AN ASSESSMENT TO DETERMINE THE IMPACT OF RETAIL SHRINKAGE ON THE SUSTAINABILITY AND THE PROFITABILITY OF THE XYC FRANCHISE RETAILER STORES IN THE WESTERN CAPE REGION OF SOUTH AFRICA

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ABSTRACT

Against the backdrop of bad economic news and retail crime trends, it might be natural to be pessimistic about retailer's abilities to strengthen their operations against shrinkage. There is nothing inevitable about higher shrinkage in any retail establishment. Threats can be identified, and strategies to deter and detect put in place. Through a combination of better strategic planning, vigilance in maintaining reasonable shrinkage control technology investment, and an understanding of why and how shrink takes place, retailers can continue to reduce shrink as a percentage of revenue, and protect their business's profitability in these tough times. Small businesses cannot operate efficiently if employees are stealing goods and management is not properly monitoring and controlling shrinkage,

Key concepts: *shrinkage; store profitability; loss prevention*

1. INTRODUCTION

The term 'shrinkage' usually refers to something becoming smaller or a gradual contraction over time an impact not considered to be serious or of much concern. (Beck & Peacock, 2009: 1). For the basis of this study shrinkage is defined as the difference between the recorded value of stock in the inventory stock system, which records merchandise received at the store, and the value of actual inventory in the store, as determined by a physical count of inventory. This difference is divided by retail sales for the period and is expressed as a percentage of total sales (Gilbert, 2003: 140 and Levy and Weitz, 2004:578). Shrinkage is a problem that has proven to be stubborn and resistant to the many and varied attempts to reduce its impact on retail profits. Retailing involves the buying of consumer goods from wholesalers or manufactures for resale, without transformation, to the general public for personal or household use (Camming and Bassant, 1988: 157; Coughlan et al, 2006:425 and the Oxford Dictionary of Business, 2002: 355 and the Statistics South Africa, 2005b: 166).

Retailers typically identify an acceptable level of shrinkage based on the industry norms and the circumstances of specific stores. The acceptable level of shrinkage has to be taken into account when budgeting. Excessive shrinkage is shrinkage that is higher than the particular retailer's acceptable level of shrinkage; it is this excessive shrinkage that threatens the viability of retailers.

Traditional approaches to managing shrinkage as well as excessive shrinkage have, at best, kept a lid on a problem that is constantly threatening to get out of control. A new approach, termed New Loss Prevention, is much more likely to succeed in meeting the challenges of shrinkage management in the 21st century. The approach ensures that organisational responses to shrinkage are premised upon a detailed understanding of the root cause of stock loss and that the role of operational failure in providing the opportunities for deviant behavior is fully recognized.

This study investigates shrinkage and how it can be identified through the use of the Shrinkage Road Map–a tool developed to enable retailers to quickly and easily identify operational failures within their business and subsequently identify appropriate interventions to deal with them. The Loss Prevention Pyramid will be analyzed, as it provides an overarching framework within which this type of work can be placed and to offer an alternative way of thinking about shrinkage problems faced by retailers.

2. RESEARCH CONTEXT: BACKGROUND

The need to respond quickly and effectively to excessive shrinkage is especially important for grocery retailers, these are retailers who specialize in selling food, beverages and tobacco (Statistics South Africa 2007: 3).Their swift response is important as they operate under the lowest profit margins in the formal retail sector (Statistics South Africa, 2005:3).

Retailers are aware of the general causes of shrinkage and consciously manage stock to minimise stock loss. The problem is that, given the nature of shrinkage, it is not generally possible to identify its specific causes and the employees responsible. This problem is exacerbated by the fact that shrinkage is discovered only periodically, after a stock take or stock count, and not in real-time.

3. PROBLEM STATEMENT

The need to respond quickly and effectively to excessive shrinkage is especially important for grocery retailers, because they operate under the lowest profit margins in the formal retail sector (Statistics South Africa, 2005a:3).

Managing shrinkage has become even more important, but it has also become even more challenging. It is more important because losses incurred through shrinkage impact directly on the bottom line profitability and any small changes in this rate can result in drastic changes to company profits, particularly where profit margins are at best slim.

Retailers are aware of the general causes of shrinkage and consciously manage stock to minimize stock loss. The problem is that, given the nature of shrinkage, it is not generally possible to identify its specific causes. The problem is exacerbated by the fact that shrinkage is discovered only periodically, after stock take or stock count, and not in real-time. The retailer's evidentiary problem, therefore, is that while retailers are obliged to respond to excessive shrinkage in order to protect profit margins, they typically lack evidence to address the problem.

This study program is relevant for both practical and theoretical reasons. It will be useful to grocery retailers in overcoming the evidentiary problem if the applicability of the Shrinkage Road Map and Loss Prevention Pyramid model, adapted or otherwise, to grocery retail is confirmed.

4. Aim and objective of the study

The aim of this study is to investigate the main causes of Shrinkage and the impact it has on the sustainability of the XYC franchise retailer. In order for this research to yield valid results the following objectives are going to be examined at a secondary level. These objectives are:

- To investigate the main causes of Shrinkage in the XYC franchise retailer stores;
- To determine if there is a relationship between Operational Failures and Shrinkage.
- To construct a decision making framework for the XYC franchise store owners to choose the best available solution to reduce retail shrinkage.

5. Brief literature review

The following key aspects relates to the impact shrinkage have on XYC franchise retailers.

5.1 Understanding Shrinkage

Deciding whether estimates of shrinkage should include 'known' and 'unknown' losses (Beck et al., 2003) or as Grasso (2003) defined them: 'retail crime losses' (known) and 'unexplained stock losses (unknown) is a contentious area within the loss prevention industry.

Known Losses are those that can be readily identified, recorded and processed by the business, for example, incidents of shop thieves who have been caught red handed and the goods they attempted to steal recovered but could not be subsequently sold (if they have been damaged for instance). Cost of such incidents can be recorded as shrinkage due to external theft.

Unknown Losses as the name implies relates to those losses where the cause is unknown. These losses are mainly identified when organizations undertake regular stock audits and realize that there are differences between what the book stock suggests should be in the store and what an actual physical count of the stock identifies. The difference between the two numbers is defined as Unknown Shrinkage.

Few surveys have been completed that have attempted to gauge the number of retailers that include or exclude Known Losses from their shrinkage calculation. In 2004, Beck completed a survey of the European retailers operating in the Fast Moving Consumer Goods (FMCG) sector in 2004 which asked respondents what they included in their shrinkage calculation. The study found that 90 per cent of retailers claimed they included both Known and Unknown Losses in their overall shrinkage calculation, although there was considerable variance in what they considered to be Known Loss (for instance some retailers excluded product mark downs and stock going out of date as known shrinkage while other include them) (Chapman & Templar, 2006b).This goes to heart of the problem of measuring shrinkage where different retailers may be using the same terminology-in this instance known and unknown loss-but their interpretation of these terms differ markedly, making any comparisons or bench marking exercises highly problematic.

5.2 Causes of shrinkage

When considering why sales income might not be realized, a review of the existing literature on shrinkage suggests that the most typologies are based upon four broad categories of loss (Beck et al., 2003).The following are main causes of shrinkage:

5.2.1 Internal theft

Internal theft is concerned with the loss of goods carried out by people directly employed within the organisation. Theft of stock by employees includes direct theft from stock rooms and shop floors (Dunne et al, 2002: 343), collusion with customers and suppliers to steal stock or defraud the retailer (Newman and Cullen, 2002: 384) as well as cashier fraud (Newman and Cullen, 2002: 387). From the first study back in 1991 until the most recent data published in 2008, retailers have estimated that internal theft accounts to 40 percent or more of all retail shrinkage (Hollinger & Adams, 2008).
In the US it has been estimated that employee theft accounts for between 10-15 percent of the cost of consumer goods (Hollinger & Clarke, 1983) and it plays a major part in the bankruptcies of between 30 and 50 percent of all companies going into insolvency (Greenberg, 1997 quoted in Hollinger & Davis, 2006).

5.2.2 External theft

Various terms are used, including shop theft, shoplifting and customer theft, but it is often referred to-'an act of theft from a retailer committed during hours the store is open to the public by a person who is or appears to be a legitimate customer' (Sennewald & Christman, 1992: 7), or as Kraut rather mischievously put it '… the acquisition of goods at minimum cost' (quoted in Baumer & Rosenbaum, 1984: 57).

5.2.3 Inter-company fraud

Most definitions of shrinkage prefer to use the term 'vendor fraud' when discussing this issue, putting the responsibility for the offending firmly with the supplier to the retailer. This is seen as losses due to suppliers or their agents deliberately delivering fewer goods than the retailers are eventually charged for by them or delivering products of lower quality than originally agreed. Supplier theft or fraud is difficult to control as suppliers generally have access to the retailer's stock receiving area when delivering stock and to the shop floor where the supplier's merchandisers are often required to restock shelves (Gilbert, 2003: 140).

5.2.4 Process failures

In simple terms process failures is the sum of all the things that go wrong as products make their journey from delivery to the retailer to their final exit at the front door of the store in the hands of a customer, excluding theft by staff and customers (Fisher et al., 2000).
The opportunities for shrinkage through human error are numerous, given the large volume of transactions processed by retailers (Gilbert, 2003:140 and Hasty and Reardon: 1997, 384).Process

failures, or administrative losses as some call it, is much more challenging and open to a wide range of interpretations. Perhaps the most inclusive seems to be the definition offered by the ECR Europe shrinkage survey in 2004 which provides respondents with the following advice on what process failures include: Losses due to operating procedures within the organisation including products which have become out of date, or have been reduced in price; incorrect pricing; product identification errors; incorrect stock counting; products which have been damaged; scanning errors; and errors in deliveries to the stores (e.g. short deliveries due to errors in picking and dispatching from distribution centers)' (Beck,2004b).There are nine main areas that need to be considered when thinking about process failures:

- **Damage**

Goods that have been damaged during the process of delivery, storage and merchandising of goods which means they cannot be sold for any value.

- **Wastage/Spoilage**

Products that have reached their expiry date or gone beyond agreed temperature parameters and are no longer safe to sell to consumers or staff.

- **Reductions**

The original price of the product is reduced in order that the product is more likely to be sold, such as goods about to reach their sell by date, or have been partially damaged or have been discontinued.

- **Pricing**

Losses caused by errors in the way in which goods are priced and sold in the business.

- **Missed Claims**

Failure to claim for refunds/rebates on items being returned to a supplier.

- **Auditing**

Errors in the audit process, such as stock being incorrectly counted-including annual stock checks and periodic cycle counts.

- **At the checkout**

Errors occurring at the point of sale that leads to a positive or negative discrepancy in the store book stock.

- **Product Movement**

Errors generated by the movement of goods within the business. Key areas of vulnerability would include mistakes made in the receiving of goods, transfer of goods and returns and refunds.

- **Data Errors**

Errors that appear in the recoding of stock on the company systems

5.2.5 Operational failure as a driver of shrinkage

Operational failures are the root cause of most forms of shrinkage. The starting point is to understand what is meant by the term 'operational failure'. It is a relative broad definition which sees operational failures as any fault in the design, implementation, operation, monitoring and control, and review of process and procedures used within the retail environment. Operational failures can occur at any point in the supply chain from the point of manufacturing through to the eventual sale of goods to the customer (and beyond in the respect of product returns).

Some have argued that the retail environment is 'pregnant' with opportunities for members of staff and the public to steal (Pease, 1997); Hollinger and Davis have reflected on the plethora of opportunities members of staff have to steal within the retail space and posed the not unreasonable question: 'given that so much opportunity exists, why isn't there even more theft given the numerous opportunities for taking things in the retail store?' (Hollinger & Davis 2006: 211).

Operational failures (in all their guises) need to be the starting point at which the root causes of shrinkage are examined. Too often previous attempts to tackle shrinkage have merely dealt with the symptoms of their failure. Undertaking a detailed analysis of how the business process relating to a particular product impact upon its likelihood to suffer from shrinkage is key.

5.2.6 Malicious and non-malicious shrinkage

The importance of understanding the intentionality of a shrinkage occurrence is the impact it has upon the approach adopted to tackle it and the expected longevity of the results of an intervention. Malicious losses are intentional and occur when existing systems have been found to be vulnerable-sometimes by accident, often by 'probing'- and are duly 'defeated' by the offender.
Unintentional or non-malicious shrinkage is usually less dynamic and more responsive to lasting ameliorative actions.

Understanding the causes of shrinkage in terms of 'maliciousness' also ensures that the in-built bias within the traditional shrinkage typology is less evident for instance, three of the four categories are concerned with malicious shrinkage;
Internal theft, external theft and inter-company fraud and only one covers non-malicious activities; process failure/administrative error.

While minimizing opportunity through the effective design, implementation, monitoring and the control and continual review of company processes and procedures can have a significant impact upon malicious forms of shrinkage, one can argue that the non-malicious forms of shrinkage are equally impacted by operational failures, but without the casual linkage generated through opportunity or 'reading'. As with malicious shrinkage, the key is to understand the underlying or root causes of the shrinkage problem through a detailed review of the operational processes and procedures relating specifically to the products suffering from shrinkage. Figure 1 is a representation of the linkage between retail shrinkage and operational failures within the retail environment.

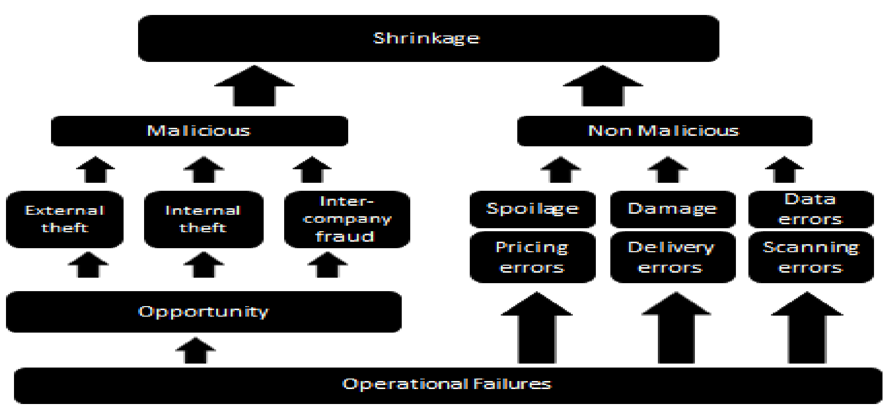

Figure1 How operational failures drive Shrinkage. Adopted from Beck and Peacock, (2009:110).

5.3 Strategies for dealing with shrinkage and loss prevention

The Shrinkage Road Map is intended to act as a manual or guide, describing the overall activities that need to be undertaken in order to reduce shrinkage through the identification of the root causes of specific problems. This guide consists of a general approach made up of steps a company needs to follow, together with techniques and tools to help undertake each phase and to deal with problems that may be encountered (Beck et al., 2003).The general approach that forms the heart of the guide is shown in Figure 2. It encompasses the following steps:

- Step 0: Recognized that stock loss shrinks profit and sales

The Shrinkage Road Map has a preliminary step which can be characterized as a ‘wake up call’ to those within the business. This step needs to show how shrinkage is acting as a drain upon the profitability of the business.

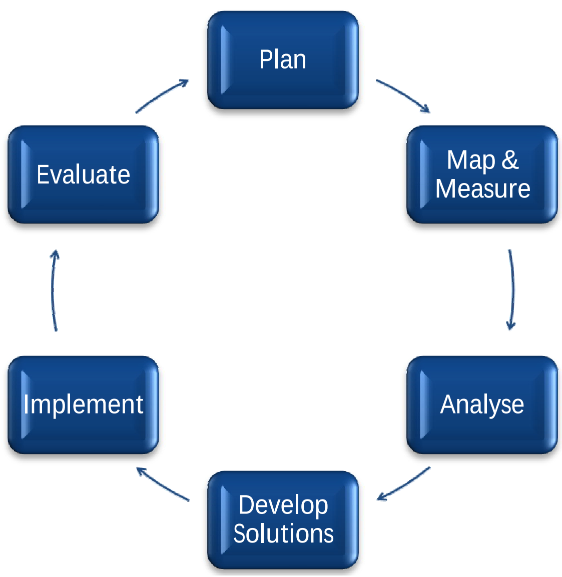

Figure 2. The Shrinkage Road Map. Adopted from Beck and Peacock(2009:115).

- Step 1: Develop a project plan

Planning is based upon setting clear, realistic, attainable objectives with criteria for knowing when objectives are met:

- Which products are to be focus of the project;
- How far along the supply chain will investigations take place;
- When is the date by which some benefits must be identifiable;
- What are the constraints to undertaking the Shrinkage Road Map?

- Step 2: Map key processes and measure the problem

The aim is to identify how at each point of the product and its associated information interacts with the various people, processes or procedures, and whether potential failures associated with this flow create the opportunity for shrinkage.(Beck & Peacock,2009).

- Step 3: Analyze risk, identify causes and prioritize actions

Once the process map is completed and all available data has been collected, the next step is to analyse the process itself together with the data collected to determine and prioritize the many possible operational failures that could create the opportunity for shrinkage. A useful tool for undertaking this is the Failure Modes Effects Analysis (FMEA) - a method which has long been used in the design of motor vehicles, machinery and weapons manufacture. This tool is particularly good for identifying the various ways processes and procedures may fail, as well as determining the effect of different failure's modes (Stamatis:1995).

- Step 4: Develop solutions and prioritize actions

Most solutions can be gauged against two key variables: the ease with which it can be implemented in a given retail environment, ranging from very slow and hard to accomplished through to be very fast and easy to implement; and the improvement potential it can deliver, ranging from low through to high (this could be expressed in monetary terms or perhaps in a percentage reduction in shrinkage) The improvement potential also take into account the anticipated cost of the solution.

- Step 5: Implement solutions

Critical to successful implementation is the identification of a primary sponsor who will be responsible for delivering the benefits of the project. The creation of an implementation plan necessary to map the best uses of resources to achieve the desired objectives within time and cost limitations (Beck: 2008).

- Step 6: Evaluate implementation

The stock loss reduction project ends with an effective solution in place. The evaluation process may need to be ongoing as the performance of an initiative can change as its 'environment' alters. Periodic reviews of newly adopted measures may need to be carried out in order to gauge their effectiveness over time and to evaluate whether any corrective measures need to be taken. (Beck & Peacock: 2009).

New Loss Prevention through the use of the Loss Prevention Pyramid offers a framework to ensure that once low shrinkage is achieved it can be sustained over a long period of time. This framework seeks to put operational failures within a broader context of the retail organisation and how a series of elements needs to be in place in order for shrinkage to be targeted in a rigorous, robust and sustainable manner. It is purposefully conceived as a pyramid because all the elements that make up the pyramid need to be in place in order for it to be sustainable. Not only does it represent a sense of the interrelationship between different components that are necessary to deliver effective shrinkage management, but it also symbolizes how those who ultimately have to deal with the problem on a day-to-day basis (store teams), reside at the top of the pyramid. Figure 3 captures the essential elements of the Loss Prevention Pyramid

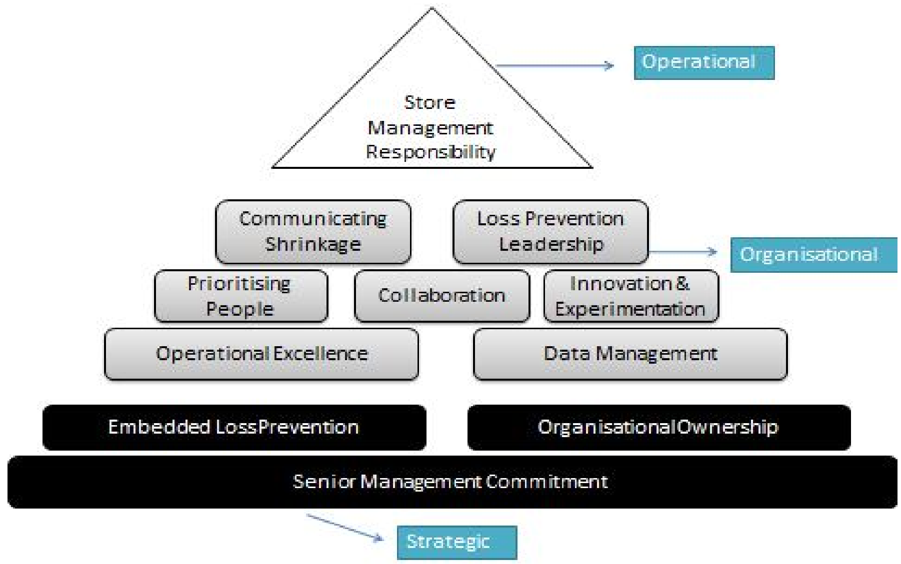

Figure 3 The Loss Prevention Pyramid. (Adopted from Beck and Peacock (2009:130).

6. Research Methodology

Potter (1996:50) explained that methodologies are perspectives of research that set out a vision for what research is and how it should be conducted. Methodologies are the connections between sayings and methods, while methods are tools (techniques of data gathering, techniques of analysis and techniques of writing). Cohen, Manion and Morrison (2000:44-45) stated that the aim of methodology is to help understand, in the broadest possible terms, not the products of the inquiry, but the process itself. In order to obtain the advantages of qualitative methodology (generation of theory and themes) and quantitative methodology (obtaining responses from a larger sample than qualitative methodology could provide), a qualitative research design has been adopted. Swanson and Holton (2005:105) explained that mixed-methods research is a research methodology for collecting, analysing and mixing both quantitative and qualitative data in a single study or a series of studies in order to better understand research problems.

According to Fox and Bayat (2007:3) various types of research may be divided into two broad categories, namely, qualitative and quantitative. Babbie (1998:289) stated that qualitative research yields data not easily reduced to numbers. This type of research requires ongoing observations and then the developing of a general conclusion. Babbie (1998:289) added that qualitative research reveals depth of understating and wealth of detail. Qualitative research is sometimes undermined by the subjectivity of the researcher and the poor reliability of the findings in that two researchers may arrive at different conclusions based on the same phenomena at the same time.

Wegner (2007:4) pointed out that qualitative researchers aim to gather in-depth understanding of human behaviour and the reasons that govern such behaviour. The qualitative method investigates the why and how of decision making, not just what, where and when. Hence, similar but focused samples are more often needed, rather than large samples. Wegner (2007:4) pointed out that qualitative research yields information that allows a decision maker to justify a chosen course of action more easily and with greater confidence. Quantitative research has greater quality of objectivity and greater reliability of findings.

The methodology of this research is based on a qualitative approach of data collection. The focus would be to conduct face-to-face personal interviews, using an open ended and semi structured incorporated in an interview guide schedule.

7. Research findings

The literature review has addressed the issues of the main causes of shrinkage, measures to manage shrinkage, the shrinkage road map problem solving model and the loss prevention pyramid to sustain and embed an organizational awareness ,and commitment to ,dealing with the problem of stock loss. Literature review has shown that technology contributes to reduction of shrinkage and involvement of everybody from top to bottom reduces shrinkage in stores.

Results of the respondent group indicated that the major cause of shrinkage in stores was caused by the staff. Shrinkage due to staff equates to 60% of shrinkage in stores. Shrinkage is caused through dishonesty, not following policies and procedures and the one that stood out was Sweat hearting (Under-ringing of goods for family and friends).From the first study back in 1991 until the most recent data published in 2008, retailers have estimated that internal theft accounts to more than 40 percent of all retail shrinkage (Hollinger & Adams, 2008).

Customer theft at 33 % is the second biggest contributor to shrinkage and it was noticeably higher in stores with a higher volume of foot traffic and stores located closely or within lower income areas.

Supplier theft at approximately at 7 % was the third biggest shrinkage problem in stores. Supplier theft occurred mainly during the receiving of products; primarily when goods were removed from boxes and then sealed again. Losses also occur when receiving staff and suppliers work together, stock is received and all necessary paperwork done but the stock never physically comes into the store. Store owners need to ensure that more attention is focused on this area as stock losses can excessive. Shrinkage caused by staff are intentional and occur when existing systems have are found to be vulnerable; sometimes by accident, often by ‘probing’- and are duly ‘defeated’ by the offender. Figure 4 below refers.

Nine Respondent’s (60%) indicated that Staff theft was ranked as the number 1 contributor to shrinkage. Five Respondents (33%) indicated that customer theft was ranked as their number 1 and one respondent (7%) indicated that supplier theft was the number 1 contributor to shrinkage. Respondents mentioned the following as operational failures caused by staff in stores: human error/pricing errors/ non recorded wastage in the service departments and Paper Shrinkage on their list of contributors to shrinkage. Operational failures (in all their guises) need to be the starting point at which the root causes of shrinkage are examined. Too often previous attempts to tackle shrinkage

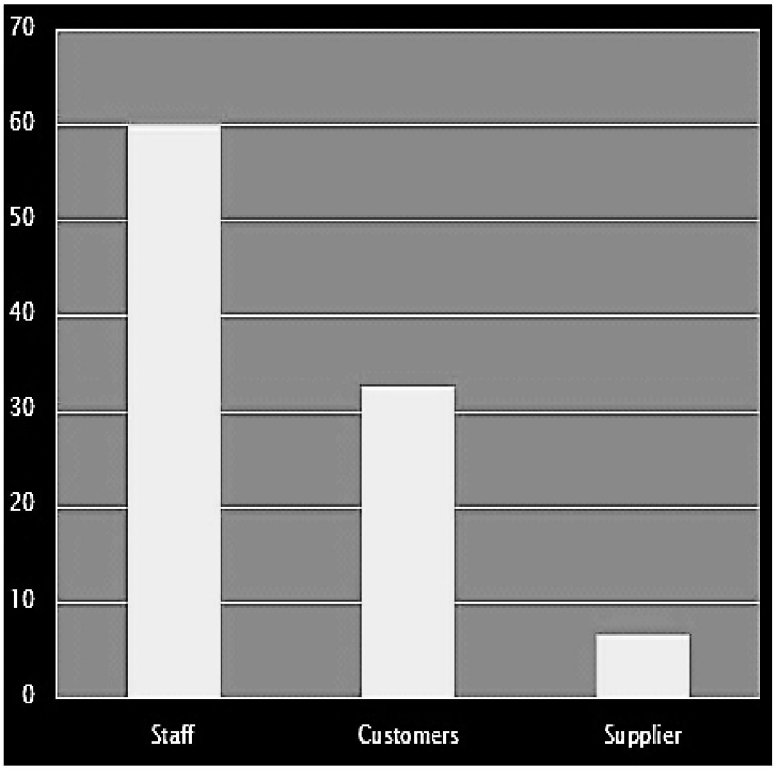

Figure 4: Main causes of shrinkage

have merely dealt with the symptoms of their failure. Undertaking a detailed analysis of how the business process relating to a particular product impacts upon its likelihood to suffer shrinkage is key. Administration/Process failures causing shrinkage can be viewed as non-malicious shrinkage that is less dynamic and more responsive to lasting actions.

Results of the respondent group indicated that New Technology and systems can be implemented to help reduce shrinkage in stores. Technologies relating specifically to managing shrinkage have also developed markedly in the last 30 years spawning a major industry in itself. Some of the most obvious examples include: developments in Electronic Article Surveillance (EAS) which is a system designed to make the theft of items more difficult; Close Circuit Television (CCTV), to amongst other things, enable remote monitoring of retail spaces; and data mining technologies (Stoplift), which are focused on analyzing EPoS data to look for incidents of staff theft or error; Cash Guard system makes cash inaccessible, minimizing the risk of robbery or loss. Figure 5 below indicates the current systems used in the 15 stores. None of the stores uses any tagging system for products.

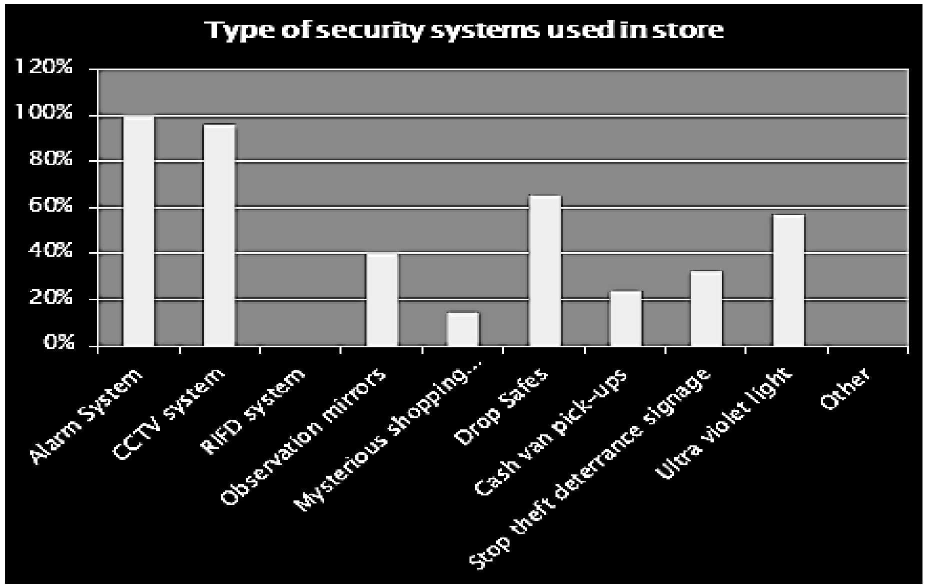

Figure 5: Types of Security Systems in Stores

Proper staff training and selection was also an indicator from majority of the respondents that will assist in reducing shrinkage. In low shrinkage retailers, staff is less likely to steal because the opportunities presented by operational failures are not present. Respondents also indicated that proper in store policies and procedures will reduce shrinkage. Most of the retailers interviewed mention that no reference checks or credit checks are done on staff. This is a concerning matter as staff can be a credit risk and resort to stealing. Some companies do pre-employment polygraph test on management/supervisor staff to determine if they haven't been dismissed for dishonesty previously.

Figure 6 reveals that cashiers contribute the most to shrinkage in stores, followed by the service department staff and Receiving Department staff as the third highest contributor. The fourth highest was Merchandisers/Supervisors/Management/Security Guards, followed by cleaners and shelf packers.

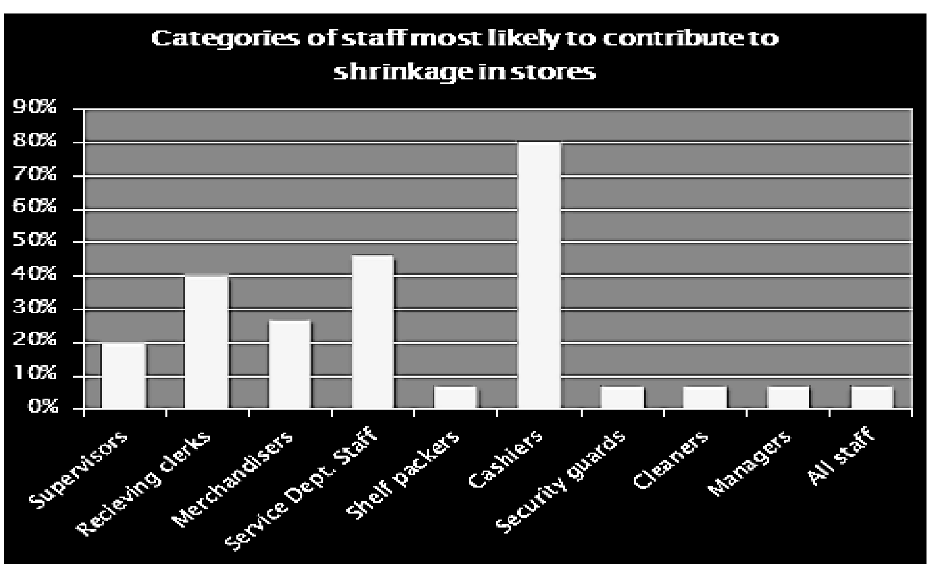

Figure 6: Categories of staff most likely to contribute to shrinkage

Based on the information gathered from the research conducted at XYC Franchise stores, the following research findings are presented:

- It was found that staff contributes the most to shrinkage in stores and Operational failures create the opportunity for shrinkage.
- Stores cannot operate efficiently if employees are stealing goods and management is not properly monitoring and controlling employee theft. Greater surveillance and managerial diligence in control of operations is needed to decrease employee theft.

There is a link between literature review and primary findings. Most store owners are aware that in store policies and procedures will reduce shrinkage in stores. New Technologies will help assist in preventing shrinkage where customer theft is high, but due to budget constrains is difficult to implement. Small businesses cannot operate efficiently if employees are stealing goods and management is not properly monitoring or controlling employee theft. Since theft is hidden, no study can be completely accurate. Employees are easier to monitor than customers, which may artificially inflate the percentage attributed to employee theft.

The research identified four areas where the store owner/manager can play a major role in ensuring that their stores do not have above average rates of loss:

- Accountability (the store owner/manager recognize that shrinkage is a major priority for him/her);
- Action (commitment to make sure processes and procedures are followed);
- Attitude (show the rest of the store team that shrinkage matters);
- Audit (prioritise measuring the problem of shrinkage in their environment)

8. Recommendations

From the findings and conclusions drawn, the following recommendations have been offered:

- It is recommended that grocery retailers consider applying the Shrinkage Road Map to reduce operational failures in stores. The shrinkage road map is intended to act as a manual or guide, describing the overall activities that need to be undertaken in order to reduce shrinkage through the identification of the root causes of specific problems. This guide consist of general approach made up of steps a company needs to follow, together with techniques and tools to help undertake each phase and to deal with problems that may be encountered (Beck et al., 2003).
- It is further recommended that grocery retailers consider the implementation of Radio Frequency Identification Technology to reduce shrinkage, when this technology becomes affordable and the technical barriers to implementation have been overcome.
- The implementation of the loss Prevention Pyramid-underpinned by a rationale that operational failures create opportunities and circumstances for most forms of shrinkage, offers retail store owners a structured, logical and subsatainable way to begin to deal with their shrinkage problems.
- Store owners to implement perpetual stock takes in stores to ensure balancing of actual “stock on hand” to “POS” system. These counts must be compared to the theoretical stock

quantities and by verifying counts; this is an early warning system. Corrective action and investigation to differences can lead to effective stock management & combat of shrinkage.

- Hot Products list should not be a guess but should be establish through proper stock takes of individual stock keeping units. Products on the Hot Product list should be counted on a weekly basis or even daily basis.
- Any retail organisastion can make substancial investments in systems, technologies and highly creative startegic plans, but without the right people who are properly motivated and trained to use and implement them,they will ultimately fail.
- The use of pre-employment screening for all staff joing the organisastion,to assist with reducing the amount of poor staff coming into business as well as eliminating some previous dishonest staff from entering the business.
- Store Owners can apply Maslow’s theory by providing for the physiological and security needs of their employees.They can include employees ad teams to satisfy their social needs,and they can create working environments where the higher-order needs (esteem and self-actualisation) of their workers can be satisfied.
- At a low upfront cost an using pre-exist infrastucture with the POS system,store owners must concider the implementation of ScanItAll™ (Shoplift checkout vision system), the solution encourages your cashiers to behave more honestly and conscientiously, when they know they're constantly being watched.
- Both large and small companies today are now placing a renewed importance on preventing theft to help improve profitability as they face a competitive environment and rising costs.
- Process failures can be fixed easier and quicker than dealing with other types of shrinkage such as external and internal thieves, primarily because it is often about ensuring that staff throughout the supply chain maintain and observe store procedures and processes. It does not necessarily require significant investment in new technologies-the solutions are often more straight forward in the form of better training, supervision and control.

To help the franchisees decide on the best possible solutions to shrinkage in there stores the researcher suggests the following to store owners:

- Unlike corporate businesses, Franchise owned stores are driven by the store owner/manager and if shrinkage is not a priority for him/her it can become a big problem in his/her business that can result in financial difficulties and finally closure of the business.
- Motivated staff is the key to shrinkage, happy staff is honest staff. Store Owners to look at incentive programs for staff it, doesn’t have to be of monitory value. It can be some time-off, gift voucher or just plain recognition in a staff meeting.
- Motivation is what drives people to behave in certain ways. Herzberg’s theory is that he classifieds salary as a hygiene factor, which will not motivate people. According to his theory, people work to earn salaries, it is part of their job context –they will be extremely dissatisfied if they do not receive salaries. However, if the organization links a monetary reward to performance, such as a merit bonus or promotion, it provides recognition of employee’s performance and it therefore a motivator.
- Store Owners to re-evaluate their staff complement and maybe employ somebody that just does checks on a daily basis on in store procedures. The saving costs on shrinkage will in most instances pay the extra cost of the salary and increase the net bottom line profits.
- In low shrinkage retailers, staff is less likely to steal because the opportunities presented by operational failures are not present.

- Store owners to stay up to date on their shrink management technology investments. Understand what's working for you and what needs to be updated, altered or replaced.
- Store owners to take a strategic view of shrink management. Many retailers respond to the threat of the moment, be it shoplifting or organized retail crime. The smartest companies see shrink management as an inter-related set of business processes, facilitated by smart technology investments. Shrink management should be part of a retailer's most vital business operations from both a planning and deployment standpoint.

9. Conclusion

The study has value for both Franchise store managers/owners (including the franchisor) of the XYC Franchise stores in Western Cape region of South Africa. . The study will surely assist store owners/managers to rethink their approaches to shrinkage and to implement the Shrinkage Road Map and the Loss Prevention Pyramid to assist with identifying and reducing shrinkage in their stores. There is a definite link between shrinkage and store profitability. Shrinkage reduction presents an opportunity for the average XYC Franchise owner to increase their profitability. An effective shrinkage typology needs to recognize that shrinkage is much more than just the theft of stock by external thieves-it is a resolutely complex and interwoven problem that transcends company and departmental boundaries and requires a much more multi-faceted and coordinated approach to its successful management (Beck & Peacock, 2006).

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