1.29 per cent, and the 2012 British Retail Consortium overall rate of shrinkage was 1.21 per cent. If an average is taken of the three benchmark shrinkage numbers, which suggests that overall shrinkage might be 1.09 per cent of sales, the N&M figure is still 218 per cent higher. It seems clear that the N&M category has a profoundly high rate of shrinkage. To put this in even sharper contrast, the N&M category makes up 0.85 per cent of overall sales but accounts for

Table 1: Rate of N&M Shrinkage Compared with a Basket of Comparators

COMPARABLE SHRINKAGE RATES	RATE	DIFFERENCE
Average Shrinkage Rate for N&M	3.45 %	
Average Overall Shrinkage Rate for Sample Companies	0.76 %	356 %
Global Retail Theft Barometer 2011 (grocery only)	1.29 %	167 %
The British Retail Crime Survey, 2012	1.21 %	185 %
Overall Average	1.09 %	218 %

Table 2: Summary of Losses and Costs Associated with the N&M Category for the UK Grocery Sector

COMPONENTS OF N&M COSTS	PER CENT	VALUE
Shrinkage		
Unresolved Deliveries	0.65	£9,839,812
Unresolved Returns	0.86	£13,008,087
Other Shrinkage	1.94	£29,176,854
SUB TOTAL	3.45	£52,024,753
Carriage Charges (minus supplement credit)	1.03	£15,518,991
Staffing Costs	3.17	£47,848,186
TOTAL	7.65	£115,391,931

3.86 per cent of the overall shrinkage costs of grocers. Overall, the projected N&M shrinkage loss for the UK grocery sector is estimated to be £52 million a year. Finally, if the N&M category recorded a rate of shrinkage on a par with the other products stocked by retailers, it would bring the overall average rate of shrinkage down by 7 per cent.

Detailed in Table 2 is a breakdown of the various losses and costs associated with the N&M category. Each of the five retailers taking part in this study were able to provide an overall shrinkage figure for the N&M category and how much of that number was made up of unresolved delivery and returns losses, the carriage costs charged by the two main wholesalers, and the additional staffing costs associated with the unique N&M process. This data was then used to estimate the costs for the total UK grocery sector—calculating the costs and losses as both a percentage of total N&M sales and total value.

As can be seen, overall shrinkage accounts for the largest proportion of loss at 3.45 per cent, with estimates suggesting that unresolved deliveries and returns could amount to 44 per cent of this type of loss with other forms of shrinkage, such as theft and damage, making up the remainder of the shrinkage losses. The second highest area of cost was perhaps not unexpected—staffing—which accounts for an estimated 3.17 per cent of N&M sales, amounting to nearly £48 million a year. The third and final area of cost that has been identified as part of this research was carriage costs—the charges made by the wholesalers to deliver and return product minus any credits for the insertion of supplements by the retailers. This amounts to nearly £16 million a year for the UK grocery sector, or 1.03 per cent of N&M sales. Taken together, these costs and losses come to a staggering £115.4 million a year, equivalent to 7.65 per cent of the N&M grocery market. In many respects this is an underestimate of the total costs associated with this category—a charge incurred by some companies that employ third-party companies to manage this process has not been included due to issues of confidentiality.

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It was possible to provide a limited breakdown of the staffing costs associated with handling N&M, although no two retailers used the same categories of activities. Overall, the delivery and returns processes accounted for approximately 56 per cent of staff time, with deliveries absorbing the most time.

It is also worth noting that 30.3 per cent of all stock delivered to retailers appears to be returned to the wholesalers, amounting to £457.3 million for the UK grocery sector as a whole. The returns rate varied considerably between newspapers and magazines: the calculated rate for newspapers was 21.7 per cent, while for magazines it was 40 per cent. This seems an extraordinary amount of stock to be returning, especially in light of growing concerns around the environmental impact of big business and the need to develop sustainable models of operation that minimise carbon emissions. It also undoubtedly explains some of the relatively high costs associated with managing this category and potentially raises questions about the accuracy of "sales" and "circulation" figures regularly published by the industry given the relatively high rate of unresolved returns claims that would appear to be included in these figures.

Conclusion and Next Steps for the Industry

This short review of the N&M category in UK grocery has shone a light on an area experiencing high levels of loss and associated costs. In terms of shrinkage alone, it is a category generating significantly high rates of loss—typically 356 per cent higher than the average rate of shrinkage for all the other product categories stocked by UK grocers. This is then further compounded by additional costs relating to extra staffing and carriage costs, adding a further 4.2 per cent as a percentage of sales, adding up to a bill of £115 million a year. This relatively

high rate of loss would seem to be due, in part at least, to a uniquely complex and demanding process, caused in some respect by the nature of the product—highly time sensitive—but also by industry requirements that appear at first sight to be overly bureaucratic and rather outmoded in twenty-first-century retailing.

What this study also highlights is that any reduction in losses and costs associated with retailing the N&M category will require the development of a collaborative approach engaging retailers, wholesalers, and publishers. To this end, the ECR Community Shrinkage and On-shelf Availability Group has established a News and Magazines Shrink and OSA Group in the UK, with a specific focus on developing a series of interventions to try and address the issues outlined in this article. The group is made up of retailers, wholesalers, distributors, and publishers seeking to answer the following specific questions:

- Would including the "on" and "off" sale date in the product barcode help store staff to better manage the process of delivery and returns?
- Would changing the length of the newspaper returns window, currently a Tuesday, to a later day in the week reduce missed returns, especially the weekend newspapers?
- Would the addition of a plastic wrap to bundles of magazines reduce consumer complaints, the volume of returns, and total supply chain costs?
- Would it be better for the shopper and more efficient for the industry if the supplements for newspapers were inserted before they arrived at the store?
- Would a new receiving process, leveraging the work-process models used by other direct-to-store vendors, be more efficient and offer a lower-cost model for the industry?

This study has been extremely illuminating because it graphically reinforces the importance of understanding *all* the losses and associated additional costs of retailing certain types of merchandise. Only by bringing them all together is it possible to make a more informed decision about the veracity of any given business model. It also shows that sometimes the solution to retail problems can best be found through adopting a collaborative approach, focused upon unearthing the root causes rather than the apparent symptoms. Sometimes you really do have to move beyond the headline and get to the meat of the story. ■

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