

5.3: Retail Audits

Learning Objectives

- Define a retail audit

Audits are reviews to assess how well store operations meet organizational standards, provide satisfactory shopping experiences, and implement and support priority initiatives.

There are three types of audits you might encounter in retail:

1. Health and Safety Audits
2. Loss Prevention Audits
3. Merchandising Audits

And while each is relevant in a retail environment, we'll focus our discussion on merchandising audits because they're focused on assessment of the broad operations of the store that influence execution and drive financial performance.

Health and safety audits are primarily interested in assessing how well the store is meeting regulatory and legal guidelines, especially as it relates to food handling and/or the employee work environment. Loss prevention audits are focused on assessing how well the store's process, protocol, and training minimize theft, fraud, and shrinkage. Again, these are important activities, but merchandising audits will provide a better assessment of the overall store operations that affect financial performance.

Merchandising audits evaluate assortment, display, pricing, and promotional activity are consistent with the firm's guidelines, implemented in a way that supports priority initiatives. These audits can be done in-house by store staff or can be out-sourced to independent firms. It should be noted also that some CPG (Consumer Packaged Goods) companies do audits of their own. Their goals for doing so are the same—to ensure that the retailer's execution is consistent with their standards and support priority initiatives.

Merchandising audits should be done “through the eyes of the consumer,” but with the knowledge of the store operator. That is, think about what the consumer sees and experiences versus what the retailer is trying to get them to see and experience. A great starting point is often a walk of the store's perimeter. What does the consumer see upon entering the store? What products are displayed or promoted? How are products in the different departments merchandised? What does the signage communicate?

If the focus is on a given product category or section, it will be necessary to visit the specific aisle to review the products on-shelf. First and foremost, are the products shelved according to the approved plan-o-gram or schematic? That is, each store has a “map” of how the shelf should look, including the number of facings for each item and the units to place on-shelf. This ensures that the shelf space is optimized for shoppability and to support in-stock levels.

The next priority is to ensure pricing compliance. Are all the items labeled with the correct item description and price tag? This not only helps consumers make a decision when comparing across products, but also helps associates identify and re-order out of stock products and place them correctly on-shelf. For promoted items, you'll want to ensure that sale tags are in-place. Again, this is an important tool to help the consumer make decisions. But, another benefit is that it influences consumer perceptions about pricing and promotional activity in-store. That is, the more prevalent the signals of sales and special offers are, the greater likelihood that consumers give the retailer “credit” for having promotional activity.

Merchandising audits can be incredibly helpful tools in providing feedback to decision-makers. In assessing how well stores meet organizational standards, provide for the shopping experience, and support priority initiatives, audits can describe where there might be organizational disconnects between the strategy and tactical execution. This helps firms resolve the performance gaps and realign all constituents on what matters most to deliver the strategic objective.

Practice Questions

<https://assessments.lumenlearning.co...sessments/9187>

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