

While store margins begin with purchasing and pricing, the true opportunity to protect real dollars begins with the receiving process. It is here, with one of the lower paid individuals in your organization, that the asset protection process begins. Because this person is typically a non-management person with no stake in the company, it is extremely important to properly train, provide strict procedures to, and audit this person. By following the practices below, you can help to insure that the product cycle starts off correctly. The problems poor receiving can cause range from shrink, health issues with unmaintained damages, and a slow front end due to items not on file.

The most important factor to effective receiving is a well-organized receiving area. This organization will prevent confusion and insure all product is adequately checked in, credits are received and vendors are monitored. This well defined receiving area can be accomplished using the following techniques:

- 1. Set up two defined areas on the receiving floor.** One defined area will be for the vendor whom you are physically receiving. The second area is a staging area for the next vendor who will be received. All other vendors should wait outside of the store for their appropriate turn at delivery.
 - a.** These areas can even be marked by yellow lines painted on the floor of the receiving area.

- 2. Set receiving hours.** Many times business dictates a wide receiving time. However, a range should be established. The range of hours should be set so that there is a qualified receiver at the back door during those hours. This will insure that proper procedures will be followed when product is received.
 - a.** Note: exceptions will always occur, but should not be the standard. For example, if you are awaiting merchandise on sale and the driver is late, you will probably want to make an exception. However, if you are not in dire need, reject the delivery and set the tone for the driver and the company.

- 4. Damages and other credits:**
 - a.** Assign an area by the receiving door and use old banana boxes or crates for alphabetical separation of vendor's damages and credits. All product that is damaged or requires credits will be neatly separated and containers cleaned if necessary to prevent rodent and other health issues.
 - b.** Before vendors are received, all credits should be verified and counts made to insure proper credit. Credit should be received at full cost and retail and not a reduced cost and retail from the current weeks pricing, if applicable.

5. Proper receiving and counting:

- a. When the product arrives from the vendor, the product count needs to be verified for accuracy.
 - i. Improper Check in: "Hey Joe, I have ten to a layer and 12 trays on the rack."
Receiver, "Ok go ahead."
 - ii. Proper Check in: "Hey Joe, I have ten to a layer and 12 trays on the rack."
Receiver, "Hang on there, let me count what's on each tray and check to be sure that it is the right product and quantity."

6. Rotate receivers:

- a. All of us develop relationships with people over a period of time and we tend to offer favoritism to those we begin to know and trust. Rotation of receivers can identify problem vendors and prevent collusion or fraud.

7. Vendor violation tracking:

- a. Keep a list of each infraction a vendor has; shortages, unauthorized items, etc.
- b. Some companies go as far as fining the vendors for each infraction.
- c. Keep track of those vendors and more specifically those drivers that have violations. Look for patterns, report drivers and request a new route person or threaten fines if the track record continues.
- d. Use this violation list in conjunction with the receiver rotations to discover problem receivers. If receiver "A" never has infractions on a vendor, but receiver "B" always has infractions, you may want to audit receiver "A" from a distance to insure your procedures are being followed.
- e. Camera systems can offer a great tool to watch receivers and insure they follow policy when they do not know someone is watching.

8. AP audits:

- a. Once a year, an AP audit should be performed by a third party. This audit will catch the following:
 - i. Deal pricing front and back loading
 - ii. Varying price by location
 - iii. Credits paid as bills
 - iv. Deals not offered
- b. While you typically give up 50% of the findings, you can use the DSD Audit report to plan and train for the current year to prevent similar findings the next year. This process is a must in order measure the effectiveness of the receiver, buyer, and accounting department.
- c. Each year a goal should be set to reduce the findings by the outside auditor. You will know you are effective when the outside auditors do not want to return because it is unprofitable for them. This is a sign of success.

9. Deal pricing and costs

- a. While a 3rd party DSD audit will identify the issues above in number 8, controls need to be established to insure that vendors are not loading in before or after the deal and costs between stores are valid.

- i. These functions can be accomplished via accounting, operations and the purchasing department.
- ii. Proper pricing files should be maintained in the DSD system.
- iii. Accounts payable clerks should sort invoices by vendor (periodically if another sorting system is used) and look at pricing for the same item between stores. Sometimes different pricing is acceptable due to different distributors. However, if it is the same vendor, the lower cost between stores should be taken in all stores.
- iv. Operations and merchandising can work together to police deliveries. Look at the ad items in advance. Are vendors loading in before the deal period? Have the store managers talk to drivers and let them know that this behavior is unacceptable. If it continues (besides deducting money from the bill) call the regional manager of the distributor and let them know what the route driver is doing. In short, let them know that you are watching.

10. Receiving audit:

- a. Someone who is not directly involved in the process should perform a periodic audit of receivers and vendors. Do not use your alternate receiver or receiving manager. The receiving audit may be found on the FMS web page. It is a simple yes no audit and results should be reviewed for any weaknesses.

11. Security

- a. The back door should be locked during all hours except hours that the door is manned by the receiver. (Please note, if this is an emergency exit, check with your local fire department or building inspector to determine if alarmed panic bars are acceptable.)
- b. The back doors should not be left unlocked for smokers or a cool breeze.
- c. Trash should be removed in clear trash bags (Ideally, a locked compactor would be used with secure access from inside the store.)

SUMMARY

The above are general receiving practices and do not address the additional security required for items such as cigarette and alcohol deliveries. In addition, a review of proper pricing and deal reconciliation is contained in a separate document. The above policies coupled with a periodic operational audit (see FMS web page) and a 3rd party AP audit will insure you are protecting your back door and your store operations and assets.

If you have any comments or would like a more complete on site review and consultation about your business, please contact Robert Graybill (Vice President, FMS) at 410-761-9400 ext. 1203.