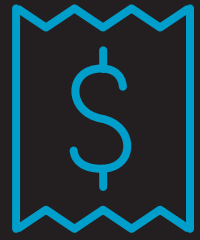# How to Improve Retail Profitability

Five tips you can use to boost audit recoveries,
reduce the cost of claims and prevent future losses

Top Performers Adopt the Right Tools and Techniques

Retail is a high-stakes arena, characterized by large transaction volumes and razor-thin margins. To add to the pressure, market complexities make it all too easy for profit-impacting problems to occur—from missed scan allowances to pricing errors.

One common culprit is poor data capture. A single deal can involve mountains of paper and electronic documents. Information might be keyed incorrectly, misfiled or routed to the wrong person. If there are workflow delays at any point in your process, pertinent details might not be entered into your systems until well after the effective start date of the deal.

Most retailers conduct routine after-the-transaction audits to uncover errors, recover losses and improve their bottom line. But top performers are discovering the best results require breaking free of tradition and adopting the right tools and techniques. Here are five tips that can help you take a new look at your approach to a retail recovery audit and put you on the path to improved profitability. You will be able to recover more, do it faster and more cost-effectively, and make a more significant contribution to your business.

01 Shorten the Audit Cycle by Building Your Own Internal Team

The typical retail audit is rarely completed in the same fiscal year as the transactions being reviewed. As a result, you miss out on significant cash flow you could have captured months earlier to benefit your business.

If you build your own internal audit team, though, you have the potential to dramatically shorten the cycle time between transactions and first audit by reviewing disbursement data monthly.

Creating your own team may seem like a daunting task, but you don't have to conquer the world all at once. Think of the process as a journey, not an event. Start small and build your expertise over time, creating the knowledge base and procedures you need to uncover errors, file claims and track recoveries. Consider selecting a single claim type to be audited and then expand gradually as your competency grows.

What results can you expect? Experience shows that even during their first year, most companies launching their own internal audit capability will capture at least half of all potential claims—significantly reducing the fees paid to primary and secondary external audit teams. In subsequent years as your experience grows, you may find that your internal capture rate is significantly higher.

In addition to the obvious financial benefits to your business, reducing your audit cycle can also benefit relationships with your suppliers. By uncovering errors closer to the time of the transaction, you will be more likely to present claims within the same fiscal period—not years after a supplier's books are closed. That means you are minimizing the impact on their bottom line while building yours.

02 Pack a Technology Punch

You can make an even broader impact on your audit cycle—and your results—by providing your internal audit team with the right technology. One of the most useful solutions is purpose-built recovery audit software that extracts complex deal information from your various procure-to-pay platforms and data sources.

With software-enabled processes, your auditors have a powerful tool they can use to analyze transactions against your most current deal terms. They can validate exceptions, create claims and quickly capture cash or credits associated with promotional allowances, price protection agreements, rebates, cash discounts, duplicate payments and many other types of transactions. They can even track claims online using automated tools.

Retailers using recovery audit software report dramatic reductions in the time it takes to complete an internal audit review—capturing lost profits much sooner. Most technology adopters are also able to ramp up their internal recovery percentages more quickly, for a more rapid reduction in external audit fees.

Even more important, best-in-class audit software can help you protect against future losses. As you complete each new deal, the software translates the contract parameters into complex algorithms— applying the correct terms to all deals covered by the contract. Automated email alerts are triggered when a discrepancy is found so you can quickly intervene before you incur losses.
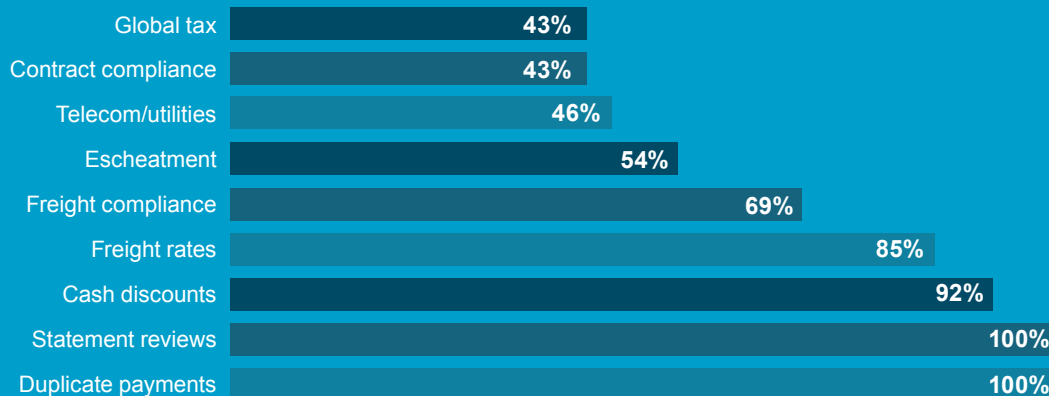
03 Expand Your Recovery Types

If your retail business is like most, you face a dizzying array of complex new promotions, allowances and merchandise types that are rightly your first priority for a recovery audit. But merchandise transactions are not the only source of potential errors and recoveries. Costly mistakes can also be associated with goods and services purchased as an expense and not intended for resale. In addition, new claim types can bubble up quickly and need to be monitored and captured.

To make certain you're not leaving money on the table, follow the lead of companies performing at the top of their game. Look for recoveries across a broad range of spend types and categories, including contract compliance, freight, taxes and more.

Top Retailers Are Broadening Their Audit Coverage

Category	Percentage
Global tax	43%
Contract compliance	43%
Telecom/utilities	46%
Escheatment	54%
Freight compliance	69%
Freight rates	85%
Cash discounts	92%
Statement reviews	100%
Duplicate payments	100%

Source: apexanalytix Compass™ Benchmarking Survey.

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04 Dig Deep to Fuel Continuous Improvement

Focusing on the root causes of claims can help you reduce future losses and protect profits. Here's another place where audit software can help. Sophisticated analytics quickly generate the reports you need to see patterns and inconsistencies, determine what went wrong and understand why. You'll be poised to make important course corrections and to shore up your internal controls—before troublesome problems escalate.

Top performers often formalize this backend analysis with a two-step process for continuous improvement. They use retail audit software to assist in identifying problem areas, and then turn to Lean Six Sigma quality techniques to zero in systematically on the issues they uncover.

Lean Six Sigma phases

- DEFINE
- MEASURE
- ANALYZE
- IMPROVE
- CONTROL

05 Benchmark Against Your Peers

To support your path to continuous improvement and make faster and larger recoveries, it's important to benchmark your performance to see how you stack up against your peers in the retail industry. It's a great way to determine where you might be lagging behind and need to focus your attention. Common metrics include:

- Cost per recovery
- Recoveries per day by each full-time employee or equivalent
- Your internal catch rate
- How soon after the transaction the audit is performed
- The length of time it takes to identify errors and recover losses

With industry-wide performance data as your guidepost, you can decide where to invest for the best return and can measure your progress along the way.

Some Closing Thoughts About the Impact of Technology

Technology is fundamental to many of the profit-boosting tips above. But in case you are still undecided about whether to make the investment, here are three additional benefits you will likely experience when you automate manual audit routines and operate at new levels of productivity.

- **Experience a Rapid ROI.** The payoff from recovery audit software is often fairly immediate. One example: A large retail bookseller achieved an almost immediate return based on claims uncovered during its first technology-driven review of past transactions. The company also has increased its internal catch rates by 80 percent—significantly reducing both primary and secondary audit costs.

- **Ease Tensions with Suppliers.** With the tools you need to pursue claims closer to the transaction date, you'll eliminate the financial pressures and administrative burdens that can come when you ask your valued suppliers to take unexpected deductions long after their books have closed. You'll also have rock-solid documentation to back up your claim, which can turn a potentially tense conversation into a straightforward, fact-based discussion.

80%

increase in internal catch rates by a large retail bookseller

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- **Deliver More Value to Your Business.** With information at your fingertips, you will have a data-driven way to inform strategic decisions and resolve issues productively. The data analyses and reports you produce with audit technology tools can shift the focus from "what are we doing wrong" to "how can we improve our processes now that we know what's going wrong." You will be poised to move your business forward in significant new ways that help to build your bottom line.

Challenge: Business Systems Haven't Kept Pace with Business Needs

In an Aberdeen Group study, nearly half of retailers said their business systems are inadequate to support the new ways they do business. It is clear that the need for investment is paramount.

Inadequate Systems
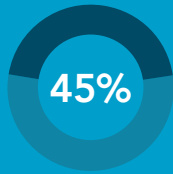
45% Say their current systems are inadequate

Automation Is on the Rise

69% Retailers using custom-built algorithms as part of their post-audit methodology

34% Retailers using data mining

To Find Out More

If you would like to learn more about transforming your retail recovery audit with best practices-based technologies and services, contact apexanalytix at +1 800-284-4522. You may also be interested in our comprehensive portfolio of firststrike® technology solutions, including software for retail audit and for proactive protection against payment errors and fraud. We also offer apexportal® software for supplier registration, discovering suppliers, inquiries, cash discount management and more.

About the Author

Jason Street is VP of Retail Operations at apexanalytix, including both audit services and software implementations. Jason and his team use lean auditing practices and continuous improvement initiatives to ensure they deliver maximum value. Jason joined apexanalytix in 2006 with broad experience in auditing and consulting. He previously owned his own auditing business and spent several years with a large retail audit firm in roles of increasing responsibility. He holds a B.A. degree in accounting from the University of Oklahoma.