

Turnover's Impact on Shrinkage in Retail Positions

By Alice Snell, vice president, iLogos Research

HR executives in retail operations commonly believe that the greatest impact of turnover in store positions occurs from training. Certainly training is a source of loss brought about by turnover. Turnover leads directly to having to train someone else for the position; the training that went into the employee who left is an investment that is squandered. If the employee departs before the company reaches the end of the payback period on the initial training, then the company has indeed experienced a loss on the investment.

However, HR executives should pay attention to other ways in which turnover costs the company, outside the standard staffing cost centers of sourcing, training, on- and off-boarding. One area with tremendous impact on the bottom line for retailers is known as shrinkage. Shrinkage is a key concern for retail executives. The potential savings from a reduction in shrinkage dwarfs that of training and other more core HR concerns.

Shrinkage

The term shrinkage refers to the disappearance of inventory. Causes of shrinkage include: shoplifting, employee theft, and vendor fraud. Loss prevention experts estimate that as much as one-half of retail inventory shrinkage is due to employee theft. Estimates of inventory shortage in the U.S. retail industry put the total financial loss at approximately \$30 billion. This means that employee theft is costing the U.S. economy more than \$15 billion annually, making employee theft the greatest form of larceny in America.

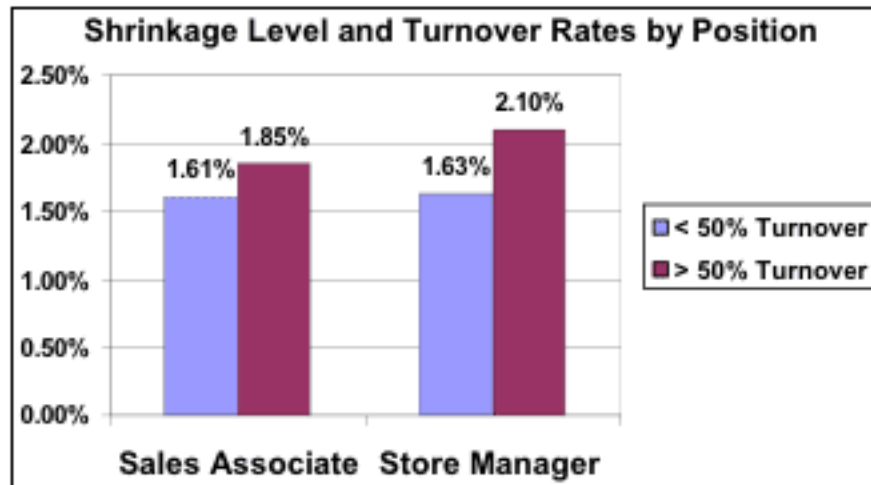
The annual National Retail Security Survey, conducted by researchers at the University of Florida, is the most comprehensive study on shrinkage in the North American retail industry. The most important finding of the study for HR executives is the clear correlation between shrinkage rates and turnover:

- * retailers with low turnover rates experience below-average shrinkage;
- * retailers with high turnover rates experience higher-than-average shrinkage.

According to the 2002 NRSS study, shrinkage rates in retailers where less than half of store managers separate annually averaged 1.63% (calculated as the percentage of sales revenue that the missing inventory represents). By comparison, retailers with a churn rate for store managers' turnover over 50 percent per year experienced significantly higher shrinkage rates at 2.10%. This correlation between turnover and shrinkage also holds true for turnover of sales associate positions. The correlation has been consistently established over the entire ten-year span of the NRSS study. Clearly, store teams that are in constant flux are less vigilant against shoplifting and are more prone to employee theft.

Lower Turnover, Reduce Shrinkage

The NRS study clearly establishes the link or correlation between turnover and shrinkage. The most likely explanation is that turnover and shrinkage are two effects of a common cause. Lack of fit and engagement on the part of employees leads to both turnover and theft in the workplace. HR therefore has a significant role to play in combating shrinkage.



One HR strategy has been the pre-employment integrity screen. The NRS study found the two most popular pre-employment screening measures are verification of past employment history (used by 89% of retailers) and criminal conviction checks (84%). However, as pre-employment checks, these steps are not predictive of future performance on the job; they assess honesty and integrity only coarsely, and do nothing to gauge cultural fit and for engagement. What is needed are validated assessments conducted prior to the hire, in which the assessment measures are linked to success on the job. The NRS study found though, that only one quarter of retailers use assessment tests that measure integrity prior to employment.

Hire Quality Employees

Since turnover and shrinkage share a common cause, the solution must address the root of both, by improving screening and selection of new employees. In the future, more retailers will be addressing turnover and shrinkage by improving the quality of hire with accurate and validated assessments that select for integrity, cultural fit and engagement.

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