SHRINK SOFTWARE

OPERATIONAL BRIEF

The Hidden Cost of Shrink.

Why multi-site institutional food operations consistently lose 5 to 15 percent of margin to shrink they cannot see, and what to do about it.

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AUDIENCE

Multi-site food operations leaders, financial officers, and general managers seeing margin compression they cannot fully explain

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Operational brief — a diagnostic framework for finding the shrink that is invisible to current systems

EXECUTIVE SUMMARY

What you don't measure, you can't fix.

Most multi-site institutional food operators run with shrink they cannot see. The accountants measure it as a category — cost of goods minus revenue, divided by revenue — and report a number that is too aggregated to act on. The operators feel it as something that "just happens" — a slower production run, an over-portioned product, a waste of trim, an expired item. Nobody owns the number because nobody can locate where it actually comes from.

The result, across the institutional food industry, is that 5 to 15 percent of gross margin disappears into invisible shrink every year. The operators with the lowest shrink rates are not the ones with the strictest discipline. They are the ones with the best visibility.

This document explains where the shrink actually is, why it is invisible to standard accounting systems, and what operational changes turn invisible shrink into visible shrink that can be reduced. The frame is broader than FSMA 204 — most operators implementing FSMA 204 capabilities discover, mid-implementation, that the shrink visibility they get as a byproduct is worth more than the compliance value of the project itself. This brief is for operators who haven't yet reached that realization.

SECTION 1

Where shrink actually lives.

Industry data and operator experience consistently identify the same categories of shrink in institutional food production. The categories matter because each one has a different root cause and a different solution.

CATEGORY	WHERE IT HAPPENS
Receiving variance	The amount delivered does not match the amount invoiced, or the quality is below specification. Often missed because receiving staff do not have time to weigh and inspect every delivery. The supplier gets paid for what was invoiced, not what arrived.
Production yield loss	Inputs go in; less finished product comes out than the recipe predicts. Trim waste, over-portioning, ingredient substitution, equipment loss. Each is small per occurrence; cumulatively they are the largest category of shrink in most institutional operations.
Cooling and storage loss	Product damage during cooling, freezer burn, temperature excursions, dehydration, contamination requiring discard. Often discovered at the end of a shift or at customer delivery, with no record of when or where the loss occurred.
Labeling and packaging error	Wrong label applied, wrong portion in a container, allergen cross-contact, sealing failures. Each case typically requires discarding both the product and the affected packaging materials.
Expiration loss	Inventory that ages out before use. Frequently the result of over-ordering combined with poor visibility into what's already in stock at each site.
Theft and informal consumption	Employee meals, family pack-outs, casual taste-testing during production. Often culturally tolerated, rarely measured, sometimes substantial.
Transfer loss between sites	Multi-site operations move inventory between locations. Records frequently do not reconcile. The system thinks the transfer happened; the receiving site has no record of it.

Each category represents 1 to 4 percent of cost of goods in typical institutional operations. Combined, they regularly reach 10 percent or more — large enough to make the difference between a profitable site and an unprofitable one.

SECTION 2

Why current systems can't see it.

Standard accounting systems measure shrink as a category total at month end. They produce a number that tells you the magnitude of the problem but not the location. Without location, no operator can act on the data.

Three structural reasons accounting systems cannot solve this:

1. Timing aggregation hides root causes

Month-end accounting aggregates 30 days of activity into a single number. If receiving variance happened on the 4th, production yield loss on the 11th, and expiration loss on the 27th, all three appear in the same monthly bucket. By the time the operator sees the number, the work that caused each loss is too far in the past to investigate.

2. Account-level reporting hides operational reality

Accounting systems are organized around the chart of accounts: COGS, raw materials, packaging, labor. They are not organized around the operational workflow: receiving, production order #4847, cooling cycle, label print, shipping. The shrink shows up as a COGS variance but the causal data lives in the workflow events, which the accounting system does not capture.

3. Site-level rollup hides site-level differences

Multi-site reporting typically rolls up site data to consolidated totals. The consolidated shrink number tells you nothing about which sites are performing well and which are not. The best-performing site might be cross-subsidizing the worst-performing site in the rollup, leaving everyone in the dark about where to focus.

> **The invisibility problem in one sentence.**
>
> Shrink is measured in dollars at month-end at the company level; it is created in physical units at the moment of work at the site level. The gap between those two scales is where the invisibility lives. Closing the gap requires capturing the operational work at the moment and location it happens — which accounting systems are not designed to do.

SECTION 3

What better visibility is actually worth.

Operators sometimes ask, "even if we could see all the shrink, how much can we actually reduce?" The honest answer depends on the operation, but the order of magnitude is consistent across institutional food production.

15%

AVERAGE SHRINK REDUCTION OBSERVED IN INSTITUTIONAL FOOD OPERATIONS AFTER DEPLOYING WORKFLOW-GATED EXECUTION CAPTURE

The 15% figure is observed in the operations Shrink Manager has been deployed in to date, which includes 10 institutional fresh food production sites operating under Anu Sushi LLC across multiple states. Other execution-layer platforms report similar ranges (10–20%) in similar operations. The mechanism is consistent: when operators can see where shrink is happening at the moment it happens, they can change the behavior or process that produces it.

The math for a typical mid-market operator

Consider a multi-site institutional food operator with $20 million in annual revenue and a 35% gross margin. Annual cost of goods is $13 million. If shrink is running at an industry-typical 8% of COGS, the absolute shrink number is $1.04 million per year.

SCENARIO	ANNUAL SHRINK SAVINGS
15% reduction in total shrink	$156,000 per year
Reduction down to 6% of COGS	$260,000 per year
Reduction down to 4% of COGS (best-in-class)	$520,000 per year

At any of these scenarios, the savings exceed the typical cost of an execution-layer software implementation within the first year. The implementation pays for itself before the second year of operation begins.

The second-order benefit

Direct shrink reduction is the primary financial argument. The secondary benefit is operational learning. When operations can see where shrink is happening, they discover other things at the same time: which suppliers are reliably delivering specification quality, which sites are under-trained on which workflows, which products have margin problems at the recipe level. The visibility creates a learning loop that compounds in value over time. A year-three operation running with workflow-gated execution capture is not just running with less shrink than a year-one operation; it is running with continuously better operational intelligence.

SECTION 4

How to get from invisible shrink to visible shrink.

The operational change required is the same change FSMA 204 requires, which is why operators implementing FSMA 204 capabilities find the shrink visibility benefit waiting for them. The work is to capture floor-level workflow events at the moment they happen, by the operators doing the work, in a system that can produce both compliance records and operational analytics from the same underlying data.

The change involves four steps:

1. **Map current shrink categories at each site.** Most operators discover during this step that they cannot distinguish receiving variance from production yield loss from expiration loss in current records. The mapping exercise itself reveals the visibility gap.
2. **Identify the workflow events that generate each shrink category.** Receiving events generate receiving variance data. Production order events generate yield data. Cooling logs generate cooling loss data. The workflow events are the source of shrink intelligence.
3. **Deploy capture at the workflow events.** Execution-layer platforms make this practical because they capture the events without requiring separate compliance work. The operator records the receiving event once; that record produces receiving variance data, FSMA 204 traceability records, and inventory updates simultaneously.
4. **Build the dashboards and reporting layer.** Once the underlying data exists, the reporting layer that exposes shrink by site, by category, by shift, by operator, by product, by ingredient can be built. This is where invisible shrink becomes visible shrink that can be acted on.

The honest implementation timeline for this is 12 to 18 months for a mid-size multi-site operation. The first measurable shrink reduction typically appears within 90 days of go-live at the pilot site, as operators discover and address the most obvious sources of loss. The ongoing learning loop continues for years.

SECTION 5

The intersection with FSMA 204.

Most operators are first encountering execution-layer software in the context of FSMA 204. The regulatory deadline creates urgency that operational improvement alone does not. But the operational improvement is the larger long-term value.

The honest framing for the budget conversation is this: **FSMA 204 is a forcing function for a system that pays for itself in shrink reduction before the regulatory deadline arrives**. The compliance argument gets the budget approved. The operational argument is what makes the investment worthwhile.

This is why operators who are still debating whether to invest in FSMA 204 capabilities are typically making a smaller decision than they think. The decision is not really whether to spend money on compliance software. The decision is whether to deploy operational visibility that will compound in value for the life of the company. The compliance requirement is the deadline. The operational reality is the opportunity.

THE FRAME THAT MATTERS

If you are about to spend money on FSMA 204, you are about to spend money on shrink reduction. Choose your system accordingly.

The selection criterion that distinguishes systems that will deliver both compliance and operational visibility from systems that will only deliver compliance is whether the system captures workflow events as first-class data. Systems that do can produce both compliance records and shrink analytics from the same data. Systems that do not can produce compliance records that pass an audit but generate no operational learning. The two systems cost about the same to license. The operational outcomes are completely different.

SECTION 6

About Shrink Software.

The company is called Shrink Software for a reason. The platform was built to reduce shrink. Compliance was a byproduct.

Shrink Manager is an execution-layer platform built for institutional fresh food production. The platform was developed inside Anu Sushi LLC over two years of operating use before being released as a standalone product. In Anu Sushi's operations, the platform has driven a 15% reduction in shrink across 10 production sites, a 30% reduction in compliance-related labor, and 35% year-over-year revenue growth. The compliance value is real. The operational value is larger.

If the diagnostic in this document describes shrink your operation cannot fully see, the easiest first step is a 30-minute conversation in which we walk through your specific sites and identify where the visibility gap is largest. The conversation does not require a sales pitch — it is a useful exercise even if you ultimately don't work with us.

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This operational brief is published by Shrink Software LLC for educational purposes. Shrink reduction figures cited in this document reflect outcomes observed in Anu Sushi LLC operations during the development and deployment of Shrink Manager. Outcomes in other operations will vary based on starting baseline, implementation quality, and operational context. The 5-15% industry shrink range cited is consistent with publicly available industry data; specific outcomes should be evaluated against your own operation's baseline.