

## Features

6/1/2024

# Shrinking Profits

*Bill McCurry*



“1.8% to 6% (yikes) of sales” was Ian Baldwin’s email response to the infamous question, “What’s the shrink in a garden center?” During 40 years as a retail garden consultant, Ian has guided many successful operators and seen some not-so-successful entities disappear.

Asset shrinkage is difficult to identify and control unless the entire company is committed to accuracy and consistency in their business practices. Major garden centers seem to have mastered this, but which came first—their success or their mastering of operational issues?

Ian continued, “I think it’s a mixed bag of traditionalists and a new generation—or just successful growth-making. More fiscally aware owners, who really ‘get it’ about shrink, make it a major focus. I’m pleased to say, among our clients, the newer approach is the norm.”

## Getting on the Same Page

In this three-part series, we’ll define shrink as, “Any time company assets aren’t where they should be, requiring a write-off from profits.” Many retailers only have shrink reflect inventory. For garden centers, disappearing tools, supplies and equipment have a similar financial impact as inventory loss. If your landscape department truck is stolen, the operational impact is greater than losing a flat of pansies.

Generally, shrink comes in three categories:

- Internal theft
- External theft
- Operational failures—Some want to call this “accounting errors.” That’s a misnomer. “Computer errors” and other names hide the fact that both operational systems and follow-through have failed, not necessarily the accounting department.

While some smaller stores believe inventory management is beyond their ability to pay, Epicor’s Business Development Strategist Sam Kirkland said, “A garden center doing \$1 million in sales can afford and benefit from a system. The numbers speak for themselves.”

An industry veteran observed, “If management isn’t committed to making the data solid, consistent and timely, tell them to get a cigar box and QuickBooks. The value of a good data system is to give accurate information for meaningful decisions.”

## Overcoming Operational Failures

GIGO—Garbage In, Garbage Out. Ensure all inputs are accurate and timely.

“We improve accuracy and speed at check-out with double teams,” said Lisa Campbell at Danville Gardens in Danville, Illinois. “More experienced people remotely scan or call out what’s in the cart, while newer people input it into the register. Our employee, Kelley Allison, came up with this concept, telling the customer: ‘You’ve done all the work picking out these beautiful plants. We’ll do the rest of the work and pack all this up to get you out the door faster.’ This makes the customer relax, while accelerating the speed and accuracy of the transaction. If a tag was switched (accidentally or criminally), the team usually spots it because they know the products. They instantly determine if it’s a 4-in. pot or a quart pot so everything is input correctly. We move more people through faster with two double team cash registers than if we had five registers going.”

Sam also suggested positive recognition when employees cause a loss so they’ll continue to report it and reflect it in the data system.

“Everyone will break a pot occasionally—it’s important that broken pot is taken out of the inventory system immediately,” he added.

Have a system for immediate response to potential errors so anyone in the company can raise an alert that’s acted on promptly. The data system is corrected to reality right away and where/how the error occurred is inspected. Then, steps are taken so the problem won’t repeat.

Receiving inventory that isn’t as ordered, over-shipped or poor quality can mean an eventual retailer loss. If you didn’t order it, don’t accept it, unless the price is pennies on the dollar. A vendor error shouldn’t be an eventual loss for you.

“If you see bad product being delivered, don’t let it off the truck. Send it back. Don’t unload it,” seconded Art Parkerson, operator of Lancaster Farms and *GrowerTalks/Green Profit* contributor.

Sure, it’s nice to help a vendor who made an honest mistake, but experience shows good deeds can mean eventual markdowns for the retailer.

## Inspect & Expect

Conduct weekly counts and immediate corrections of critical items on a rotating basis. An advanced system like Epicor’s will give you recommended cycle count dates by category. Or you can make your own by determining unit velocity (speed at which something sells through) and gross margin. These higher value/margin items are the most important categories and the ones to which you should pay the closest attention.

Bobby Lewis, vice president of Meadows Farms Nursery with 17 locations in the Mid-Atlantic, said, “Busy spring season can be an excuse for data shortcuts. Don’t allow it. Unless corrected, those errors will be with you forever.”

If a customer returns product, Bobby added, it must be clearly identified as either:

- 1) Trash—It’s a total loss and won’t go back into inventory.
- 2) Clearance item—Product is totally written off. Any profit is recaptured if/when it’s sold.
- 3) Product—Will go back to the supplier for full credit.
- 4) Return into stock—For resale at full value.

“We prefer accurate barcode scanning over ‘look up’ for the right SKU. There are too many variables when looking

up something,” he said. “Cashiers can feel pressured if they have customers backed up at the register, pressuring them to grab the first viable look-up number.”

## Ignorance Isn't Bliss

Ian was asked if most retailers aren't by nature optimistic and, therefore, ignore the negative topic of shrink.

“Now, all our clients do recognize the critical nature of shrink. Inventory is a key focus of weekly meetings, performance reviews and data sharing,” he said. “The once-a-year physical inventory is mostly for tax purposes, as many now do monthly or weekly for annuals ‘batch’ or cycle counts throughout the season. If they're 365-day retailers, as many of the progressive retailers are today, they inventory continuously, correcting throughout the year.”

There's a myth that insurance will cover all losses. “Mysterious Disappearance” is likely not an insurable loss. Hortica Insurance Sales Director Traci Dooley said, “An insurance claim is assessed on the specific facts of the situation.”

She added if suspected theft is involved, make sure to do the following:

- File a police report immediately.
- Share a copy of the police report, including existing inventory and what was stolen with values.
- Take photos of damage that might've occurred.
- Be thorough in reporting the claim.

“It's critical businesses keep accurate records of their property and everything is accounted for in its insurance policy,” she said. “We recommend speaking with your insurer to help plan shrink or theft prevention strategies.”

Every quarter have someone invest 15 minutes walking through your garden center, taking a continuous video of what they see, emphasizing inventory and physical assets. Photograph the name plates on equipment, showing what it is and serial numbers if available. Save these off-site so, if there's a loss, you'll have proof of what you normally had in inventory and physical assets both recently and over prior periods. A detailed, current asset list should be kept for insurance, property tax and financial statement purposes.

If your entire organization isn't focused on the importance of accurate and timely data, your decision making will be impaired. Bad data equals bad decisions. Act now to improve your organizational data and generate the profits your organization needs and deserves.

## Breaking It Down

How many additional sales are needed to break even after a \$1,000 shrink loss?

Assume Net Profit of 3%—expressed in decimal form as 0.03.

Take the shrink loss (\$1,000) and divide it by your proven, existing net profit ( $\$1,000/0.03 = \$33,333.33$ ).

\$1,000 in shrink loss requires \$33,333 in additional sales to overcome the loss.

That is a staggering amount. The shrink has reduced margin dollars to cover your operating costs. When you sell something, it's not all profit—you have operational and merchandise costs to pay.