The financial implications of retail theft

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How theft (unknown loss) reduces the gross profit of a retail business

Imagine that a store should have had $105,000 of stock on hand, however after a stock-take it was discovered that there was only $101,000 of stock, therefore $4,000 of the stock has gone missing. This difference ($4,000) is unknown loss; you don't know how it has been lost.

The $4,000 unknown loss in turn leads to an increase in the cost of goods sold (COGS) of $4,000.

If the store had sales of $40,000 and an 'original' cost of goods sold of $ 20,000 the gross profit of the business would be $20,000. However the $4,000 loss increases the COGS which in turn drives down profit from $20,000 to $16,000.

It is clear that the impact of unknown loss on the gross profit of a retail organisation is to decrease the gross profit amount.

You just cannot ignore the impact of loss upon the bottom line profit of your business

The impact of theft on a store's net profit

The impact of theft goes beyond reducing the gross profit of your business, it also reduces your net profit. Each dollar of theft reduces the gross profit which in turn leads to a reduced bottom line net profit for the business.

In simple terms it really comes down to this:

- higher theft levels reduce your gross profit
- reduced gross profit lowers your net profit.

The formula to calculate net profit is as follows:

Net profit$ = $GP – $store expenses

That is, a store 'pays' for its business expenses out of the gross profit, so if theft reduces the gross profit, the business has less gross profit to pay for their business expenses.