WHITE PAPER

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Now that consumers have visibility into inventory availability, IRA is even more important. It can mean keeping or losing a consumer.

The Other Side of Shrink: Managing Poor Inventory Record Accuracy Percentages

Introduction

Inventory record accuracy (IRA) is a percentage showing how well the count of merchandise in the store(s) matches with the official inventory records. Shrink is the difference—the percentage that merchandise counts fall short. IRA and shrink are two sides of the same equation. Therefore, although inventory planning, distribution, and counts usually fall outside the purview of loss prevention/asset protection, shrink falls squarely into LP's realm of responsibility.

Loss prevention departments usually attack shrink caused by theft and fraud—topics covered in many of our other white papers. This white paper turns the lens on the impact of improving IRA and thus helping to reduce shrink.

You Can't Sell What Isn't There

Phantom inventory—merchandise that the inventory systems show as being available on the shelf, but which is not actually there—causes problems. One problem is that missing inventory cannot be sold. This, in turn, leads to inaccurate analytics. With no sales being made, the item may be classified as a slow seller. Then this non-existent inventory may not be reordered, or it may be offered to consumers at a markdown (frustrating them further when the item is out of stock). Labor is affected as well. Employees and pickers waste time looking for the item. If it is missing, the associate must deal with the unhappy consumer and the store loses the sale. If a picker is working on a ship-from-store or curbside pickup order, the associate may substitute another item that has less margin and which may end up being returned by the consumer.

Phantom inventory can be a problem on the sales floor, stock room, or distribution center. In an article in LP Magazine[1], Colin Peacock described a study in which correcting the unit on hand value led to an increase in sales of 10% for those items.

Overstocks also pose problems. Cash is tied up unnecessarily in overstocks; they occupy storage space; inventory may be damaged or go out of code while awaiting sale; the issues pile up. In the same article[1], Peacock noted that when overstocks within a test group were corrected, their sales increased 8%.

Large chains have hundreds or thousands of locations (stores, websites, marketplaces) with thousands of SKUs where 20%, 30%, even 40% may be inaccurate. Improving IRA—whether correcting understocks or overstocks—can lead to higher revenue.

Improving IRA can lead to higher revenue. In a study, sales of understocks increased 10% and overstock sales increased 8%[1] .

This Cost of Doing Business May Be Losing Business

Just as sales reducing activities (SRAs) are transactions at the point-of-sale that may signal dysfunction elsewhere that leads to shrink[2], there are data patterns that can indicate that inventory on-hand is falling out of sync with inventory records. Common discrepancies include:

- **Erroneous case pack set**—Retailers may receive merchandise by the case instead of by item quantity. Manufacturers or warehousers determine how many items are in a case, and they may change the count. If the new count is not recorded in the retailer's receiving system, inventory will be off. For example, if the manufacturer changes the items in a case from 24 to 20, the store that receives "one case" will be short four items.
- **Receiving in cases but recording them as units (or vice versa)**—Whether the error is in the retailer's software or an associate hit the wrong button, confusing case and item counts quickly leads to stockouts and overstocks.
- **Receiving a mixed case but recording its contents as a single type**—Some merchandise is shipped with multiple flavors/colors/sizes in a case. If an associate scans only one item, counts will be incorrect and sales will be lost. Consider the impact on sales if 30 blouses are received all as red and size 2, or if 24 bottles of schnapps are received as mint.
- **Marking a partial order as a full order when shipping or receiving**—Manufacturers and distribution centers may spread their inventory among several retailers or retail locations by shipping smaller quantities multiple times. Similarly, retailers ship goods to consumers piecemeal. This common practice becomes problematic when the associate errs.

These types of issues can originate with faulty paperwork or processes at the manufacturer, warehouse, direct store delivery company, or store level. They are often unintentional, although some could be fraudulent.

Regardless of intent, inaccurate on-hand statistics frustrate consumers and store managers alike. When taken as a whole, revenue impacts are substantial, causing items to sell out too soon or languish on the clearance shelf. Now that consumers have visibility into inventory availability, IRA is even more important. It can mean keeping or losing a consumer. Consumers who rely on fulfill-from-store, curbside pickup, and buy-online-pickup-in-store (BOPIS) quickly learn which stores never seem to have the merchandise they say they do, and consumers shop elsewhere.

In addition to these data-related issues, a number of operational problems can throw off IRA. These include:

- Inventory overflowing its space in the stock room
- Inventory stocked to the wrong shelves in the stock room or sales floor
- Empty shelves ignored on the sales floor or back room
- Display hardware does not match the planogram/missing display options
- Making errors when hand-keying receiving documents or POS transactions
- Unfinished (re)stocking tasks marked as completed
- Saleable returns not put away quickly and accurately
- Software glitches that impact inventory movement
- Employees shortcutting procedure
- Inaccurate cycle counts
- Order picking errors

Through curious inquiry—asking why something happens instead of simply recording the event—store operations and loss prevention specialists can identify and resolve the underlying issues. For example, if a manager notices that sales for AAA batteries plummeted, the question is why? Batteries are often shoplifted, but they also may appear in different locations. Are displays out of position? If displays are empty, was the stocking task marked complete when it was not, or has inventory been lost in the back room? Loss prevention can develop monitors for many situations for store management to pursue with a coaching mindset to correct the issue identified. Oftentimes problem-solving is a matter of viewing existing data in a new way.

The timing of when an error appears can provide clues to its cause[3]. A new procedure may have been added without considering its impact on data collection. The amount of data collected, the point at which data is collected, and whether the data is in real-time all play a role. Are associates trained to mark stock movements before or after the move is completed? Are you sure that is what they are doing? Do pickers for buy-online-pick-up-in-store (BOPIS) have access to orders in real-time, or do consumers' updates flow too slowly to be incorporated?

Once identified through analytics or observation, many of the issues can be corrected through coaching on the need for accuracy, techniques to reduce errors, and improved supervision. Since no one can watch an entire store all the time, analytics plays a valuable role in identifying inventory irregularities and identifying their cause. It is particularly useful when the causes are external to the store—paperwork errors or vendor fraud.

Summary

Inaccuracies in inventory directly impact consumer satisfaction, employee efficiency, and shrink. Though some variance is a cost of doing business, today's omnichannel economy has laid bare the discrepancies. Tolerance levels need to narrow in order to maintain customer satisfaction and lift sales which depend on product availability. Loss prevention analysts and store operations management can collaborate to develop analytical monitors to indicate when on-hand inventory is out of sync. Through corrective actions, such as data analysis, coaching, and procedure modification, inventory record accuracy can be improved. As a result, stores can see significant increases in revenue and greater consumer satisfaction.

FOOTNOTES

[1]Peacock, Colin. "Improving Inventory Record Accuracy." *Loss Prevention Media*. November 12, 2020. Accessed February 08, 2021. https://losspreventionmedia.com/improving-inventory-record-accuracy/.

[2]David Speights, PhD, chief data scientist, Appriss Retail and Tom Rittman, vice president, marketing, Appriss Retail. "Controlling Shrink by Reducing Sales Reducing Activities (SRAs)". Irvine, CA: Appriss Retail, 2017. Accessed February 8, 2021. https://apprissretail.com/wp-content/uploads/sites/4/2017/06/AR4023_White-Paper_Controlling-Shrink-with-SRAs.pdf.

[3]Witt, Clyde. "Improve Inventory Data Accuracy." *MHLnews.com*. September 1, 2006. Accessed February 8, 2021. https://www.mhlnews.com/facilities-management/article/22048301/improve-inventory-data-accuracy.

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