



AN EMPIRICAL STUDY OF PROBLEMS OF SHRINKAGE FACING BY RETAILERS IN KALYAN AND DOMBIVILI REGION

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ABSTRACT

Shrinkage had cost retailers a whopping \$128.51 billion globally in the year 2013 and India is no exception. Retail shrinkage simply means losses to retailers due to mostly theft from the stores. With increasing challenges in retail sector, the only way to survive is to be competitive without compromising on the quality of services. And cost minimization plays an important role to achieve this objective. So, retailers should try to identify the real causes of shrinkage and thereafter proper loss-prevention method should be employed for reducing losses incurred due to shrinkage.

This research paper attempts to find out the retail shrinkage rate and causes (sources) of shrinkage of Kalyan and Dombivili retailers. It also studies their methods of minimizing losses incurred due to the shrinkage. For the purpose of the study, twenty-four retail stores are randomly selected as a sample. After the analysis of the study, researcher suggests that along with employing the modern technologies like EAS and CCTV, collaborating with loss prevention specialist and regular training to staff people would help the retailers in their attempt in controlling their store's shrinkage rate.

KEYWORDS : Retail Shrinkage, Sources of Shrinkage, LP Methods, Global Retailers, Local Retailers

I) INTRODUCTION:

According to Global Theft Barometer Report (2013-14), the average global shrinkage rate was 1.29% of retail sales - accounting for shrinkage value of \$128.51 billion from January to December 2013. Shrinkage or Shrink reflects the difference between the revenue the business should have received and amount actually received. Shrinkage losses are incurred because of customer's theft from stores, dishonest employee theft, supplier's fraud and accounting or other internal errors. This shrinkage losses witnessed by retailers are pushing the product prices higher, affecting the economy, and even forcing some retailers to wind up their stores or go out of business. Retail theft is, in fact, a global problem on a massive scale. So, addressing the shrinkage issue is need of the hour.

India's retail market size is estimated to be 31 trillion Rs. in 2013-14, with a CAGR of 15% over the last five years. It is predicted to grow to 55 trillion Rs. in 2018-19, and out of that, organized retail or modern retail sector is projected to be 5.5 trillion Rs, according to KPMG (2014). So, this growing market is prompting retailers to understand the problem of shrinkage before it becomes a major issue. Gradually, many of the Indian retailers have started using various strategies for combating this shrinkage problem such as keeping the products in shelves, dummy cartons, employing security guards etc. But still one can find the shrinkage rate remains one of the biggest challenges for retailers all over India. So, retailers should become more proactive in controlling the shrinkage rate before it becomes the huge issue and seriously eat the profit margin of the retailers.

II) GLOBAL RETAIL SHRINKAGE:

The average global shrinking rate if found to be 1.29% of retail sales in the year 2013. North American retailers have the highest shrinkage rate of 1.48% of sales, whereas European retailers have the lowest rate of 1.13% of retail sales.

Table 1: Global Retail Shrinkage of 2013

	Asia Pacific	Europe	North America	Latin America	Global
Retail Shrinkage (%)	1.28	1.13	1.48	1.41	1.29

Source: Global Retail Theft Barometer (2013-14)

Table 2: Sources of Global Retail Shrinkage of 2013

	Asia Pacific	Europe	North America	Latin America	Global
Dishonest Employee Theft	16	22	43	24	28
Shoplifting by Customers	44	39	37	32	39
Supplier Fraud	8	15	9	31	13
Administrative Losses*	32	25	11	12	21
Total	100	100	100	100	100

*Administrative losses mean accounting & pricing mistakes and other internal errors.

Source: Global Retail Theft Barometer (2013-14)

It is also found out that shoplifting by customers constitute highest as a source of Global retail shrinkage in the year 2013 followed by dishonest employee theft, administrative losses (internal errors) and supplier fraud. So, shoplifting and employee theft are the most pressing problem faced by retailers globally (together they constitute 67% of retail shrinkage).

III) REVIEW OF LITERATURE:

P. B. Banudevi and N. Ilango (2014) in their research paper titled 'The Organized Retail Market – Indian Perspective' identified retail shrinkage as one of the major challenges in the Indian organized retail market. Retail shrinkage is the difference in the value of stock as per the books and the actual stock available in the shop.

Sandeep R. Sahu (2011) compared the India's retail shrinkage with that of Asia-Pacific and Global countries from the years 2007 to 2010 and found out that India has consistently maintained its top position in Global retail shrinkage from 2007 to 2010. Customer's shoplifting was identified the main reason or causes of India's retail shrinkage.

White Paper (2014) shows the sources of inventory shrink in North America are as Shoplifting (35%), employee theft (43%), Vendor error (4%) and administrative or unknown error (18%). It concludes that employee theft accounts for the higher percentage in North America, but in rest of the world- it is close second to shoplifting.

Richard C. Hollinger (2014) highlighted a study conducted by Kessler International, a forensic accounting and investigative firm in 2013 by taking a sample of 500 employees from a variety of retail and service companies. The study showed a surprisingly high 95%

of employees reported stealing from their employers, which was up notably from an earlier study they had done in 1999 that found out only 79% of employees reported stealing. Reasons for stealing were identified that more than 30% of sampled employees admitted to falsifying the actual time that they worked. Amazingly, 63% of those surveyed admitted to checking their social media sites regularly during the work day.

Sumanta Dutta (2012) suggested to Indian retailers in her research paper 'Managing Retail Shrinkage Management - An Indian Experience' that they should manage retail shrinkage by having technological support (such as RFID, CCTV and antennas), training to employees, performance management system (like financial and other incentives), manual surveillance by security men, perpetual stock taking, introduction of dummy products, and other measures such as robust internal control backed by strong data analytics, devising a whistle blower policy etc.

Cognizant (2013) in a research paper 'Predictive Response to Combat Retail Shrink' concluded that by combining the statistical and mathematical rigor of advanced analytics with established business acumen and domain experience, retailers can search out as well as minimize shrinkage because of fraud, non-compliance, poor processes and organized crime.

David C. Wyld and Michael C. Budden (2009) concluded in their paper that RFID provides retailers the ability to identify exactly when a theft happened and what products were taken. The specificity of theft information can allow retailers to apply this improved visibility to not only update their stock more precisely to substitute stolen products more rapidly but to possibly see trends in both internal and external theft more quickly to apply more improved successful loss prevention techniques.

IV) OBJECTIVES OF THE STUDY:

The following are the objectives of the study.

- to identify the shrinkage rate of sample retail stores.
- to identify the different sources of shrinkage of sample retail stores.
- to analyze the loss prevention cost and methods of sample retail stores.
- to make suggestions in the light of the findings of the study.

V) SCOPE OF THE STUDY:

In this study, twenty-four stores are taken as sample from the main busy markets (within 1.5 km of railway station) of Kalyan (West) and Dombivili (West). These two cities are important part of Thane District. Six categories of stores are selected for the analysis such as Apparel; Electronic Items; Watches; Beauty Care & (Artificial) Jewellery; Toys & Games and Stationary Items.

The Period of the study is year 2014 and data collection for the study is January 2015.

VI) LIMITATION OF THE STUDY:

The present study has some limitations such as:

Only twenty-four retail stores, that also from two small cities, are taken for the study.

The research findings are based on the responses of the store managers. However, the genuinity and frankness in their responses is assumed.

VIII) RESEARCH METHODOLOGY

The study is conducted by collecting data through primary sources like questionnaires and observation. All the datas are properly classified and arranged in tabular form and statistical tools such as charts and simple percentage method are for the analysis of the study.

VIII) DATA ANALYSIS AND INTERPRETATION:

Table 3: Profiles of Retailers

Sr. No.				
			In Numbers	In Percent
1)	Store Category	Apparel	4	16.67
		Electronic Items	4	16.67
		Watches	4	16.67
		Beauty Care & (Artificial) Jewellery	4	16.67
		Toys & Games	4	16.66
		Stationary Items	4	16.66
	Total	24	100	
2)	Started Since	<= 2000	15	62.5
		2001 -2010	9	37.5
		2011 - 2014	0	0
		Total	24	100
3)	Stock Value (Rs.)	<= 50 lakhs	8	33.33
		51 lakhs - 1.5 crores	13	54.17
		1.51 - 2.50 crores	2	8.33
		>= 2.50 crores	1	4.17
		Total	24	100
4)	No. of Employees	<= 3	7	29.20
		4 - 6	14	58.30
		7 - 9	3	12.50
		>= 10	0	0
		Total	24	100

It is evident from the above table 3 that twenty-four retail stores are selected from the different categories such as Apparel; Electronic Items; Watches; Beauty Care & (Artificial) Jewellery; Toys & Games and Stationary Items. Four stores are taken from each category. Nearly 62% of sample stores started operating before the year 2000. From the sample, 54% of stores keep stock of products in the range of Rs. 51 lakhs to Rs. 1.5 crore and 33% of stores below Rs. 50 lakhs. It is also found out that nearly 58% of store have employees in the range of 4 to 6 and 29% of stores have 3 or below 3 number of employees in their stores.

Table & Chart 4: Retail Shrinkage of Stores (% of Sales)

	Apparel	Electronic	Watches	Beauty Care/ Jewellery	Toys & Games	Stationery	Average Total
Shrinkage (In %)	2.5	3.5	3.2	3.8	2.2	2.0	2.87

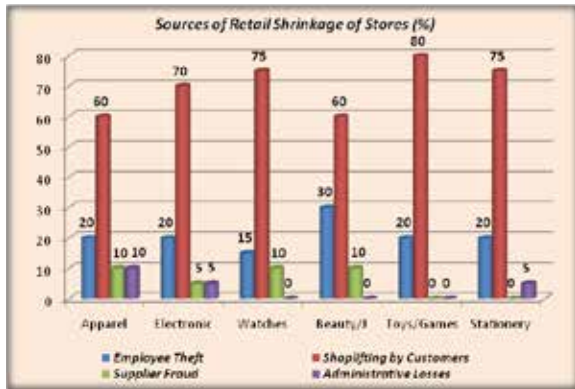


Table and Chart 4 shows that sample retail stores have average 2.87% of shrinkage rate. Out of this, beauty care and jewellery retail stores have the highest retail shrinkage rate with 3.8% of sales. Electronic stores comes second with 3.5% of sales in terms of retail shrinkage, followed by watch stores (3.2% of sales), apparel stores (2.5% of sales), toys and games (2.2% of sales) and last stationery stores with 2% of retail sales.

Table & Chart 5: Sources of Retail Shrinkage of Stores (%)

	Apparel	Electronic	Watches	Beauty Care/Jewel	Toys & Games	Stationery	Avg.Total
Dishonest Employee Theft	20	20	15	30	20	20	21
Shoplifting by Customers	60	70	75	60	80	75	70
Supplier Fraud	10	5	10	10	0	0	6
Administrative Losses*	10	5	0	0	0	5	3
Total	100	100	100	100	100	100	100

*Administrative losses mean accounting & pricing mistakes and other internal errors.



It is observed from the table and chart 5 that shoplifting by customers is the highest source of retail shrinkage accounting for 70% of average total - showing toys & games; watches and stationery stores highest one in this type of shrinkage. Dishonest employee theft comes second with 21% of average total - showing beauty care and jewellery stores highest one. Supplier fraud (6%) and administrative losses (3%) of average total are the other sources of retail shrinkage.

Table & Chart 6: Loss Prevention (LP)/Security Costs of Stores (% of Sales)

	Apparel	Electronic	Watches	Beauty Care & Jewellery	Toys & Games	Stationery	Average Total
LP-Cost (In %)	4.5	5.0	3.0	3.5	2.0	2.0	3.33



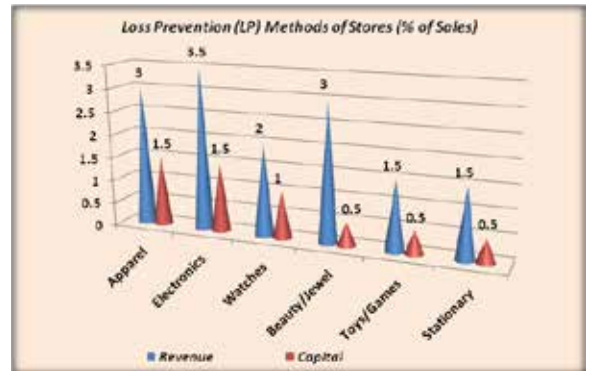
Regarding loss prevention cost of retail stores (table & chart 6), then it is clear that electronic shops spend more, i.e. 5% of sales, on controlling the retail shrinking rate. Apparel stores ranks second accounting for 4.5% of sales on controlling measures, followed by beauty care/jewellery with 3.5% of sales, watch stores comprising 3% of sales and toys/games and stationery stores ranks last with 2% each on sales spending on loss prevention measures.

Table & Chart 7: Loss Prevention (LP) Methods of Stores (% of Sales)

	Loss Prevention Method	
	Revenue*	Capital**
Apparel	3.0	1.5
Electronic Items	3.5	1.5
Watches	2.0	1.0
Beauty Care & Jewellery	3.0	0.5
Toys & Games	1.5	0.5
Stationery Items	1.5	0.5
Average Total	2.42	0.91

*Revenue Methods such as Payment to security guards and other operational costs.

**Capital Methods such as CCTV, Alarm Doors, IT related and other long term assets.



Above table & chart 7 shows that average 3.33% of sales is spent by a store on loss prevention/security cost - comprising 2.42% spending on revenue methods such as Payment to security guards and other operational costs and remaining 0.91% on capital method such as CCTV, Alarm Doors, IT related and other long term assets. It is also evident that all the stores are spending almost double or more than double on revenue method than on capital method.

IX) CONCLUSIONS AND RECOMMENDATIONS:

It can be concluded that sample stores have more than double the retail shrinkage average rate as compared to that of average global rate. Beauty care/jewellery shops and electronic shops are the store category where shrinkage rate is very high in sample stores. Shoplifting by customers is the most pressing problem facing by Kalyan and Dombivli retailers. But it can also be concluded that these retailers are spending more than that of their shrinkage loss. Every single store is spending more almost double or more than double on revenue method of loss prevention than on capital method.

Technologies like Electronic Article Surveillance and CCTV cameras have helped appreciably to retailers, but still much more is to be done. It is recommended to the retailers that they can use loss prevention solutions such as metal detector, three-alarm accessories, displaying products in locked shelves, source tagging etc. Even collaborating with loss prevention specialist is considered to be the best method to keep shrinkage loss under control. But human monitoring is key even with the execution of sophisticated loss prevention technology. So, it is also recommended to the retailers to provide thorough knowledge of products and spread awareness/alertness among the store employees to keep them encouraged. Training at regular interval to employees should be given to improve customer service and staff interaction with customers can result in lesser shrinkage as well.

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