

Realtime Supermarket Reporting & Control

“Best Practice” Links Register to General Ledger Accounting

“I want weekly P&L’s,” supermarket executives say. “Manual journal entries open the door to mistakes and fraud,” *CFO Magazine* claims. Two statements — with little in common at first blush — are inexorably related.

Too many grocery chains unwittingly keep an “open door” policy for mistakes and fraud. According to *Grocery Headquarters* magazine, 47% of all shrink slips through this manual entry portal. Worse, the open door is the single greatest obstacle to putting the previous week’s P&L on senior managers’ desks each Monday morning.

Many grocery chains unwittingly have an “open door” policy for mistakes and fraud.

Simply put, sluggish data capture is the villain.

Two key P&L line items, *revenue* and *cost-of-goods*, are typically captured via lengthy, error prone manual and computerized batch processes by legacy systems.

“Converting to ... industry best practice can boost net profit 35% or more.”

Revenue is manually computed from register totals and manually posted — often with intervening manual processes. Cost-of-goods is, at best, indirectly computed from register movement data.

The results? Shrink and fraud. And P&L’s unavailable until long after period close.

Industry “Best Practice Posting” methods reduce discrepancies and shrink. They simultaneously facilitate realtime P&L’s.

Converting from industry “average practice” to “best practice” can boost net profit 35% or more.

The nature of the problem, and opportunities for chains to adopt best practice procedures, can best be viewed by looking at an example 100 store, 900 lane chain with \$1 billion in revenue, \$15 million of net profit, and \$20 million in shrink.

During the course of a year, 3,500 cashiers “put their fingers in” the chain’s revenue figures every time they submit “check-out” totals. During the course of a year, an average of four people in each store are responsible, at one time or other, for “closing out” daily transactions.

Everyone, and no one, is ultimately responsible. Close out reports are faxed to headquarters, where 10 bookkeepers during a year touch the process that turns register totals into journal entries. In all, 410 people monitor and reconcile numbers from 3,500 cashiers.

The process is labor intensive. It is impractical to thoroughly audit. It does not provide timely weekly gross margin reports or P&L’s that senior managers need for informed decision making. And, it is prone to fraud and honest mistakes.

Senior management and accounting personnel hours are chewed-up resolving discrepancies when errors and omissions are large enough to generate management reports that don’t make sense.

A more insidious condition occurs when errors and omissions are too small to be obvious. Shrink accumulates! Operating decisions are based on flawed information.

“... 72,000 hours, worth \$1.5 million, are saved.”

Best practice posting shaves as much as an hour per day from each store “close-out” by automating 95-98% of the transactions. Only *exceptions* are manually posted.

Approximately 72,000 hours, worth \$1.5 million, are saved. Audits are

focused on the remaining 2-5% of the transactions. Shrink is reduced as much as \$4 million.

At headquarters, bookkeepers switch from data entry work to reviewing a relatively small number of manual transactions. With accurate P&L reports available Monday morning for the preceding week's

operation, increases in revenue and margin are driven by improved decision making. A \$5 million increase in margin results in \$5.25 million, or 35%, increase in net income when combined with shrink and clerical savings.

“Best Practice” means realtime accounting and reporting. By automatically capturing *all* revenue and approximately

75% of expense (cost-of-goods), chains are well on the way to realtime reporting.

Managers may access up-to-the-second information at the store, from headquarters, and from home PC's. Available realtime information includes detailed inventory, movement, margin, deal, productivity, order, receivable, payable, and tender data.

Accounts Receivable (“A/R”) house charges and payments are posted as they occur.

Summary totals for sales, cost-of-goods, refunds, taxes, and tender are automatically posted to G/L accounts on schedules specified by management.

Operating statements are available within a few minutes after posting for daily, weekly, monthly, and other periods .

Individual store postings are automatically transmitted to, and consolidated at, headquarters.

Transaction details are permanently stored as a subsidiary audit journal from

which summary postings and reports may be recreated at any time.

The following, example, procedure is scheduled to run automatically, at least once per day. It may be performed at “day-close” or at the end of each shift.

The procedure minimizes human intervention to reduce errors, labor, and fraud. Practical provisions are made for controlling the inevitable exceptions that occur as cashiers log-out, deposits are made, and the day is closed.

The procedure is the interface between operations and accounting. It converts *operational data* used to manage point-of-sale activities into *accounting data* used to manage financial activities.

Example G/L accounts used by the automatic posting process are listed below in **bold italic**. G/L accounts that are frequently used for manual posting are listed in *italic*.

Revenue Accounts

- ▶ **Sales** — total sales and deposits.
- ▶ **Sales Adjustments** — manual adjustments made when reconciling cashier sign-out sheets, making deposits, etc.
- ▶ **Sales Refunds** — all refunds given at point-of-sale: refunds for returned merchandise, markdown on damaged goods, etc.
- ▶ **Recovery Income** — income from collecting “bad check” fees.
- ▶ **Coupon Income** — manufacturer coupon “handling fees.”

The line item “gross sales” on Profit & Loss statements is computed from these revenue accounts.

Automatically Posted Entries		
Transaction	T- Accounts	
	sales receipts	sales
Post sales receipts	30,000.00	30,000.00
Post sales tax	sales receipts	sales tax payable
	600.00	600.00
Post refunds	sales refunds	sales receipts
	700.00	700.00
Post currency	currency	sales receipts
	9,500.00	9,500.00
Post checks	checks	sales receipts
	12,000.00	12,000.00
Post house charges	house charges receivable	sales receipts
	800.00	800.00
Post credit cards	credit cards receivable	sales receipts
	6,000.00	6,000.00
Post debit cards	debit cards receivable	sales receipts
	500.00	500.00
Post EBT receipts	EBT receivable	sales receipts
	400.00	400.00
Post food stamps	food stamps receivable	sales receipts
	300.00	300.00
Post manufacturer coupon receipts	man. coupons receivable	sales receipts
	250.00	250.00
Post house coupon (script) receipts	house coupons	sales receipts
	150.00	150.00
Post deposits	sales	deposits payable
	700.00	700.00
	cost of goods sold	inventory

Figure 1

Typical treatment of common manual transactions is shown in Figure 2. Accounting personnel may modify posting procedures to accommodate different accounting practices.

Operational flexibility is gained by segregating automatically posted transactions from manual postings.

Interim reports may be run immediately after automatic posting, instead of waiting for manual adjusting entries, with insignificant loss of accounting precision.

Manual postings may be entered at either stores or headquarters.

Adjusting entries may be posted prior to automatic posting. Tender reconciliation adjustments may be posted immediately after each shift instead of waiting for a computer “day close” process. Allocations of deposit receipts may be posted during the day as accounting staff complete their analysis. EBT transfer postings may be posted when transfer notifications are received.

Data is electronically transferred from stores to headquarters directly from one G/L to another G/L with tight, traditional accounting controls

A study, by the LogisTech management consulting firm suggests chains can reduce labor

dept	revenue	cost-of-goods	GM %	labor	other direct	store OH	HQ allocation	pretax \$	pretax %
1 meat	31,700	25,700	18.9	1,950	220	5,581	348	(2,100)	(6.6)
2 produce	20,200	13,100	35.1	1,850	340	3,062	191	1,657	8.2
⋮									
41 HBA	8,140	5,398	33.7	447	167	1,204	75	849	10.4
42 breakfast	6,540	5,121	21.7	150	120	1,080	67	2	0.0
total	200,000	150,540	24.7	7,884	1,899	32,107	2,004	5,566	2.8

Figure 4

costs associated with closing and posting sales results more than 40% by switching from average to best practice industry standards.

With reporting held hostage by laggard revenue and cost-of-goods numbers, managers often cope by jury rigging reports focused on one operational area or another.

The “big picture” P&L is typically unavailable Monday morning — when it would do the most good.

Best practice systems, such as MicroNEX’s CRISP, enable CFO’s to deliver reports similar to Figure 3 each Monday. They support a system of reports — with the next “layer down” being departments within stores as shown in Figure 4.

Realtime measurements reduce experimentation risks. Losing promotions and policies can be quickly shut down or modified to limit

losses. Strategy Partners Group finds most chains can add 0.5% to gross margin simply by reacting faster to trends.

Realtime data empowers managers to improve profitability.

Capturing data in *realtime* also enables P&L responsibility to be placed squarely on the shoulders of personnel most able to affect profitability. Store and department managers, as well as corporate buyers, can be held accountable and rewarded for the profitability of their departments.

In summary, realtime data capture has three key benefits.

- ▶ **Losses from fraud and errors are cut.**
- ▶ **“Closing” and accounting costs are reduced.**
- ▶ **Managers are empowered to react to trends as they occur.**

For a comparative analysis of your register to G/L interface — call FMI at (561) 747-9450.

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store	revenue	cost-of-goods	GM %	labor \$	labor %	other direct	HQ allocation	pretax \$	pretax %
1	200,000	150,540	24.7	25,250	12.6	16,640	2,004	5,566	2.8
2	219,000	161,143	26.4	26,334	12.0	18,872	2,149	10,502	4.8
⋮									
99	187,767	142,232	24.3	23,544	12.5	15,856	1,892	4,243	2.3
100	178,961	137,443	23.2	21,656	12.1	14,676	1,810	3,376	1.9
total	20,000,000	15,000,000	25.0	2,400,000	12.0	1,800,000	200,000	600,000	3.0

Figure 3