



## LOSS PREVENTION

The Efficient Consumer Response Australasia (ECRA) Board has commissioned this *Factsheet* for circulation to assist companies and their trading partners, with the critical issue of loss prevention. Loss prevention is a generic term used to describe risk management activities that aim to protect assets, profit and people against dishonesty, error and accident.

## INTRODUCTION

The ECRA report '*A Guide to Collaborative Loss Prevention*' was published in 2002. The project objective was to determine the levels of stock loss in the Australia and New Zealand grocery supply chains so that actions may be taken by trading partners individually and in collaboration.

The survey found low levels of collaboration between trading partners on issues of loss prevention.

Reducing stock loss presents a substantial opportunity for performance improvement throughout the supply chain.

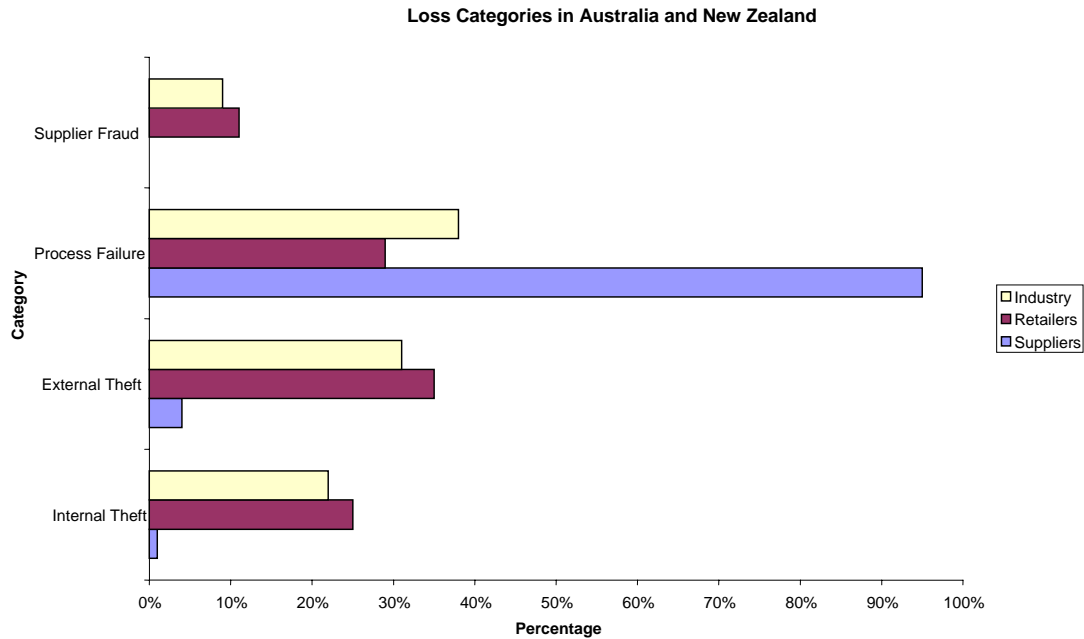
## THE SCALE

The ECRA project determined through an industry survey for the year of 2000 the overall stock loss for suppliers' retailers and wholesalers along the supply chain and within the retail store. A similar exercise was completed by ECR Europe in the same period. The results are detailed in the table below.

	Europe 2000	Australia 2000
% Sales Turnover	1.75%	1.73%
Annual Turnover	€13.4B	A\$942M
Weekly Total	€258M	A\$18.1M
Daily Total	€50M	A\$2.6M

Most significantly, the stock loss figures serve to highlight the opportunity cost to consumers, as losses negatively impact product visibility in-store, product availability on the shelf and the final product cost.

Research shows that all points along the supply chain are vulnerable to loss. Highlighting how stock is lost is a vital part of any effective stock loss reduction strategy. Loss can be commonly categorised into four types – internal theft, process failure and supplier fraud, the incidence of which in 2000 was as follows:

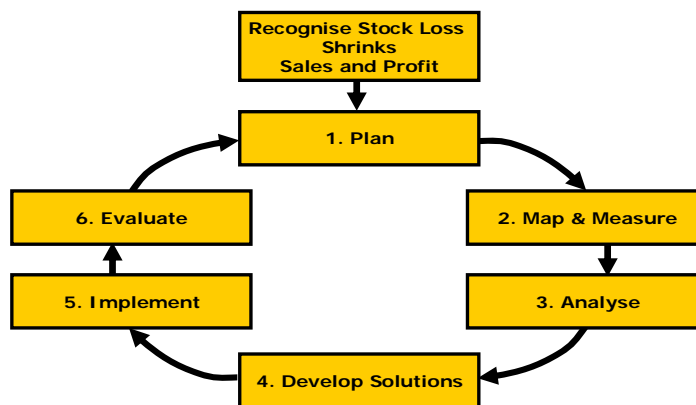


Source: A Guide to Collaborative Loss Prevention, ECRA, 2002

## ECR ROADMAP

The following ‘roadmap’ has subsequently been developed by the ECR Europe Shrinkage team, which presented its 2004 report to the 2005 ECR Europe Conference in Paris. It provides a guide describing the overall activities that need to be undertaken in order to reduce stock loss.

### The ECR Road Map



Source: Shrinkage: A Collaborative Approach to Reducing Stock Loss in the Supply Chain, ECR Europe 2004

**Step 0:** Recognise that Stock Loss Shrinks Profit and Sales  
 The FMCG sector suffers significant losses each year through shrinkage. These losses occur all along the supply chain: from point of manufacture, throughout distribution processes, to the point of sale.

- Step 1:        Develop a Strategic Plan  
In general, stock loss is not currently approached in a systematic manner. Most companies do not plan and can not appreciate differences in stock loss.
- Step 2:        Map Key Processes and Measure the Problem  
Reducing stock loss begins with a rigorous diagnosis of the problem. This diagnosis starts by understanding the nature of the losses and by identifying their causes.
- Step 3:        Analyse Risk, Identify Causes and Prioritise Actions  
Having mapped and measured the current operation, this data should be analysed to understand and describe exactly what went wrong.
- Step 4:        Develop Solutions and Prioritise Actions  
The development of solutions that resolve this cause and reduce loss are usually extremely context-specific.
- Step 5:        Implement Solutions  
The implementation of the solution that will reduce stock loss requires project planning.
- Step 6:        Evaluate Implementation  
The evaluation of the project is important in order to determine the success of the solution and as a guide for future projects.

## BENEFITS

The 2004 ECR Europe report found that reducing stock loss presents a substantial opportunity for performance improvement throughout the supply chain.

<b>Consumer Benefit</b>	<b>Retail Benefit</b>	<b>Supplier Benefit</b>
Lower out of stocks More open merchandise Greater choice	Reduce costs Increase store loyalty More efficient replenishment	Reduce costs Higher brand loyalty Better planning
<b>Leading to:</b>		
Increase satisfaction More convenience	Increase sales Increase profit	Increase sales Increase profit

## ECRA WORKSHOP

Despite better data and an understanding of the need for a multi-pronged approach to the management of product loss, this remains a major cost for suppliers and retailers.

To address these issues and with a view of gaining a greater understanding of worlds best practice, ECR Australasia in conjunction with Gillette Australia hosted a seminar: *Who Wants to be a Shrinkage Millionaire? Delivering Consumer Satisfaction Through Effective Shrinkage Management* in September 2005.

Presenters Colin Peacock (The Gillette Company) and Paul Chapman (Senior Research Fellow, Cranfield School of Management, UK) shared their learnings in a highly interactive session in which they demonstrated to participants how an effective shrinkage reductions strategy can not only be easy to develop and manage, but also play a major role in delivering enhanced consumer satisfaction. It demonstrated how shrinkage impacts directly upon the customer shopping experience; provides tried and tested ways to reduce losses through shrinkage; and shows how the ECR approach can save companies millions every year. The presentation concluded with three simple steps:

	<b>1. Wake up!</b>	<ul style="list-style-type: none"> <li>✓ Take a holistic view</li> <li>✓ Shrinkage is a major issue</li> <li>✓ Stop blaming the consumer</li> <li>✓ Take a fresh approach</li> </ul>
	<b>2. Deliver Results ...</b>	<ul style="list-style-type: none"> <li>✓ Use the ECR Road Map</li> <li>✓ Collaborate</li> <li>✓ Use data to focus effort</li> <li>✓ Eliminate process failure first</li> </ul>
	<b>3. Hold the Gains ...</b>	<ul style="list-style-type: none"> <li>✓ Implement a clear, simple corporate policy</li> <li>✓ Learn from pilot projects then roll out successes</li> <li>✓ Adhere to good practice</li> </ul>

The presentation is available from the ECR website ([www.ecraustralasia.org.au](http://www.ecraustralasia.org.au)) and further details of the ECR Europe work is available at [www.ecrnet.org](http://www.ecrnet.org)

#### FURTHER HELP AND ADVICE

Further information is available from:

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