



15<sup>th</sup> Annual Customer Forum  
Discussion Group Notes (10/12/11)

## Participants

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Aeropostale – Matt Christenson	Anna's Linens – Neil Watanabe
Dollar General – Mary Alice Kirby	JCPenney – Cindy Morris
Lowe's – Ken Karabatsos	Lowe's – Allen Troutman
PetSmart – Richard Carlisle	Safeway – Keith Barr
Safeway – Gregg Maxwell	Safeway – Joe Vaiente
Sears – Ron Bigelow	Shopko – Al Mueller
Target – Bill Connell	Target – Erin Rother
The Home Depot – Ari Levine	Tractor Supply Company – Eric Hastings
Walmart – Mari Anne King	Walmart – Shawn Venable
Walmart – Lance Leslie	

## AI Voels | Presentation – 2012 Trends in Inventory Auditing

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### Industry Trends Impacting Inventory Accounting & Shrink Accuracy

- Accuracy and insight into the business
  - Alignment of operational and financial reporting increasingly important
  - Retailers report inventory using a variety of accounting methods
  - Unexplained variances linked to method of accounting, inconsistent application of cost, application of vendor funds, and shrink
- Physical Inventory
  - Inventory taken less often to drive down costs. Retailers often have to take their best employees off the floor to count. It can take 3-4 days for the store to get back to normal
- Tracking Inventory
- Retailers changing accounting method from Retail to Cost
  - Astronomical cost
  - Using it to support operational systems or to drive financial systems
    - Challenges – requires new system, requires focus on item-level accuracy across the organization
    - 90% of companies moving to cost
    - Difficult conversion, some companies are doing a hybrid



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- Why some are still using Retail method?
  - Cost, challenges related to variable weight items, multiple vendors, production items
  - Identifying qualification and remediation of shrink
  - Potential impact on IFRS

## Gabe Mazzarolo | Presentation

### Electronic Auditing & Benefits of Paperless Procedures

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#### Best Practices to Enhance Audit Productivity

- Improve Consistency
  - Tracks when something is scanned/counted
  - Will show different tags on shelves
  - Helps with certain items with different locations throughout the store (i.e., batteries)
  - Real-time data
- Minimize the impact of interpretation
  - Eliminate data re-entry
  - Audit what was counted and the order in which it was counted
  - Ability to edit while auditing, catch mistakes faster
- Increase Operational Effectiveness
- Generate action items automatically
- Clearly define responsibilities
- Ensure clear communication maintained

## AI Voels | Facilitator – Break-Out Sessions

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- 1) Inventory Accuracy & Shrink
- 2) Accounting Methods: Cost vs Retail
- 3) Post Inventory & Reporting Processes
  - **Inventory Accuracy Leading Practices**
    - **Establish Accountability**
    - **Establish Written Procedures**
    - **Frequency and Completeness of Counts**
    - **Measuring Prep**
    - **Reporting**



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### Master File data and Data set-up

- How to set up master files and how to transmit it?
- How are stores looking at it?
- Using outside organizations to keep that organized.

### Shrink Reporting

- The more precise the reporting, the more everyone will know what is happening.
- There is a need for a systematic approach to shrink reporting; definition of cost can impact it.
- Need to address your current valuation method, frame the issue, and set priorities. Back office people may not realize how it impacts them.
- Getting leadership behind shrink is hard because it costs money. They want it fixed but don't want to spend the money.
- **Who is responsible?**
  - The person reporting shrink is usually in a different area of the company than the inventory process. Very rarely is the right person doing both.
  - It helps having an outside company do the whole process.
- Making adjustments to inventory can result in LP initiatives.
- Turning stores to improve results. Everyone reviews results differently.
- Try to minimize items going negative and generic SKUs.
- Automate forms dealing with inventory. Some companies are working on programs to force acknowledgement at store receipt by bringing in truck receipts, making them more automated. Most people use automated receiving process.

**Examples:** Walmart: Retail value set at base prices. Mark-down is taken at the register.  
Sears: Stores are required to change prices when representative from the state is there in WI and MI.



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## Al Voels | Presentation

### Learning about Inventory from ERP Implementations

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- **ERP Challenges**
  - Cost
  - Data Governance
  - Hard to Customize
  - Can't use "right out of the box"
- **Financial Considerations**
  - Walmart is hybrid. Formed a team with people from many different departments to make decisions (mostly financial-led). Made a proposal and presented it to leadership to see if it would work. Tried to customize SAP so much it "broke." Mari Anne believes we have to change the mind-set of "this is the way we've always done it." The reality is we are constantly changing.
  - Target formed a team that analyzes each business. Accenture leading them through conversion in Canada. Important to have communication between Finance and IT.
  - AI- the merchandising department is the least utilized but very important. Emphasized the importance to find right people.
- **Process Considerations**
  - Identify what can be done differently and what you can stop doing
- **System Considerations**
  - If IT has many problems, that is a huge red flag.

## Al Voels & Ron Bigelow (Sears) Discussion

### Inventory Process, Accuracy & Shrink

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- Sears conducts inventory once a year. Experiencing an increase in shrink. Focusing on operations, inventory reports, and expenses.
- Using a combination of in-house and outside services. They are trying to outsource everything but integration is a big concern. They found the more freedom the stores had to manipulate the data, the worse the reporting was. Had a significant case-pack over-ordering issue.
- **Recommendation:** Have a shrink committee



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#### **Al Voels & Ron Bigelow (Sears) Discussion Inventory Process, Accuracy & Shrink (con't)**

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- Determined that they need to come up with an action plan at the store level. Involving everyone to think what is best for the company, not just each department. Figure out how to do a lot more with a lot less.
- Some organizations are using district operations managers, focused on asset protection
- Sears is giving their DMs exception based reporting technology so they can focus on shrink in stores.

#### **Todd Henry | Presentation Beyond e-Audit**

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- We are transparent to decrease anxiety
- Terminal can communicate with the counter
- Store manager mode on 750 allows them visibility with questions they have for WIS, as well as visibility as to what their team is doing. They can audit on their own, track counter progress, and send text messages to the counters
- Allows for online connectivity between stores doing inventory
- Camera functionality. Photo will correspond to WIS tag number.

#### **Al Voels & Mari Anne King (Walmart) Discussion Cost vs. Retail Accounting Methods**

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- Walmart was using a hybrid method before going to SAP
- How to improve pharmacy inventory process
  - Exact cost
  - Takes into account halves and wholes
  - Some pharmacies conduct inventory by weighing
  - Walmart accounts for will-call bin also
- Inventory taken at department level at Walmart
- Report by lots and by strategic business unit (grocery, frozen, optical, etc.) and individual departments



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**Al Voels & Mari Anne King (Walmart) Discussion**  
**Cost vs. Retail Accounting Methods (con't)**

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- They cannot see item-level inventory until something goes wrong because they don't carry that level of detail in their general ledger
- Walmart looked at SKU profitability. Dollar amount of inventory they are counting has increased for the past 2 ½ years because the average price point has come down, and there is physically more merchandise in stores because the public likes to have choices, it makes the consumer feel powerful
- Inventory has partnered with asset protection. Their goal is to find a happy medium on merchandise that needs to be locked up
- More pressure to understand profitability and avoid "cherry-picking"
- Consumer electronics department is thinking of ways to allow them to change pricing daily and how to manage that process