Eliminating Cash Shrinkage

A white paper by Ed Grondahl

Eliminating cash shrinkage remains an elusive goal for most store operators. The basic necessity of multiple employees handling cash throughout the day complicates the ability to manage cash. The cash management processes which retailers have employed to date have reduced cash shrinkage, but by no means have eliminated it.

Traditional manual processes provide for higher accountability and safeguards but will never eliminate cash shrinkage due to the inherent shortfalls of manual processes. To overcome these shortfalls, many progressive retailers are moving away from low-tech safes and cash control machines to high-tech cash management systems. These cash management systems include note acceptors and validators, note and coin dispensers, can be programmed into a store's LAN, and will interface with its Point-of-Sale (POS) system at the transaction level.

The analysis of cash shrinkage can identify high risk activities where shrinkage occurs. Through technology these high risk activities may be mitigated. Five of the highest risk areas include:

1. Start-of-shift cash tills that are manually filled by someone other than the cashier – *multiple people are touching the cash*.
2. Vending coins and notes during a shift for till replenishment – *no accountability that the vended money was deposited into the till*.
3. Manual deposit of currency into a safe as the till balance grows beyond allowable levels – *no accountability that the currency was actually deposited*.
4. End-of-shift cash tills that are manually counted – *multiple people are touching the cash*.
5. Manager counting cash in the back office for bank deposit – *this manual balancing is done with no accountability that the cash was or was not actually in the safe*.

Cash controller selection and functionality is critical in addressing these (and other) high risk activities. There are a number of competing cash controllers in the market today, but few can truly be incorporated into a store's POS system. This is important because incorporating cash management into the POS system will allow the user to customize usage and reporting, and enable software updates through the company's network. Electronic updates are very useful in situations such as currency validation. When new notes are issued, currency validators may be updated electronically over the network, thus avoiding costly service calls.

Incorporating a high-tech cash management system that interfaces with the store's POS system provides the basis to address these high risk activities.

1. **Start-of-shift cash tills that are manually filled by someone other than the cashier**

   Filling a cashier's start-of-shift till balance is primarily a manual process of counting notes and coins. A cashier will generally recount the money before the shift starts. For a store with 20 or more cashiers, this manual process typically requires a dedicated person that only counts money.

   The solution to this high risk activity is to use a cash controller that will automatically dispense the proper amount of notes and coins. Each cashier logs onto the cash management system with their Personal Identification Number (PIN) and the system dispenses the appropriate amount of notes and coins for their start-of-shift cash balance. The cash management application also updates the POS with these totals. This auto dispensing capability eliminates all counting, eliminates anyone other than the cashier from touching the money, and can also eliminate the need for money counting personnel.

2. **Vending coins and notes during a shift for till replenishment**

   Cash controllers that are not integrated with the POS system are not able to automatically reconcile money vended with the money in each till.

   Using a cash controller that is integrated with the POS system will automatically reconcile money vended out of the controller and money in the till. Any shrinkage can therefore be tied directly to the specific cashier.

3. **Manual deposit of currency into a safe as the till balance grows beyond allowable levels**

   Removing notes and dropping them into a safe could be considered one of the highest risk activities in the retail environment. This is especially true with multiple cashiers and one safe. It is almost impossible to account for who dropped the notes into the safe.

   Cash controllers with note acceptors that are tied into the POS system eliminate this issue entirely. When till limits are reached, cashiers tell the POS they want to make a deposit into the cash management system. The safe is notified and note acceptors are started. When a bundle of notes is validated and accepted, the cash management system notifies the POS exactly how much was deposited and the POS totals are updated. This process allows for complete accountability of the cash. Further, most note acceptors also function as validators and eliminate the likelihood of accepting counterfeit currency.

   When local government releases new notes, the note validators are updated with new software completely over the network.

4. **End-of-shift cash tills that are manually counted**

   Similar to start-of-shift manual counting - multiple people are involved in counting the money.

   A cash management system with a note acceptor will eliminate the need for double counting and multiple people touching cash. Further, notes are validated upon acceptance into the cash controller and instant reconciliation with the POS system takes place. Coins may either be manually counted (low value/low risk activity) or a coin counter may be used. Technology will be available in the near future that will incorporate a coin counter/sorter with the cash controller, thus eliminating the need to count any notes or coins. This new feature will also allow for the recycling of loose coins directly back into the cash controller.

5. **Manager counting cash in the back office for bank deposit**

   Traditional cash controllers and drop safes require the manager to remove the money from the safe, sort it, count it, and reconcile it with the transaction history.

A cash management system with note validators that are tied into the POS system will eliminate this activity. As bills are accepted into the cash controller they are placed into a currency cassette which can be easily removed by the manager or armored car service and brought directly to the bank. There is no need to touch the cash, as it has already been counted, validated and reconciled with the POS system.

Eliminating cash shrinkage is fully possible today simply by incorporating a cash management system that is integrated into the store's POS system at the transaction level. While these machines are more expensive than traditional cash controllers, they provide for a very quick return on investment by freeing a manager's time and through the elimination of cash shrinkage. With retailers reporting cash shrinkage anywhere from 0.5% - 3.0% of sales annually, all retail operators should include installing an integrated cash controller in their stores as part of their strategic operating plan.

Ed Grondahl is SVP Sales and Marketing for Tidel Engineering, L.P. in Carrollton, Texas. For more information, go to www.tidel.com or email sales@tidel.com. You will find a configurator/survey on the front page which will allow you to configure a cash management system to meet your unique operational needs.