

Audit Service Key Indicators: Taking Measure of Shrink Measurement

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Ensuring that shrink measurement and shrink control programs operate at peak levels is an ongoing process. One way to give these initiatives a significant boost is to measure the service provided by your inventory audit team.

"C-store organizations most often measure success by looking only at audit cost and shrink reduction," says Barrett Crook, Quantum Services vice president. "A better approach is to also establish a list of key indicators by which to measure audit services, regardless of whether audits are internal or outsourced."

Here is a list of audit service key indicators that industry leaders have identified as most important. At the end of this list, you can calculate whether YOUR percentage of key indicators signal that you have a problem with your audits and help you identify opportunities for improvement.

1. Re-audits

How often do you perform additional audits at your locations? Are the re-audits a result of questions about the accuracy of the first count?

$$\begin{aligned} & \underline{\hspace{2cm}} && \# \text{ of Re-audits/Period} \\ \div & \underline{\hspace{2cm}} && \# \text{ of Inventory Audits/Period} \\ = & \underline{\hspace{2cm}} && \% \text{ of Re-audits} \end{aligned}$$

Crook notes that if the percentage of re-audits is higher than 5%, it may signal a lack of confidence in — or problem with — your audit team.

2. Inability to Perform Needed Audits

Is your prescribed audit frequency being implemented? How many audits are not being performed?

$$\begin{aligned} & \underline{\hspace{2cm}} && \# \text{ of Audits Not Performed/Period} \\ \div & \underline{\hspace{2cm}} && \# \text{ of Audits Scheduled/Period} \\ = & \underline{\hspace{2cm}} && \% \text{ of Audits Not Performed} \end{aligned}$$

When the prescribed number of audits does not take place, business processes are interrupted and corporate audit mandates are not fulfilled, Crook says. Typically, if more than 1% of your audits are not performed, it may indicate the audit program is in need of improvement.



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Quantum Services

Quantum Services, headquartered in Columbus, Ohio, has performed more than 1,500,000 c-store audits since the firm was founded -- and serves the c-store industry *exclusively*. Quantum's audits and inventories are backed by in-depth knowledge about store level operations to help operators and store managers rapidly improve profits and performance.

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3. Professionalism and Attitude

Professionalism in an auditor includes a focus on accuracy and speed, balanced with a positive, helpful attitude. That is not always easy to achieve. Yet it is important to keep in mind that store manager complaints do not necessarily indicate a problem with an auditor. The store manager simply may not like the outcome of the audit, and blame the auditor. To protect your company from the rare dishonest manager, determine if most of the complaints about an auditor are widespread or come from only a couple managers.

_____ # of Complaints/Period About Audits

÷ _____ # of Inventory Audits/Period

= _____ % of Complaints

4. Time To Conduct Audits

How long should an audit take? While there is no easy answer to that question, it is clear that an audit creates a distraction for store personnel and customers. Quantum Services has found that most of its clients prefer audits to take three to four hours. This provides a good balance between audits that are too quick (the manager feels rushed) and audits that take all day (the manager feels that other tasks are often ignored due to the focus on the audit).

_____ # of Audits/Period That Take Too Long

÷ _____ # of Inventory Audits/Period

= _____ % of Audits That Take Too Long

5. Scheduling Problems

How often were auditors more than 30 minutes late to audit a store? Being in the right place at the right time DOES make a difference to for the successful measurement of shrink. Showing up late, at the wrong store or on the wrong day affects the quality and credibility of audit results.

_____ # of Times Audit Team Was Late

+ _____ # of Times Audit Team Is At Wrong Store

+ _____ # of Times Audit Team Shows Up on Wrong Day

= _____ **Total**

÷ _____ # of Audits Scheduled/Period

= _____ % of Audits With Scheduling Problems

6. Audit Paperwork & Delivery

The job is not done until the paperwork and audit data are complete and delivered to the accounting department.

$$\begin{array}{r} \text{_____} \quad \# \text{ of Times/Period Paperwork Was Late} \\ + \text{_____} \quad \# \text{ of Times Paperwork Is Incomplete} \\ + \text{_____} \quad \# \text{ of Errors on Audit Paperwork} \\ = \text{_____} \quad \textbf{Total} \\ \div \text{_____} \quad \# \text{ of Inventory Audits/Period} \\ = \text{_____} \quad \textbf{\% of Paperwork Problems} \end{array}$$

Accounting departments have their own schedules to keep. A complaint rate higher than 5% for incomplete or late paperwork interrupts business accounting processes. If accounting cannot process the audit, operations has less data to use in making decisions and for taking action.

FINALLY — ADD UP ALL THE PERCENTAGES to determine the total percent of inventory audits with which there are problems.

_____ **GRAND TOTAL**

Now that you have analyzed the problems with your current audit program, it may be helpful to look at two more key indicators of a successful program. Consider the following:

Staff Skills

In today's competitive labor market, the best people want to work in an environment that enables them to continually build their skills. What investment is being made to train and develop the skills of the auditors that service your stores? Quantum Services invests on average \$2075 per auditor, per year in training and developing its auditors' skills.

$$\begin{array}{r} \text{_____} \quad \text{Your Annual Training Investment/Auditor} \\ \div \text{_____} \quad \text{Quantum's Average investment} \\ = \text{_____} \quad \textbf{\% Training Investment Compared to QS} \end{array}$$





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INSIGHTS!

Turnover

It's not easy to keep good people these days, but turnover in the audit staff typically reduces the confidence store managers have in the outcome of audits. If "new faces" are continually showing up to count your stores, your audit program will suffer.

$$\frac{\text{_____} \# \text{ of Auditors w/Less Than 1 Year Experience}}{\div \text{_____} \# \text{ of Inventory Auditors}} = \text{_____} \% \text{ of Auditors w/Less Than 1 Year Experience}$$

You want to ensure that your audit service provides competent staff to conduct audits. *Audit services – both internal and outsourced – that provide career paths and development opportunities for their people are committed to retaining highly skilled personnel.* This benefits stores that would otherwise suffer from inconsistent audits due to constant changes in personnel.

Summing Up

It's not enough to simply make a list of key audit service indicators. You will also want to measure and report on these indicators, regularly, to determine how smooth the audit process is operating, and where changes need to be made. Measurements of the audit program will help ensure that your processes are:

- Efficient
- Cost effective
- Providing a level of confidence that will result in action to reduce shrink.



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Quantum Services

Quantum develops industry **ALERTS!, INSIGHTS!, REPORTS!, TIP SHEETS!** and **TRAINING** materials with the goal of helping operators increase their profits and performance.

Quantum is the largest company of its type in the world providing audit/inventory services *exclusively* for convenience and petroleum stores.

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Thank you.