

The National Supermarket Shrink Survey

Sponsored by Smart Retail Solutions, LLC

Executive Summary – Part One

The Winds of Change – SHRINK vs PROFIT EROSION

Research by [Smart Retail Solutions](#) (formerly The Retail Control Group) into the causes and cures of retail supermarket Profit Erosion (i.e. shrink) continues to indicate that **64-73%** of known store shrink is directly caused by a breakdown in, or the absence of, effective store operating systems and best practices, while **27-36%** of store shrink is cause by theft, ORC or misdeeds. (Percentages are +/- 4%)

With the evolving recognition of this condition, **47%** of companies report a growing shift in the roll of asset protection departments to expanded focus on operations-centric gross profit realization. This is driving enhanced collaboration with store operations to disrupt shrink loss / profit erosions at its root cause.

59% of responding companies said they do not have consistent formal LP training for district managers, store managers, cashiers and/or employees. When shrink control budgets are examined, evidence suggests a disproportionate allocation of budget dollars when comparing company investments in technologies to catch theft versus dollars allocated to technologies and training of store personnel to use effective store operating best practices known to preempt or prevent shrink loss.



2.70%

In 2022 the Food Marketing Institute reported total store shrink at 3.10% inclusive of Known Shrink, Unknown Shrink, Shoplifting and ORT. This Survey update focuses on Known, Controllable, Operational Profit Erosion / Shrink Loss. Current Survey updates show store shrink at 2.44% in 2023 down 9.6% from 2.70% of retail sales in 2013, with a

low average of 1.70% of retail sales and the high average of 3.20% of retail sales.

Three Emerging Trends

Technology

Technology “use” plays a key role in store operations effectiveness today and is expected to continue in the future. Smart technology and fit-for purpose analytics solutions are continuing to lead this year’s shrink loss and profit erosion survey. Over 82% of companies have automated DSD, POS activity monitoring and CCTV, yet shrink loss remains at 2.45% of retail sales. Emerging Technologies include Fresh Item Production Planning, Computer Assisted Ordering, advanced data mining systems, and unified Data Visualization Dashboards illustrating key performance indicators. Companies report plans to increase investigations into more advanced but easy to use business intelligence and artificial intelligence tools in 2024-2026.

Integration and Collaboration

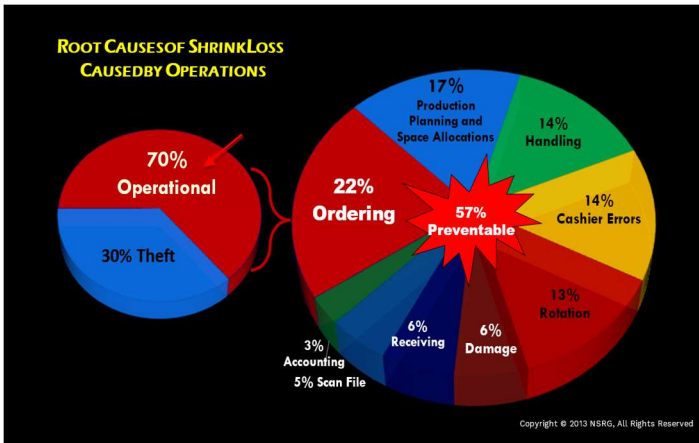
Companies that report lower than average shrink utilize cross-functional training of loss prevention and store operations personnel to coordinated efforts for profit improvement through traditional loss prevention and operational shrink reduction best practices. Throughout this survey evidence persists that consistent and on-going store team training in operational best practices and how to best streamline and simplify use of store technology is the number-one factor in controlling store shrink. Operational controls and processes form the foundation for all sales optimization and profit realization efforts.

6 Controls That Matter for Conditions You Can “See”

Extensive cross-tabbing for correlation analysis and cause-and-effect revealed when certain operational conditions are present, they had a significant, synergistic and systemic impact on mitigating shrink loss. Most evident among these control conditions are six (5) key influencers:

1. Strict Ordering Controls - Ordering the right items in the right quantities, to ensure a full, fresh and clean store presentation with IOH Turns visibility for gross margin optimization, and improved cash flow and labor efficiency.
2. Formal Known Loss Tracking and ACTION to Control - Operational Known Loss is estimated at 60% of total store shrink loss. 76% of companies report having Known Loss tracking technology, estimate only a 55% Known Loss capture rate and report 45% effective use of reported Known Loss data.
3. Inventory Optimization Management - Central to Shrink Prevention is Variety and Inventory Turns Optimization. Train Store Teams to “see” Turns and “see” Failure to Turn.
4. Conditional Standards of Operation - Conditional Standards are physical you can see. Starting in the backroom areas, coolers, and freezers. Look to SEE Inventory levels and organizational and sanitation conditions that represent excessive IOH and Cash Clog. Always take action to create excellent Inventory TURNS.
5. Systemic Organizational Behaviors and Best Practices - Supervisors, Store and Dept Manager’s should read #1-4 above and do a *Purposeful ProfitWalk* every day.
6. Take Action Every Day and Be Accountable! When teams are trained and held accountable to execute these 5 control conditions, the effect can be as high as 15-18% lower shrink loss.

Primary Root Causes of Shrink Loss



Hire The Experts

The Team at Smart Retail Solutions and ProfitTrax created the National Supermarket Shrink Survey and have studied the Human, Technology and Practices Causation Factors and Cures of Shrink Loss since 1991...

Vital Factors for the Effective Use of Technology and Store Team Best Practices to Preempt Shrink Loss

The 4 Imperatives For Operational Excellence

<p>#1 - Your People People Need a "System" to Execute and Understanding of the What, Why, How and Because Factors</p>	<p>#3 - Technology Enterprise-wide Data Visualization to Align and Focus All Enterprise Users and Simplify Everyday Work Life</p>
<p>#2 - Continuous Training Simplify, Save Labor and Produce Profitable Selling Conditions</p>	<p>#4 - Focused Leadership Operational Performance Goals That Lead to Your Vital Outcomes & Profit.</p>

Vital Factors

There are 4 Vital Factor Imperatives to creating a System that will Achieve Store Operations Excellence. Each has its own value proposition and when combined provide powerful Synergy for Profit Improvement.

Automation, Technology and Analytics – Part

Two - call for details.

Overview

The impact of finding, implementing, and consistently using the right technology to support store teams is a never-ending priority. And there will always be new and exciting technologies to pique retailer interest, as well as updates to existing technologies, but navigating the onslaught of new technologies (BI, AI, ML, Robots, ESL) to improve your business outcomes often feels like driving down a speeding highway.

It is estimated that 82% of stores use automated DSD, 70% use CCTV and 55% use analytics to monitor POS and in-store KPI's, yet total store shrink loss is still reported at 2.44% of retail sales, down 9.6% vs 2.70% in 2013. Further, having automated or analytics tools have the most benefit only when retailers focus on training store teams to use it, and inspect how well end users are in fact using these tools.



50% of all survey participants report that they routinely look at but do not plan to change their loss-prevention technology budgets over the next two years. 37% are budgeting to add technology spending and 13% are not planning to increase technology budgets. These projections signal a reversal from prior years when most companies anticipated increasing loss-prevention technology budgets.

With most retailers reporting flat or decreased spending, combined with reports that retailers measure their current use of technology implementation effectiveness at just 54%, their

focus is on garnering added ROI from existing technologies rather than acquiring or supplementing technology-based shrink-control arsenals.

Of the 37% of retailers who project increased spending plan to focus on business intelligence analytics, tablet-based audit tools, ESL, self-check-out theft, advanced Computer Assisted Ordering (CAO) and Fresh Item Production Planning analytics, etc. For most retailers surveyed, cloud-based, SaaS model software solutions rather than hardware-based solutions appear most interesting.

Automation. Technology and advanced analytics are reported as increasingly essential to retailers' efforts to reduce costs, improve productivity, and yield improved gross margins. Reported as most interesting are: Streamlining and Simplifying data access on a unified Platform as a Service (PaaS), Fresh Item Variety and Production Optimization, Shrink Loss Reduction, Perpetual Inventory and ESL. Companies do express high confidence in Automations, Technology and Analytics for the competitive advantages and cost savings but also expressed the importance of Human Factors and Best Practices Training for implementation effectiveness.

Stay tuned for the next episode on [Technology and Training Systems for Best Practices Execution](#). For more information, call 602.448.8500.

A System of “People” Best Practices – Part 1 - call for details.

Simply stated: *We must always remember that People Power Profits and Smart Analytics Power People.* And, with this established, *People Need a System to Follow for Constant Improvement.*

Operationally: We should not confuse Shrink Prevention with Loss Prevention, nor should we confuse “Shrink” to mean *theft*. Operational Shrink is gross margin erosion - caused by Failure to Turn. Failure to Turn is caused by **6 Key Operational Weaknesses** that can be overcome with Training and the Use of Smart Technology:

Overview

Today’s retailer’s consistently report having 3 systemic challenges: (1) Hiring, Training and Retaining reliable People, (2) Effective use of selected store operations technology. Examination into the causes and cures of Gross Margin Erosion / Shrink Loss reveals that behaviors, practices, and leadership of People must be leading components of any shrink prevention initiative. Recent total store shrink loss reported for this Survey reported loss at 2.44% of retail sales down 9.6% vs 2023. (3) Best-in-class companies report average store shrink at 1.72% with certain control commonalities, and (4) Consistent implementation of Operational best practices for optimal gross margin realization (a.k.a. shrink reduction) needs to recognize that excessive shrink loss needs to address shrink loss in a strategic, systemic manner with collaborative and shared accountability.

6 Focal Points for Smart Operational Shrink Prevention – *The Power of Synergy*

As we observe the actions of an assortment of retailers that consistently report lower shrink loss, there are several Best Practices and Technology use behaviors that have individually positive impact. But when certain combinations of trained and required behaviors, practices, technology, and analytics being used in harmony, there are clear synergistic impacts.

1. **Training:** Teammate Training is key. This because People solve shrink problems - not policies, not technology. Gross margin robbing excessive shrink loss can most often be traced back to (people) failing to consistently use technology and implement proven behaviors and practices. All team leaders above and within stores should teach, train and coach their teams to act to achieve clearly defined conditions that preempt shrink loss. People need a SYSTEM of Behaviors and Practices to follow.

Key training areas must include Sales Optimization, Ordering Standards, Inventory Turns Optimization, Fresh Item Management, SKU Optimization Awareness, Store Known Shrink Loss Tracking and Practices to preempt shrink loss at its root cause. These, when used effectively together, can result in 17% lower shrink loss by supporting effective Store Inventory Management and lessening Internal Profit Erosion.

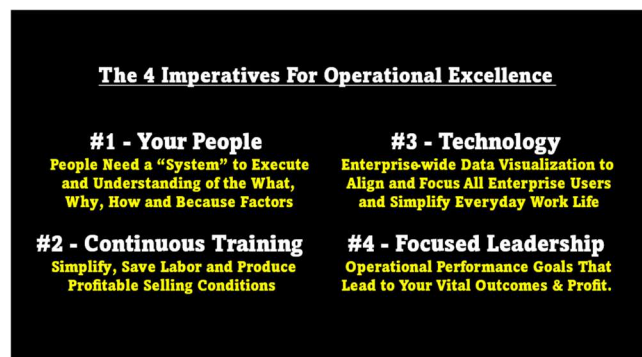
Store Teams and Supervisors should be trained to “see” the daily conditions that signal preemptive shrink controls are in place. The first line of defense in the war on shrink is a well-trained, shrink-aware store team, led by a management team that understands how to create a sales-driven, control-oriented profitable selling Culture wherein optimal gross margins are realized through smart Inventory Turns.



2. **Accountable Leadership:** A proactive control culture is created by accountable leaders. Preventing store shrink is a corporate issue directly impacted by effective leadership and store teams performing as they are trained and asked to deliver.
3. **Smart Technology:** Smart Technology is not about presenting more data. Smart technology serves as a catalyst to empower store teams to “see” and prevent shrink loss, optimize inventory turns, grow gross margins, and improve labor efficiency. Smart technology empowers consistent best practices implementation effectiveness. When smart technology is used in combination with proven best practices, 14% shrink reduction can result on top of the potential 17% shrink reduction resulting from expert Training.
4. **Discipline:** Consistent control requires a set of clear processes to be followed every day. Every successful store program is built on a closely intertwined sequence of practices and disciplines that support each other. It is synergy - where the sum of the parts is greater than the value of the individual parts - that transforms processes into a **measurable** success system.
5. **Information:** A vital mechanism for action is always well-educated, highly trained managers and store teams. Managers at all levels need to have performance goals and goal vs. actual performance measurement reporting systems for their stores.
6. **Behavior modification:** Preventing shrink loss at its root cause comes down to consistent implementation of behaviors and practices, whether with or without technology. Excess shrink can often be traced to proven practices not being followed. People, starting with corporate leaders, district managers and store and department managers changing behaviors and practices solve excessive shrink problems - not policies, not technology.

Measurability: *If you can see it, you can control it.* Team members at all levels need to be able to “see” their own and their team’s results. This provides for constant awareness as to the effectiveness of their efforts. Monthly P/Ls, actual shrink-level reports, perpetual inventories for all departments, and weekly known-loss reports, among other methods, provide this awareness.

Flexibility: Tweak and adjust, but don't dismantle or disable a good plan. Even the best-laid plans work to varying levels of effectiveness depending on store management expertise, training, employee engagement, technology, and other external factors. Minor changes to a good, well-thought-out plan will always be required, but be careful not to violate basic tenets and disciplines.



Improvement Requires Change: *If you continue to do what you have always done, you will continue to get the results you have always gotten. If you are to improve, you must change.*

To learn more about Best Practices Training for how best to implement these 6 Guaranteed Ways to reduce your store loss by 15% and add up to 150-250 basis points of Gross Margin in just 120 days, call 602.448.8500 or email Larry@SmartRetailSolutions.com now.

Shrink by Department

Current research shows overall store shrink at **2.44%** of retail sales versus 2.70% 10 years ago, with a low average of **1.76%** of retail sales and a high average of **3.10%** of retail sales - the delta being a 27% reduction. The following table provides details for sales and shrinkage by department. Focus on the “After” grid leads to *best in class* shrink loss levels when an Enterprise Profit Improvement System is implemented to address Internal Profit Erosion.

BEFORE

AFTER

BEFORE					AFTER				
Average Store \$400,000.00					Average Store \$400,000.00				
Sales by Dept		Sales Dollars	KL Shrink %	KL Shrink \$	Sales by Dept		Sales Dollars	KL Shrink %	KL Shrink \$
Grocery	52%	\$208,000.00	0.7%	\$ 1,477	Grocery	51%	\$204,000.00	0.5%	\$ 1,020
Meat	16%	\$64,000.00	3.5%	\$ 2,240	Meat	15%	\$60,000.00	2.8%	\$ 1,680
Produce	8%	\$32,000.00	4%	\$ 1,280	Produce	9%	\$36,000.00	3%	\$ 1,152
Deli	5%	\$20,000.00	6%	\$ 1,200	Deli	6%	\$20,000.00	5%	\$ 1,000
Dairy	2%	\$8,000.00	0.7%	\$ 56	Dairy	2%	\$8,000.00	0.7%	\$ 56
Bakery	3%	\$12,000.00	6%	\$ 720	Bakery	3%	\$12,000.00	6%	\$ 720
HBC/GM	1%	\$4,000.00	1%	\$ 40	HBC/GM	1%	\$4,000.00	1%	\$ 40
Floral	1%	\$4,000.00	9%	\$ 360	Floral	1%	\$4,000.00	9%	\$ 360
Seafood	2%	\$8,000.00	5%	\$ 400	Seafood	2%	\$8,000.00	5%	\$ 400
Other	10%	\$40,000.00	5%	\$ 2,000	Other	10%	\$40,000.00	5%	\$ 2,000
Weekly		\$400,000	2.44%	\$ 9,773	Weekly		\$396,000	2.13%	\$ 8,428
Annualized		\$20,800,000	2.44%	\$ 508,186	Annualized		\$20,592,000	2.13%	\$ 438,256
			57% Controllable	\$ 289,665.79				57% Controllable	\$ 249,805.92
			20% Attacked	\$ 57,933.16				20% Attacked	\$ 49,961.18
			15% by ProfitTr	\$ 43,449.87				15% by ProfitT	\$ 37,470.89

Shrink Fast Stats

- Companies report 66% of stores are of conventional supermarket format and 34% were super-store format.
- 43% of survey respondents reported using the cost accounting method while 57% reported using the retail method.
- 29% of respondents reported that stores can positively and artificially affect their reported shrink loss in five primary ways: Forward buying (most common), execute prices early, deal buy, break open quantity packs for inflated price single-item sales and writing off product for credit. These practices serve to mask actual shrink loss.
- 80% of respondents expect shoplifting will increase in the next 1 - 2 years.
- 80% of respondents have self-checkout lanes in super store format stores with an average of 4.50 self-checkout lanes per store. 73% of respondents have self-checkout lanes in conventional format stores with an average of 3.25 lanes per store.
- Stores reported average net cash shortages of -\$6.00 in conventional store format and -\$21.15 in super store format.

Summary

Significant in this 2023 survey update vs. 2013 were four primary points:

- Sixty-four percent of all shrink was caused by the breakdown of operational practices at the store exposing significant new focus on operational practices to prevent shrink and disrupt shrink-causing conditions.
- There is an expanded focus of loss prevention into a more collaborative partnership with store operations.
- Certain core technologies are now present in most companies but shrink remains essentially flat at 2.44-2.70%.
- Continual training of employees on the operational best practices to reduce and control store shrink has the most significant impact potential.

For additional information regarding proven technologies for Store Operations effectiveness and operational best practices for improving Gross Margins and bottom-line profit, email info@SmartRetailSolutions.com.