
Convenience
Store
Decisions Business Ideas for Convenience Retailers

A DONOHUE/MEEHAN PUBLICATION Published Exclusively for Buyers, Directors, Field Managers, Owners and Executives

Security Measures

**THESE SECURITY STRATEGIES AND TECHNOLOGIES CAN PROTECT
YOUR CUSTOMERS, YOUR EMPLOYEES—AND YOUR BOTTOM LINE.**

By David Scopinich, Contributing Editor

Have you stopped lately to consider the far-reaching impact that security and safety have on your business? If you don't provide a safe and secure shopping environment for your customers they may never set foot inside your stores. The same is true for employees; if they feel at risk, they won't come work for you. By protecting customers and employees, you protect yourself—and your bottom line.

Part of your first-line defense against theft and shrink is the inventory audit. For the vast majority of retailers, the question isn't whether to do audits—any retailer serious about protecting inventory investment will do them—but *how* to do them. Like so many other industries, convenience retailing is moving in the direction of outsourcing. Allowing outside audit experts to perform this function frees retailers to concentrate on their competencies: marketing and merchandising.

Phil Freeman, vice president/controller at Sheetz, Inc., says finding an outside company to handle inventory audits is more than just looking at price. "It's about finding someone with whom you can create a sense of partnership. It's the ability to go beyond the traditional vendor-buyer relationship," he says.

Sheetz has outsourced store inventory audits since the early 1980s. "There comes a time in any company's growth cycle when you simply realize you have no business performing that particular task. Audits aren't what our business is about. We are in the customer service business, so we rely on outside audit specialists," Freeman says. "A good outside auditor must have high expertise in technology, a solid understanding of the c-store business—and be an expert at auditing."

Those who favor in-house audits say that strategy affords them greater control. Tosco's Circle K group, at 2,350 stores, is probably the largest c-store organization with an internal audit program. Tom Ott, director of store support services, says outside auditors are good if you only want to count merchandise.



*Bill Sjoblom,
Quantum Services*

Find Your
\$ REAL \$
Audit Costs
WORKSHEET INSIDE!

...continued

... C-stores' top brass are often tempted to pluck talented auditors out of their audit positions and turn them into supervisors. That dilutes the audit talent pool, and audit results suffer.

Judge for yourself: Do you really know your internal audit costs?

Retailers typically overlook several cost areas when evaluating internal audit programs. This worksheet can help retailers understand the true cost of their audit program and assess whether the ROI justifies the cost.

Note: The "sample" figures are industry averages for common cost categories. Provide your own figures to complete this do-it-yourself analysis.

"Using internal auditors leads to higher unit and overall operational efficiency," he says, "because they provide added observations and recommendations that contribute to many areas of the business."

"Cost is also a factor," he adds; when a retailer asks an outside firm to perform extra services, such as cash counts, an added per-store fee is charged. "While we probably pay our auditors a little more than other organizations, the investment pays for itself," Ott explains. "In addition to the store count and review of procedures, the counts they provide give us an independent look at what consumers think and how our stores are doing, without asking the store manager."

Critics of internal audit programs say auditors are increasingly saddled with time-consuming accounting and paperwork tasks as c-stores strive to do more with less. On its face, the argument makes sense; leverage the skills of talented personnel, especially in supervisory roles where the number of stores being overseen has jumped from four to five to 15 or 20.

"I can't agree with that," says one industry veteran who does not want his name or company linked to the audit debate. "Now it's suddenly everybody's job to check everything, and everybody knows it. There is less accountability because the job isn't done as well."

Outsourcing proponents say there's an easy way around that problem: If you have a bad audit, you simply don't pay.

Another issue: C-stores' top brass are often tempted to pluck talented auditors out of their audit positions and turn them into supervisors. That dilutes the audit talent pool, and audit results suffer.

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Judge for yourself: Do you really know your internal audit costs?

Sample Internal Audit Assumptions

10 internal auditors average \$41,600 in salary per year
(\$800.00 per week)

Program Administ./Coordinator/Audit Manager/Asst. Controller
Salary: \$75,000

Completed 2,400 audits last year (avg 200/month)

Each internal auditor has a company car or paid mileage
@ 31 cents/mile

Benefits are 35 % of payroll

Sample Internal Audit Costs

Payroll

10 full time auditors (\$41,600 x 10)

Program Administ./Coordinator/Audit Manager/Asst. Controller
Salary: \$75,000

Sample Annual Cost \$491,000

Benefits

35 % of payroll

FICA	Unemployment insurance
Health insurance	Sick days
Vacation days	401K or pension contribution
Life insurance	Disability insurance
Medicare insurance	Workers compensation

Sample Annual Cost \$171,850

Travel and Related Expenses

Lodging, meals, etc./Avg of \$10/audit: \$24,000

If company cars are provided: 10 company cars
@ \$300/month lease or depreciation \$36,000

Fuel avg. \$75/week per vehicle: \$39,000

Insurance/maintenance avg \$1,000/year per vehicle: \$10,000

If company cars are NOT provided:
(If no company cars, pay 31cents/mile per vehicle)

Sample Annual Cost \$106,000 *

(* includes use of company cars)

Other Expense

Additional expenses averaging 5% of payroll

Equipment	General Training
Supplies	Overhead
Training To Keep Up With Technology	

Sample Annual Cost \$24,550

Finally, you are ready to quickly tabulate your company's annual cost per audit. Simply divide your Total Annual Internal Audit Cost by the average number of audits your organization conducts each year (refer to your company's Audit Assumptions on Page 1).

\$794,000 | 2400 audits/year = \$330.83/audit

Your Company Internal Audit Assumptions

___ internal auditors average \$ ___/in salary per year
(\$ ___ per week)

Program Administ./Coordinator/Audit Manager/Asst. Controller
Salary: \$ _____

Completed ___ audits last year (avg. ___/month)

___ internal auditors have company cars or paid mileage
@ ___ cents/mile

Benefits are ___% of payroll

Your Company Costs

Your Payroll

___ full time auditors (\$ ___ x ___)

Program Administ./Coordinator/Audit Manager/Asst. Controller
Salary: \$ _____

YOUR Annual Cost \$ _____

Your Benefits

___ % of payroll \$ _____

FICA	Unemployment insurance
Health insurance	Sick days
Vacation days	401K or pension contribution
Life insurance	Disability insurance
Medicare insurance	Workers compensation

YOUR Annual Cost \$ _____

Your Travel and Related Expenses

Lodging, meals, etc./\$ ___/audit or \$ ___/year

If company cars are provided: ___ company cars
@ \$ ___/month lease or depreciation \$ _____

Fuel avg. \$ ___/week per vehicle: \$ _____

Insurance/maintenance avg. \$ ___/year per vehicle: \$ _____

If company cars are NOT provided:
(If no company cars, pay ___ cents/mile per vehicle)

YOUR Annual Cost \$ _____

Your Other Expense

Additional expenses averaging 10 % of payroll

Equipment	General Training
Supplies	Overhead
Training to Keep Up With Technology	

YOUR Annual Cost \$ _____

Sample Cost Per Internal Audit =

YOUR Total Cost Per Internal Audit =

Dick Scofield spent more than 20 years in operations and auditing at SuperAmerica. He cites the incredible cost and accountability concerns stemming from internal inventory audits.

“When your business grows, the cost of keeping an internal audit function grows exponentially. Plus, the risk factors are huge, because many companies don’t take into consideration the liability issues regarding safety and travel of auditors,” he says. “It boils down to one thing. Most

“We bring a sense of partnership to the relationship. Anyone considering outsourcing should expect more than just item counts.”

—Bill Sjoblom, Quantum Services

people will agree there is absolutely no cost benefit to building a hierarchy of auditors in-house. When you are trying to account for every single cent, you are trading dollars for pennies.”

Ott says his group hasn’t suffered from turnover. “More than 40% of our audit staff has been with me since 1987,” he says.

“Having auditors that get to know stores, get to know their issues, is a help. The value an internal auditor brings is much more than just counting

merchandise. While they are on-site, your auditors can conduct customer surveys, monitor staff customer service capabilities, check on service consistency and perform cash and lottery counts. Since there’s no incremental increase in labor cost, why not have them do those extra things as well?”

Anyone evaluating internal vs. outsourced audits should develop a plan that clearly outlines the objectives, Ott adds. “Define what your expectations and auditor responsibilities should be,” he says. “If you just want them to count merchandise, I’d go outside for shrink control. But if you are doing anything with cash, lottery, gas sales, etc., you should look closely at an internal audit program.

“Most important, if you decide to go internal, make sure you have a corporate reporting structure where the outcome of audits cannot be dictated,” Ott says. “Your structure should not impede accurate reporting” due to the potential for collision between auditors and supervisors.

Bill Sjoblom, vice president of a leading c-store shrink control and audit service provider [Quantum Services], agrees that outside audit providers should offer more than just straight counts.

“Our balanced approach has always been to go beyond the audit and give store management our observations about cleanliness, signage, customer service and the situation in the backroom, as well as positive and negative trends we spot. We bring a sense of partnership to the relationship. Anyone considering outsourcing should expect more than just item counts.”

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