

# PAYMENTS FOR SHRINKAGE AND WASTE

## A FOOD AND GROCERY CODE OF CONDUCT GUIDE

### BACKGROUND

Shrinkage is loss that occurs after the retailer has taken possession of a delivery of product. Shrinkage may be a result of retailer handling, theft, stock take loss or accounting errors.

Wastage refers to groceries that are unfit for sale. This includes product that spoils within its shelf life or packaging that is not suitable to withstand the supply chain.

In layman's term:

Shrink - it's gone: stolen or missing in action

Waste - I can see it, touch it or smell it but I can't sell it.

In the past, retailers have worked to mitigate their exposure to all forms of loss by transferring payment requirements to suppliers for any losses incurred.

## INTENT

The intent of these provisions is to create a clear set of definitions for items broadly bracketed as loss. Previously these have been referred to as ullage, waste, loss, shrink and process loss.

These provisions set out what is permissible and what is not and clearly frames the required behaviour and methods of discussion.

## RELEVANT FGCC PROVISIONS

### Division 3: Requiring Payments from Suppliers

13 Payments for shrinkage

14 Payments for waste

- » A Grocery Supply Agreement (GSA) must not include payments for shrinkage.
- » Retailers and suppliers can discuss and investigate opportunities to mitigate shrinkage.
- » A GSA should set out expressly and unambiguously the circumstances, which could include negligence, in which the supplier will be required to make payments to cover wastage of the supplier's groceries.
- » This includes the circumstances of the wastage and the basis of the payment.
- » The payment must be reasonable, having regard to the retailer's cost incurred by the wastage (this is cost recovery, not a profit generator).
- » The retailer must take reasonable steps to mitigate wastage.

REMEMBER TO KEEP YOUR FGCC TRAINING UP TO DATE.

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## WHAT SHOULD HAPPEN

- » Suppliers should clarify the basis on which wastage payments are to be calculated and ensure that this is clearly articulated in the GSA - noting that payments should be purely cost recovery for the retailer and not a generator of profit.
- » Suppliers and retailers should work together to identify causes of waste and mechanisms to reduce it.
- » The GSA should ensure sustainable reductions in waste be reflected in reduced waste payments.
- » A supplier cannot be required to pay for any damage caused by a retailer ie poor handling processes at the retail distribution centre such as a forklift damaging the contents of a pallet.
- » A retailer cannot be required to pay for damage or negligence of the supplier ie the supplier changed packaging and the packaging causes product damage through the supply chain.

## COMING SOON

Following the 2018 review of the Code, the Government agreed to amend the Code to provide suppliers with the right to renegotiate their wastage payments without being required to renegotiate other terms of their GSA.

## SUPPLIER CONSIDERATIONS

- » A supplier should consider including in their GSA what constitutes 'reasonable steps' on behalf of the retailer to mitigate wastage in relation to the supplier's product/s.
- » An agreement to make a payment in lieu of a claim for waste is permissible, provided both parties agree to the amount and any mechanism around how it is calculated, and the payment is reasonable in all the circumstances having regard to the costs incurred by the retailer.
- » 'Rolling up' or bundling waste into general rebates is permissible but suppliers may wish to consider the transparency of the waste component and record this agreement for posterity that the general rebate includes payment for waste.
- » Best Practice - **Trading Partner Forum - Loss Prevention**
- » Best Practice - **The Consumer Goods Forum - Food Waste**
- » Best Practice - **ECR Europe - Shrink Group**



WE WOULD LIKE TO THANK BAKER MCKENZIE FOR THEIR  
SUPPORT IN PREPARING THIS PUBLICATION.