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Stock losses would be preventable

Retailers could be losing millions every year through stock losses that may be preventable, according to a new survey from KPMG International. The survey finds that many of the world's leading retailers estimate the value of their stock loss – due to theft, damage and errors – to be equal to up to 3 percent of sales, although in some cases the value may be even higher. That represents a very large slice of a retailer's potential profits, say retail specialists at KPMG. In all, 47 large retailers worldwide participated in the survey: 28 from the Europe, Middle East and Africa region (EMEA), 8 from the Americas, and 11 from the Asia Pacific region.

How much shrinkage?

The survey finds that some of this loss is due to theft by customers and also by employees, and some is due to damage in transit or storage. Another cause of loss is error – stock that is 'lost' due to counting or other information errors.

“Many retailers make the mistake of treating these losses as irreducible. Retailers tend to treat shrinkage as an inevitable cost of doing business. Really that is odd – when you have something as significant and controllable as shrinkage, why on earth would you not do whatever you could to address it?”- comments Mark Bownas, Head of Risk Advisory Services at KPMG in Hungary.

Company error rates larger than expected

Previous surveys on this issue have suggested that retailers' own errors contribute little to their rates of stock loss, whereas KPMG's survey finds that a third or more of the loss may actually be due to the company's own errors.

Causes of shrinkage by region

In the survey, KPMG found that the proportion of loss attributable to process error appears to be much higher than estimated in other surveys and analyses. For example, one recent large-scale survey* estimated that 78 percent of all shrinkage is attributable to internal and customer theft, while only 22 percent is attributable to errors. The KPMG survey suggests that internal error rates may be much higher than that, at 33 percent or more.

Such large internal error rates mean that improvements in the design and implementation of internal processes could save retailers a lot of money.

Diagnosing the causes of shrinkage is challenging for many companies. “Analysis of causes is the missing link,” says Mark Bownas.

“Many retailers focus their efforts on internal and external theft, when the main issue is often process failure. But process failure is difficult to address, because you have to look at the whole retail process and that is a very large and complex issue” – commented Mark Bownas.

Other findings of the survey include:

- Respondents from the Asia Pacific region are least likely to ascribe stock loss to internal errors: they believe that almost 70 percent of loss is due to theft. Respondent companies in the Americas believe almost half of loss (45 percent) is due to internal process failure.
- Despite continuing high levels of stock loss as a proportion of sales, most companies remain satisfied with their own performance in controlling losses – 96 percent of respondents believe their performance on shrinkage control is average or better.
- Half of all participants in the survey do not use third party providers in an advisory or other service function to tackle shrinkage. Companies in the EMEA region were most likely to use third party providers extensively (36 percent of companies), and Asia Pacific companies least likely to do so (18 percent).
- Despite the potential of RFID (Radio Frequency Identification) technology to control loss caused by internal errors, most companies (57 percent) still believe implementing RFID is too expensive.

The KPMG survey revealed that one reason stock loss may not be addressed as well as it could be is that it may often be unclear who in a company is responsible for the issue. While almost all companies report having a dedicated team to review and monitor loss, reporting lines of responsibility were found to be extremely diverse, with 21 different responsible officers cited. Almost half (46 percent) of respondent companies have teams reporting to the CFO, the supply chain director or the commercial director, but in the rest of cases reporting lines to 18 different officers were cited, such as the CEO, the head of audit, the logistics director, as well as the sales manager and head of warehouse.

There is also a strong reluctance among retailers to share detailed data on stock loss with supply chain partners who could help reduce the losses. Although the majority of companies (68 percent) said they collaborate with suppliers to reduce shrinkage, when asked whether detailed data on the total amounts and likely causes of shrinkage are shared with suppliers, just over a third of companies overall (38 percent) said they do this.

The KPMG survey also cautions that, in today’s recessionary environment, losses are likely to increase. “Most retailers understand that during a recession their loss levels are likely to rise. But a recession also means that there is pressure not to spend money and, given the significance of loss, for some retailers that could be a false economy” – added Mark Bownas.

*The Global Retail Theft Barometer 2008: 2
Centre for Retail Research, November 2008

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