


"Shrink" has become the retail industry's nomenclature for when inventory, register tills or bookkeeping accounts don't add up. It's the catchall term that describes loss of product or cash, and that costs retail businesses, including convenience stores, billions of dollars every year.

According to the 2020 National Retail Security Survey (NRSS), the average shrink rate for the entire retail channel hit 1.62% in 2019, with nearly one in five stores reporting rates as high as 3% or more.

There are multiple reasons why a c-store incurs shrink. Of course, theft continues to be the number one culprit, but it's not always from criminals demanding the cash register contents in a classic sense of a robbery. In fact, good-old shoplifting accounts for the largest source of shrinkage —more than one-third of the annual loss, per Shopify.

Unfortunately, employee theft is another major source of shrink. While it's possible workers may pocket items or skim cash from the register drawer when no one is looking, loss is just as likely to occur when they forget or neglect to ring up personal purchases. It also happens when associates give themselves, friends, or family unauthorized discounts. That seemingly generous gesture comes at the expense of the store’s bottom line.

Inventory loss also boosts shrink rates. Certainly, mismanagement of inventory controls can add up, but sometimes the shrink occurs from vendors shortchanging stores. For example, a delivery ends up a few cases shy of what’s invoiced, so the c-store ends up paying more for less.

Plus, not all shrink results from deceit. Administrative and accounting miscalculations dip into profits, too. Then there are just the random losses that can’t be specifically correlated with an action, but somehow the books don’t total up as expected.

## Shoplifting

According to the National Retail Security Survey, a leading cause of shrinkage for a retail business is shoplifting. Customer theft occurs through concealment, altering or swapping price tags, or transfer from one container to another. Customers may also attempt to return stolen goods or imitation designer products to receive cash.

Stealing by shoppers continues to cost retailers billions of dollars every year. According to the NRF survey, the average dollar loss per shoplifting incident has remained unchanged from the previous year as security measures such as cameras and digitized tags that set off alarms continue to combat theft.

## Employee Theft

Internal or employee theft accounts for half of all retail shrinkage. Incidents occur when company workers steal or misappropriate funds or goods. Types of employee theft include fraudulent use of discounts, refunds, and credit cards.

Implementing security measures such as installing cameras throughout the store, as well as procedures for employees to follow when purchasing products and entering and exiting the store can help mitigate theft.

Another place to check is the cash drawer. If the drawer keeps on coming up short, it's helpful for security to review the day's footage to determine if money is being stolen or simply incorrectly counted.

## Administrative Error

Administrative errors can also cause shrinkage. Simple pricing mistakes due to markups or markdowns can cost retailers quite a bit, so it's crucial to have good protections in place, and use simple, easy-to-understand accounting systems and programs.

Poor record keeping and inventory management cause shrinkage. A solid practice of cycle counting your inventory can greatly reduce shrinkage. Many errors in the point-of-sale (POS) system can be uncovered with this practice before the inventory is sold and becomes shrinkage.

## Vendor Fraud

A small percentage of shrink is due to vendor fraud. Retailers report that most vendor fraud occurs when outside vendors come into a store to stock inventory.

For example, convenience store inventories are checked and monitored by the vendor. Whether it's failing to provide as many units as invoiced, or stealing of other products, vendor fraud can cut into a retailer's bottom line.

## Unknown Causes

The smallest and perhaps most frustrating segment of retail shrinkage is due to unknown causes, according to the National Retail Security Survey. Roughly 6% of all losses are not able to be accounted for under any of the other categories.[1]