ABC, it's as easy as 123

Introduction

Counting is one of the first skills we learn in life. It's crucial in retailing, from the early days of abacus and pen and paper, through to the modern day of counting products to ensure stock file accuracy.

The importance of stock file accuracy will not be lost on anyone reading this article I'm sure. Driving availability, sales, customer satisfaction, efficiency in store, reducing wastage, capturing shrinkage numbers…fundamental to any retailer, selling any product.

How accurate are stock files? Well, studies have shown that stock files tend to run 63% of SKUs inaccurate in grocery stores and 54% of SKUs inaccurate in fashion stores[1]. The knock-on effect of this is clear, the inverse of what you, as a retailer, would want.

Through this article, we'll explore the commonly used methods of counting, some of the pitfalls, and most importantly, some thoughts on how this crucial activity might be improved significantly.

Current counting methodology

Traditional methods of counting are still being used by retailers worldwide. The end results of these methods are illustrated in the numbers noted from studies mentioned above. Essentially they break down as follows:

Reactive gap counting
Usually used in grocery stores, the store personnel see a gap on the shelf, post completing their fill from deliveries. The system will either know that this is a gap, no action required, or the stock file will need correcting. If the system is showing stock, but none is available, then this will generate shrinkage, and reset the stock system to ensure availability over the following days. The frequency of these gap counts seem to be variable, with a view to reducing the labour costs in store. There are pros and cons of this approach.

- **Pros** - it's a fairly robust way of ensuring that product is available.
- **Cons** - the system may already know this product is out of stock, generating unnecessary activity. Additionally, it only improves a small proportion of the overall stock file accuracy.

Planned cyclical counting
Used in both grocery and apparel retailers, this is counting across multiple products, focussed on one or more specific categories or departments. This would be a full count of products available for that category and will usually be completed on a cycle. This enables the retailer to see a current view for that particular product range and reset stock files. This type of counting is often used post events, such as seasonal departments to clear down stock files in grocery stores. As "gaps" are harder to spot in apparel stores, it's also a common method of counting complex and size sensitive products.

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[1] ECR - Report on Inventory Accuracy - 2019 - Prof. Adrian Beck

- **Pros** - it gives the retailer a "line in the sand", stock reset and an understanding of shrinkage on that area of their operation
- **Cons** - as it's only selected departments at a time, it only gives a limited view

Planned RFID counting

Some retailers are fortunate to have invested in RFID across their product range. There are many obvious benefits of adopting RFID, in speed of counting and improvement in accuracy. However, this is cost prohibitive for many retailers, and indeed for many products. Whilst there are some options for grocers, the cost remains too high and margins too low to justify the outlay.

- **Pros** - accuracy, speed of counting, opens a range of use cases
- **Cons** - RFID counting is still only as good as how often you do the count. Also, it's prone to error with RFID bleeding and tags being removed. It's also exceptionally expensive way of solving this problem.

Annual stocktaking

The only way to get a true line in the sand is through a regular (usually annual) stocktake. Many retailers are now using third parties to complete the counts, which we will explore further later. As this would be a full store count, wall to wall, it gives the retailer a true view as to their shrinkage numbers, and a full store reset of the stock file. Stocktakes are also a compliance necessity for auditing purposes.

- **Pros** - True line in the sand, no ambiguity that comes with the other methods available
- **Cons** - time consuming and expensive

What are the key results of studies on stock file accuracy?

There have been a number of studies conducted on stock file/inventory accuracy. The most recent, and arguably the most thorough was completed in 2019 by the ECR Group through Cardiff and Emlyon Business Schools[2]. This study used significant amounts of data from multiple retailers across Europe.

This study found some significant inaccuracy in grocery retailers, on average, 60% of SKUs were affected by inaccuracies. These were with a magnitude of +6.6 and -6.0 units for both positive and negative discrepancies. Even retailers with highly accurate files already, can significantly benefit from truing up their inventory accuracy. Grocery inaccuracies were around 63% of SKUs, and in apparel 54%.

Another interesting observation by the authors was the speed at which stock file accuracy declines. It takes very little time for availability to be affected by inaccuracy, with the knock-on effect being felt most in sales.

[2] ECR - Report on Inventory Accuracy - 2019 - Prof. Adrian Beck

The other clear findings in the study were that there are variations in the accuracy by product type. There are many factors that generate those differences, inaccurate deliveries, theft, low cycle counting and so on. The speed of sale of certain products also impacts on accuracy.

What is the impact of inaccurate stock files on retailers?

Fundamentally retailing consists of selling as much as possible, losing as little as possible, and doing this in the most cost-effective way possible! The accuracy of the inventory is crucial to the success of this formula. Naturally, everything about a retailer's forecasting process relies on the inventory accuracy. Most retailers have now moved to automated ordering, using a combination of factors to estimate the demand in each store. However, with this level of inaccuracy, this will cause over or under ordering a large proportion of the time.

Selling

"You can't sell fresh air" is a commonly used term in retailing. If the products that customers want aren't there, they will go elsewhere. This doesn't just mean a missed sale that day of course, the longer-term impact on trust from customers is well researched and documented. The Harvard business review[3] states that it costs between 5 and 25 times more to obtain new customers than retaining existing customers. In addition, the study by the ECR group states that a retailer can expect a staggering 4% - 8% increase in sales by having an accurate inventory.

Loss

Visibility of loss is crucial to acting upon and solving the issues that generate them. The sooner that visibility occurs, the more likely it is that the cause of the loss will be identified. Equally, the counting regimes in retailers allow the Loss Prevention teams an ad hoc view of what is happening. However, there really is only one way of accurately getting visibility of loss, when the stock takes happen. Ideally all stores should be counted at the same time to get full visibility. This rarely happens in reality but is achievable with the right tools as we will explore later.

Wastage in grocery retailers is a huge problem, with markdowns running between 2-6% of sales. Additionally, this contributes to the staggering statistic that 40% of the world's food goes uneaten[4]. The environmental impact of that food going to waste is enormous and inventory accuracy has a major role to play. Naturally, retailers are more cautious about a lack of availability, rather than an oversupply, as it is perceived that the consequences of having poor availability are greater than the

[3] Harvard Business Review - Amy Gallow
[4] 40 Percent - United Nations study - 2021

risk of wastage. In reality, an accurate inventory, alongside a best in class forecasting tool and a slick supply chain, can avoid wastage. It all starts with accurate inventory.

Costs
With counting being a key activity for retailers, significant costs are incurred in completing this activity. Additionally, many retailers use third party counting companies to complete their counts for them. There are a few reasons for this; operational challenges of taking people from the day operation, a perceived improvement in accuracy, and the ability to have flexibility. Ultimately, retailers are looking for the "holy grail" of keeping costs low and maintaining an accurate stock file. Avoiding disruption is also a key requirement to consider.

How do stock files get inaccurate in the first place?

There are a number of internal and external influences that generate a stock file inaccuracy. To name a few of the reasons:

- **Poor checking inbound** - Supplier losses are a common problem, as indeed are over deliveries. Error rates run between 0.11% and as high as 0.6% of volume distributed. If this is not identified and dealt with correctly at goods receipt in the depot, this inaccuracy will likely flow through to the store estate.
- **Inaccurate deliveries to stores** - most retailers continue to use manual picking methods in depots, as automation is expensive. Additionally, product is rarely checked in to the stores now for cost saving purposes. As a result, errors will happen which will be felt by the store and make their stock file inaccurate. Additionally, as this is bulk product, rather than single units, the impact is greater.
- **Theft** - an estimated £10bn of shrinkage in the UK with over 1,000 incidents of theft per day will all have a significant impact on stock file accuracy. Retailers are spending around £3bn per year on Loss Prevention techniques to try and thwart this trend.
- **Mis-scanning** - with the rise of self-payment options in retailers, there are multiple points of risk when it comes to products not being scanned correctly. Either deliberately or inadvertently, the impact is the same to inventory accuracy. Equally, sweet hearting (a member of staff deliberately operating with a customer to defraud) and mistakes can happen at manned tills.

With all the above challenges, it's not difficult to see how inventories can get inaccurate quickly.

If inventory accuracy is crucial, what can be done to improve it?

In the study mentioned previously, the author states that stock takes are perceived by retailers as a necessary inconvenience. However, based on the above precis, it's clear that they are much more than that. Arguably, the holy grail of counting is to stocktake across the entire estate on the same day or night. This can be completed at strategic times throughout the year. Stocktaking in this way will give retailers several benefits:

- A true line in the sand
- A significant amount of data
- The opportunity to grow sales significantly
- Better customer experience
- An opportunity to fix problems that have been identified

Ideally the retailer would also continue to correct the file in addition to stock taking. The stock take should be seen as proactive, and other counting activity as reactive.

Third party vs internal counting

As has been concluded above, stocktaking is one of the most powerful activities in a retailer's operation. With many retailers now using third party providers to complete their stocktakes, it begs the question why this is the case. The perceived advantages of using a third party to complete stocktaking activities are as follows:

- Flexible resources - ability to turn on and off at will
- Accuracy - as the teams full time job is counting, they must be more accurate
- They use their own technology
- No training required

All of the above perceived benefits are questionable though:

- Flexibility is often not a reality, where third parties have other commitments and often don't have people located in the areas where the retailer requires them. The schedule needs planning well in advance, leaving retailers unable to be reactive when needed. If something goes wrong with the third party, the count might need to be pushed back weeks or months, impacting on the stores ability to trade well.
- Better accuracy is also questionable, as the teams completing the counts, due to the fact they are constantly counting, can become count blind, jaded and unmotivated. The third-party count companies often state over 99% accuracy, but that is usually based on a very

small sample check of specific products, and then applied across all products counted. For example, 1,000,000 single products counted across a store, 10,000 (1%) products checked by management, 100 found to be incorrect = 100 out of 1,000,000 = 99.99% accurate, whereas the truth is that it is 99% accurate in that example. It should be noted that not all third-party companies operate in this way, but many do.

- Training should be required as every retailer is different. These third parties are completing multiple retailers per week, and the reality is that the processes vary depending on the retailers requirements

Once you overlay the significant additional cost of using third parties, the question really becomes, why wouldn't you use your own people to complete this crucial activity?

The alternative is for retailers to use their own teams. However, there is some resistance from retailers to adopt that way of working. Naturally, most of these perceived risks are the converse to the reasons that retailers use third parties.

- We don't trust our people to get the count correct
- We don't have the flexibility to stocktake ourselves
- We don't have enough technology available to count
- We think it will cost more as it might take our staff longer
- We would need to train people to complete the count

Let's take those points individually:

- **Trust** - retailers trust their staff to a high degree, and yet there are questions around the trust to count. It's therefore illogical not to trust their teams to count accurately. Additionally, trusting third parties with access to all areas seems much higher risk, and they need constant supervision, adding cost. Let's cite some examples of where retailers trust their staff already:
    - Ironically, to count product on gap counts and cyclical counting
    - Cash management/handling
    - High value product handling
    - Trusted with their most valuable asset - the customers
    - To keep the store safe for employees and customers
    - To keep the store secure
    - To complete pricing accurately
    - And so on
- **Flexibility** - having as many stock takes as a retailer needs, whenever they need them, and the ability to react quickly to changing priorities is an obvious advantage. Additionally, most staff will live locally, and not require as much notice.

- **Technology availability** - retailers don't want to invest in multiple handheld devices just for stocktaking. What if these devices could be delivered, en masse, to all stores in advance of the count, and then returned afterwards?
- **Costs** - with the significant increase in costs from using a third party, as they often charge by the hour, including travel, plus they need to make profit, these costs add up fast. Using their own people, retailers can expect savings of between 25-50%. This cost saving can be diverted directly into payroll, giving the opportunity to complete more resets of the inventory, or just flow to the bottom line.
- **Training** - counting, as mentioned at the top of this article, is as easy as ABC. With the right software, that is intuitive, easy to use, pre-prepared according to the store layout, it's as simple as scanning a barcode and entering the quantity.

There are some additional benefits of retailers using their own teams as well.

- **Knowledge** - naturally, someone that works in a retail organisation understands the product, understands the layout, understands the importance of the activity. They also understand the complexities such as cross merchandising, shippers, stock in the back of house and so on
- **Less disruption** - 10+ third party personnel turning up to do a count is disruptive to the operation. They often require areas to be labelled in advance, with an entire industry made from the preparation for their arrival, and indeed the clear up afterwards

Therefore, it seems to make a lot more sense for retailers to use their own teams to complete stocktakes, giving them the right tools to do so.

What to do with the data generated by stocktaking

So, the count is completed, the hard bit is done. But what are retailers doing with the output of the huge amount of data this generates? As it stands, most will use this to generate shrinkage results and feel happy that the stock file is more accurate. However, there are swathes of data possibilities from this activity.

Let's explore some of the beneficial ways retailers could use the data during the counting process:

- Realtime access to:
    - inventory status
    - audit completion
    - scanning productivity
    - variance to on-hand stock levels

- Filters:
    - variances selected value within a store
    - audit details for fixture values over a certain amount
    - store details including scanning productivity rates.
- Oversight into every store's inventory preparation and readiness
- Interactive messaging to the stores where needed
- Progress metrics accessible in real-time by store, regional and corporate user

After the count, the data can be used for multiple purposes:

- Performance management of stores in terms of preparedness, speed and accuracy
- Analytics on biggest variances to stock on hand and the reasons why
- Detailed shrink data for probing, up to macro shrink data for identifying loss prevention opportunities
- Movement potential of sales based on inaccuracy moving to accurate
- Cost analytics

Retailers are not short on data! Arguably though, this data impacts the business in multiple ways, and should be used more robustly.

Conclusion

Inventory accuracy is a crucial part of retailing, one that influences many of the core purposes. Customer satisfaction, availability, cost control and data visibility are all improved as a result of having an accurate inventory.

Stocktaking, however frequently, gives the retailers the opportunity to improve these key metrics. Delivering this crucial activity in the most efficient and cost-effective way possible is eminently achievable, but the current methodologies are ineffective, costly, and disruptive.

In our opinion, the best way of tackling this challenge is for retailers to use their own teams, find the right solutions, and wrestle back control of their inventory. It's as easy as A, B and C!

Steve Hewitt - Founder Profitunity

Steve Hewitt is the founder of Profitunity, which exists to drive the profitability of retailers through partnership with solution providers. He also is a co-founder at 40 Percent, driving improvement in retailers sustainability strategy. Previously he worked as Consultant Head of Loss Prevention for Waitrose, Head of Loss Prevention at Morrisons and Head of Loss Prevention at Marks and Spencer. Steve has had a 26 year career in retailing. He has also delivered business cases around industry leading RFID initiatives, and new ways of engaging people in the art of the possible on total loss. Steve's experience in the wider retail arena enables him to have a holistic view on loss and the levers to pull to drive profit in retailers.