Understanding retail loss

Understanding retail loss

Retail businesses are susceptible to crime. The real issue for retailers however is the loss that results from crime and the impact of this upon business profits.

Retailers use a variety of terms to describe this loss. Let's look at some of these:

'Shrinkage' is a word that is often used in retail environments to describe the unwanted reduction in value of a retailer's stock. The use of the word shrinkage may however be confusing, as some retailers use the term to describe only losses of an unknown cause, such as theft. Other retailers use the word shrinkage as a term that includes both their known and their unknown losses. In order to simplify matters, in this resource we will avoid using the term shrinkage and instead will use the terms known loss and unknown loss.

Known loss is a loss that has been identified, recorded and processed. It may be broken into the following sub-categories:

- known theft processed
- known errors processed, such as out-of-date or damages
- cost of sales adjustments, such as tasting, markdowns or out-of-date
- other, such as donations.

*The key point here is that any **recorded** reduction in stock value is a **known loss**.*

Unknown loss, on the other hand, refers to losses only discovered following the reconciliation between the results of a physical stocktake and the retailer's book stock.

To reduce unknown loss requires the following actions:

- understand the causes of the problem (e.g. error, theft or waste)
- identify actions to attack it
- motivate your team to implement those actions.