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# Value of Item-Level Hybrid Audits

Over the past 20 years, there has been progress toward item-level scan audits, in which every SKU in the convenience store is scanned as a unique auditable item. Our experience indicates about 70% of c-store operators have not chosen to implement full-store item-level scanned inventory audits. They rely on the industry standard of financial audits, which count categories of products (such as “soda”) rather than very specific individual items (Diet Coke vs. Cherry Coke vs. Coke Classic, etc).

Today, operators of convenience chains large and small have other options beyond a financial audit—without having to implement a full-store item-level scanned inventory audit program.

In this column I will describe two “hybrid” audit models and their benefits, which go beyond accurate audits to include supporting flexible pricing of products, greater accuracy and cost control. Let’s start with today’s reality in merchandising, especially as it relates to the benefits of flexible pricing.

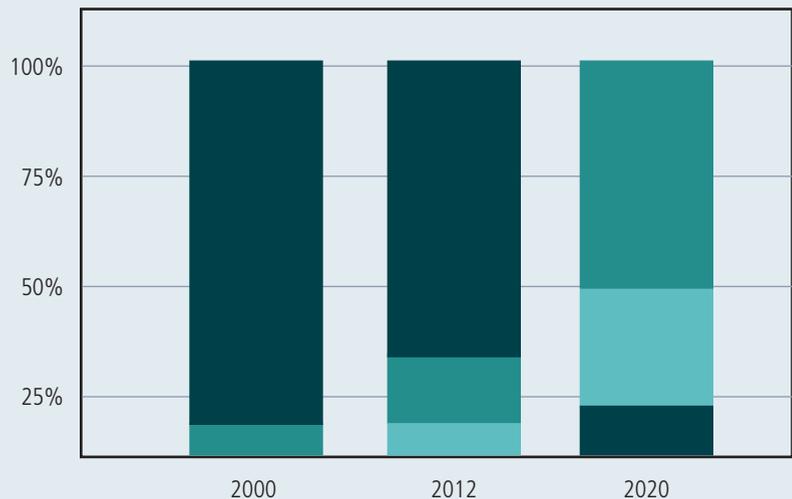
## Pricing Flexibility

Innovation is a hallmark of the c-store industry. Technology has come a long way in the past two decades, which has made it possible for product pricing to become more dynamic and more complicated.

With flexible, on-demand pricing, operators have the ability for any store to have different pricing models—such as raising the price of soda when it gets hotter in one town, and the price of coffee when it gets colder in another. This individualized approach enables a level of

## Changes in Audits on the Horizon

● Financial audit ● Item-level audit ● FIL and FAPA audits



Source: Quantum Services

customization that can create significant advantages. Indeed, for some chains, the price of beer, cigarettes, other tobacco products, soft drinks/package beverages and dairy products are different in almost every store.

Some chains are not only optimizing prices store-by-store; interest is also growing for day-part pricing within any given store. Just as with gasoline, with its complex pricing structure and the ability to change prices quickly based on market conditions and local factors, in the next few years you will see other key products in the store migrating toward flexible, on-demand pricing as well.

## Unintended Consequences

Pricing flexibility can result in expensive

unintended consequences. For example, many stores don’t place prices directly on their products, don’t have up-to-date shelf price labels, or do not display the “auditing” price required for an inventory audit. For example, a 12-pack of beer might have three prices visible to the customer: a regular price of \$10.49 on the 12-pack, a promotional/sale price of \$9.99, and possibly an outdated shelf label listed at \$10.29. But the actual “auditing” price, which is not physically listed anywhere but in the store’s back-office system, is \$11.79.

That is an unintended consequence of pricing flexibility and/or of rapid pricing changes. The ripple effects of such pricing flexibility can include upset customers and a nightmare of an audit. Yet

having on-demand pricing flexibility on key products is valuable for optimizing profits, attracting consumers and moving inventory. So the solution is not to avoid on-demand pricing changes, but to use audit approaches that counteract the unintended consequences.

Item-level scan audits (ILSA) can help with some of the unintended consequences, but ILSA can be an expensive, complex and time-consuming endeavor to implement and maintain, which is a big part of the reason why about 70% of operators don't have it.

### Options for C-Store Operators

There are two main options available that could be considered hybrids of financial and item-level scan audits. We refer to them as FAPA and FIL. FAPA stands for financial audit with pricebook accuracy. FIL is financial (audit) with item-level features. FAPA and FIL are audit options, which combine some features of item-level scan detail and help avoid the unintended consequences of on-demand, flexible pricing.

► **FAPA (financial audit with pricebook accuracy):** This type of audit is about price assurance. FAPA enables you to price check any product in the store to navigate the complexities of flexible pricing—and assure accuracy. In other words, FAPA ensures you get the price right. FAPA is a good solution for operators who want scan-quality pricebook accuracy on selected items but don't need an item-level scan audit for all products in the store.

► **FIL (financial audit with item-level features):** This type of audit is about price assurance and about achieving departmental integrity. With FIL, what counts is the correct quantity at the right price. One key benefit of FIL is that

you eliminate one of the root causes of bouncing audits among departments because the price file dictates the product prices and the products are readily sorted into the right categories. It's simple, easy and reliable.

Both FAPA and FIL audits use UPC, price and packaging data from the stores' pricebook in the audit process. Most back-office vendors already can provide this information, and auditors need to have the skill set to work both in financial and scan audit environments. In most cases, this is a turnkey solution that uses technology already available in the store's back-office system.

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### Numerous Benefits

To recap, FAPA and FIL are about price assurance and departmental integrity without setting up full-store, item-level scan audits. The hybrid nature of FAPA and FIL make it possible for operators to gain advantages of pricing flexibility without implementing item-level scan audits or suffering the unintended consequences that accompany frequent pricing changes.

Other benefits of FAPA and FIL:

► More visibility, and therefore more control, over high-value items.

► The ability to leverage your existing back-office software and hardware because most systems are compatible with FAPA- and FIL-type options.

► Making better decisions about inventory. You can rely on the results of the audit (no bounces) and "see" what is

actually going on.

► Audits take less time than a complete item-level scan audit. That means you get solid accuracy in less time and at less cost. And, of course, that means more potential for profit.

► You can select items or departments—no need to item-level scan all the categories in the entire store.

► Merchandising insight: a FIL-type audit validates gross-margin opportunities with granular detail by department.

► Being good steppingstones on the way to full item-level audits.

With FAPA- and FIL-type options, you get high accuracy, price assurance and departmental integrity on the key products and categories through "action-based reporting." In other words, you get numerous benefits of a full-store, item-level scan audit. And you can set up FAPA and FIL to report on the important things—those on which you and your store managers should take action. You get to stay focused on the important things without the nagging feeling that you might be missing something crucial.

### Low-Cost, High-Quality Pathway

FAPA and FIL audits can play a role in reducing audit costs in contrast to item-level scan audits, which are more costly. As such, FAPA- and FIL-type audits can level the playing field for the benefit of chains that are not moving to item-level scan audits of every product in their stores. A full-store, item-level scan audit can be 50% to 100% more money than a financial audit. In contrast, FAPA and FIL usually cost only about 20% to 35% more than a financial audit.

We predict that by 2020, audits such as FAPA and FIL will grow greatly in popularity because the numbers, benefits and ease of use just make sense. ■