



05 COSTLY LOSS PREVENTION MISTAKES

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Introduction

// *We find that **shrinkage** is like a piece of rope. The more ways you can find to give it a twist, the more it reduces in size.* //

– Keith Campbell,
Director of Operations & Personnel
Grace Bros. Department Store, Australia.

Shrink the Shrinkage

5 Costly Loss Prevention Mistakes and How to Correct Them

Retail loss, also known as “shrinkage,” inflicts tremendous damage on an organization’s bottom line. According to the Global Retail Theft Barometer, shrinkage accounted for over \$42 billion in lost revenue in the United States last year and over \$128.5 billion in annual losses around the world. Price increases directly caused by shrinkage are estimated to cost American consumers \$403 each per year.

A deeper dive into those numbers reveals an opportunity for retailers. The National Retail Group estimates that over two-thirds of shrinkage is preventable. While it’s naive to assume that shrinkage can be eliminated entirely, it’s also an all-too-common management mistake to accept current loss levels as a fixed cost of doing business.

Shoplifters, dishonest employees and organized retail crime rings have many weapons in their arsenal – from sophisticated sales floor and warehouse scams to smash and grab operations to ever-evolving methods of identity theft and digital crime. Thieves are aggressive. In order to be successful, a loss prevention strategy needs to be equally aggressive.

Enlightened loss prevention professionals understand that the most effective way to aggressively attack shrinkage is not by searching for a quick fix or a magic bullet, but rather by implementing a comprehensive, multi-pronged approach that reduces losses incrementally as each new tool or tactic is successfully deployed. “We find that shrinkage is like a piece of rope,” notes Keith Campbell, Director of Operations & Personnel, Grace Bros. Department Store, Australia. “The more ways you can find to give it a twist, the more it reduces in size.”

BrickHouse Security has identified five key loss prevention mistakes many retailers make and ways to address them – high value opportunities for retailers to “twist the rope” and measurably reduce shrinkage.

01

“Many retailers actually sponsor stealing by choosing to believe that the cost to prevent it exceeds the cost of allowing it to exist.”

– James L. Hayes,
President/CEO
American Management Association

Assuming Aggressive Loss Prevention is Too Expensive

Faced with constant pressure to reduce costs, many organizations are reluctant to allocate the necessary money, time or assets to the fight against shrinkage. “Our loss levels have always been constant as a percentage of sales,” the thinking goes. “Why throw money at a problem I can’t solve?”

According to the Global Retail Theft Barometer, while the U.S. has the third-highest shrinkage rate of 22 countries surveyed, American retailers spend just 0.42% of revenues on loss prevention, which is about half the global average of 0.80%. Clearly, there’s a disconnect between the problem and the investment many U.S. retailers are willing to make to address it.

Given the sophistication of retail thieves, It’s easy for managers to convince themselves that combatting shrinkage is like bringing a knife to a gunfight. That mindset is a trap. And it’s not accurate. The loss prevention tools available today are powerful, scalable and more cost effective than many executives realize. In fact, “Many retailers actually sponsor stealing by choosing to believe that the cost to prevent it exceeds the cost of allowing it to exist,” notes James L. Hayes, President/CEO of the American Management Association.

Powerful new hardware and software and a renewed focus on collaboration between the law enforcement and business communities have combined to give retailers of all sizes a multitude of effective weapons against shrinkage. For example, successful loss prevention programs can leverage tiny, inexpensive hidden cameras to augment existing video surveillance; GPS tracking devices to help law enforcement recover merchandise after a theft; point-of-sale software with exception reporting to recognize transaction anomalies and fraud; and employee monitoring software to ensure internal compliance and protect customer data.

Every organization has its own shrinkage profile, but according to the National Retail Theft Barometer, the causes of retail loss in the United States as a whole break down this way:

- Shoplifting: 38%
- Administration and Non-Crime Losses: 21%
- Employee Theft: 28%
- Supplier Fraud: 13%.

To maximize cost effectiveness, each area of shrinkage needs to be isolated individually and focused on as priorities dictate and resources allow. Many of the strategies and tactics outlined in this white paper require only a minimal cost of entry and can be implemented on a small scale for proof of concept, then ratcheted up based on their effectiveness.

02

// Most breaches of a loss control system result not from people going around the system but rather from exploiting weaknesses in the system. //

– Joseph H. Wheeler,
VP Internal Audit
Belk Store Services, Inc.

Being Blind to Your Blind Spots

There's an old saying that goes, "When you've lived in your house long enough, you stop seeing the holes in the carpet." Think of blind spots in a security system as holes in the carpet on the retail sales floor, in the warehouse, on loading docks, in employee areas and of course, in the digital domain. Every organization has blind spots, but the most successful retailers know how to identify and patch them. "Most breaches of a loss control system result not from people going around the system but rather from exploiting weaknesses in the system," notes Joseph H. Wheeler, VP of Internal Audit at Belk Store Services, Inc.,

It takes effort to correct blind spots on the sales floor and in other areas where merchandise is at risk. A minimal increase in uniformed security personnel in retail areas known to be vulnerable is one tried-and-true but effective deterrent. And to assist with blind spot identification and apprehension of thieves, more and more organizations are turning to "secret shoppers" – trained, plainclothes security personnel, often outfitted with hidden body-worn cameras.

Retailers who rely on traditional security cameras and live monitoring need to conduct a thorough sweep. Are all cameras aimed and functioning properly? Will the addition of one or more cameras fix obvious holes in coverage? Is it time to upgrade older cameras and video monitors to high-definition models, both of which have dropped in price markedly over the last few years and are capable of producing images with the clarity necessary to see fine detail and positively identify suspects for apprehension and/or prosecution?

Many retailers even go as far as to successfully employ non-functioning decoy cameras in areas without proper video surveillance. These faux cameras have consistently proven to be a legitimate theft deterrent and are an exceptionally cost effective solution when loss prevention budgets are tight.

Professional thieves and organized retail crime organizations make their living by spotting and exploiting holes in retail security. But the savviest loss prevention managers know how to use that knowledge to their advantage. Retailers can dramatically increase apprehension and effectively deter future theft by transforming apparent blind spots into "bait spots" that are actually being monitored by undercover security personnel, hidden cameras and GPS tracking. When shared with law enforcement personnel, evidence gathered by these methods can lead to the disruption of large-scale criminal organizations.

02

// **The average employee theft incident costs retailers \$706, compared to only \$130 per incident for non-employee shoplifters.** //

– The 25th Annual Retail Theft Survey conducted by Jack L. Hayes International.

Being Blind to Your Blind Spots (Continued)

Blind Spots and Employee Theft

According to the U.S. Chamber of Commerce, 75% of employees steal from their workplace, and most do it repeatedly. A more revealing statistic comes from the 25th Annual Retail Theft Survey conducted by Jack L. Hayes International. That survey reported that the average employee theft incident cost retailers \$706, compared to only \$130 per incident for non-employee shoplifters.

As with all areas of shrinkage, combatting employee theft requires a multi-pronged approach. To identify workplace thieves and reduce the theft of physical merchandise, department and discount stores have had excellent success with the strategic placement of tiny, motion-activated hidden cameras in employee areas. These cameras are very inexpensive when bought in quantity at wholesale – many are well under \$100 each – and they can be hidden in plain sight, disguised as AC power adapters, wall clocks, USB drives or many other common items. Some hidden cameras take the form of simple, nondescript black boxes, which can be covertly placed anywhere an organization needs extra “eyes.”

As the recent high-profile hacks of Target and Home Depot illustrate, data theft by employees and outside entities is another crucial area of concern among retailers. Online and in-store identity theft takes many forms. And at the sales floor level, data theft through WiFi, open Ethernet, USB and RFID is becoming much more common.

Digital theft represents a growing piece of the shrinkage pie. In its 2014 Data Breach Investigations Report, Verizon analyzed 47,000 digital security incidents and found that 24% of them were directed at retail establishments. Alarmingly, 62% of the attacks took months to discover. The study also found that of all the digital attacks it analyzed, over 78% of those were judged as preventable, using “basic methods, [with] little or no customization required.”

Customer information is always a target for identity thieves, as is proprietary internal data. One of the most effective methods of protecting the integrity of your data is knowing what your office employees are doing at their computers. Sophisticated cloud-based employee monitoring software is available from many reputable security organizations. Usually licensed “per seat” based on quantity of employees, this software is capable of not only restricting and reporting on the downloading or printing of private information, but also of recording every keystroke an employee performs during their workday.

03

“If loss prevention and law enforcement do not work together, we are most likely going to fail in this endeavor.”

– Curt Crum,
President,
Coalition of Law Enforcement and Retail
(CLEAR)

Keeping Law Enforcement Out of the Loop

One of the most common mistakes retailers make is failing to coordinate their loss prevention efforts with local, state and national law enforcement agencies. Communication and cooperation between the the law enforcement and retail communities has many tangible benefits for retailers, the most important of which are centered around reducing organized retail crime (ORC).

The National Retail Federation’s 2014 Organized Retail Crime Survey polled 76 senior loss prevention executives and found that 88% of respondents had been affected by ORC during the previous year. Nearly half (48.3%) said that their online operations had been affected as well as their traditional brick and mortar locations. And the average case value for those affected by ORC-related theft was a substantial \$2.8 million per case.

Collaboration in the fight against ORC can take many forms, including the sharing of information about known retail criminals and organizations; real-time communication when an incident occurs; and in-store security audits and theft-prevention seminars conducted by law enforcement personnel.

The Coalition of Law Enforcement and Retail (CLEAR) is a valuable asset for loss prevention specialists to leverage. CLEAR’s primary stated objective is “to encourage mutual cooperation between all law enforcement agencies and retail corporations throughout the United States toward the goal of detection, prevention, and investigation of property crimes and the apprehension of the perpetrators.”

The organization is also involved in lobbying efforts to encourage state and federal legislators to enact laws that effectively target the perpetrators of ORC. According to the National Retail Federation, as of May, 2014, 26 states have enacted laws against criminals who are found to be associated with an organized retail crime gang.

Any reduction in ORC brings much more than a welcome boost to a retailer’s bottom line. ORC is a blight on communities. Statistics show that the career criminals, who commit ORC are usually active in many other areas of crime, including, but not limited to, murder, armed robbery, narcotics trafficking and vehicle theft.

A retailer who is able to demonstrate an active role in helping to get career criminals off the streets of its community not only performs a valuable public service, but is also likely to generate a tremendous amount of goodwill among its customers. But, “If loss prevention and law enforcement do not work together, we are most likely going to fail in this endeavor,” notes Curt Crum, CLEAR’s president.”

04

*“Economies of scale have made **GPS tracking** technology an affordable and indispensable weapon in the **fight against shrinkage.**”*

– Todd Morris,
Security Consultant and CEO,
BrickHouse Security

Failing to Leverage GPS as a Loss Prevention Tool

As GPS tracking technology has matured, many retailers don't yet realize how cost effective the technology has become. Tiny, battery-powered GPS devices are available to organizations who buy in bulk at little or no cost for the hardware. Real-time monitoring fees for the service apply, but those fees scale down significantly as multiple tracking devices are deployed. As Todd Morris, an industry consultant and CEO of BrickHouse Security, observes, “Economies of scale have made GPS tracking technology an affordable and indispensable weapon in the fight against shrinkage.”

It would be cost prohibitive and logistically impossible to attempt to attach a GPS tracker to every SKU in an organization's supply chain. But retailers have had great success using small samples of high-value inventory as bait, which is why GPS is particularly effective in the fight against organized retail crime.

As noted in Section 3 above, cooperation with law enforcement is vital to ensure the success of a GPS loss prevention program. When high-ticket items are stolen in bulk from a sales floor (as in smash and grab operations), a warehouse or en route to a delivery point, the chances of recovering them and apprehending the perpetrators increase 100-fold when their location can be transmitted in real time to law enforcement agents.

Even the smallest-sized assets can benefit from GPS monitoring. For example, jewelry and electronics retailers use customized, miniature GPS trackers to monitor small samples of their inventory. Not only can GPS alert retailers when inventory goes missing from a store, it can also protect merchandise that travels to different locations or trade shows. GPS tracking has also been used successfully by law enforcement officials to combat the growing problem of prescription drug theft. The New York Police Department has partnered with multiple pharmacies throughout the city to plant tiny customized GPS devices in phony pill bottles. These “bait bottles” are placed among genuine supplies on pharmacy shelves and tracked in the event of a robbery.

Of course, GPS is also used more traditionally to combat cargo theft, a problem so pervasive that the FBI runs seven different cargo task forces in the United States. Tracking delivery trucks and the merchandise inside them helps organizations optimize their fleet and know the exact location of any trailer at any given time.

05

“I am convinced that good shortage performance is not possible without the involvement of all employees.”

– Steven Loomis,
Director Loss Prevention
McCrae’s Department Stores

Underestimating the Power of Employee Engagement

While organizational structures vary widely, almost all successful loss prevention programs employ one or more executives and a support staff whose job it is to think about shrinkage for the majority of their workdays. While that’s a giant step in the right direction, a costly mistake many organizations make is failing to engage all employees company-wide in the day-to-day fight against shrinkage.

That mistake can be remedied – and it starts with an adjustment to company culture. “I am convinced that good shortage performance is not possible without the involvement of all employees,” notes Steven Loomis, Director of Loss Prevention, McCrae’s Department Stores.

Every employee in the organization needs to understand and buy in to the idea that there is no “acceptable” level of shrinkage. As new loss prevention strategies and tactics are implemented, they need to be fully explained to the entire organization. Spell out the problem in easily digestible terms: (“We’re losing this much, this often in these areas”). Then spell out the specific solutions management is implementing and the benefits the organization hopes to gain from them.

Once the plan has been presented, clear numerical goals for shrinkage reduction need to be expressed, and if tangible incentives for success in the form of bonuses are offered, they should be made available across the company. Whether incentivized or not, if the goals are not reached, that information – however disappointing – should be relayed to the entire workforce, along with adjusted strategies for loss prevention success.

Education and empowerment are always paramount. “[Employees] have to know what causes the loss and how they can prevent it,” explains Joan Manson, Vice President of Loss Prevention, Payroll, Benefits and Legal for The Container Store. “They also need to know how loss can be identified, because when someone knows there are methods in place to identify loss, they will be less likely to be involved in something that can create loss.”

Education can take many forms. For example, there is tremendous value in involving all employees in scheduled formal training seminars conducted by in-store loss prevention specialists or local law enforcement. But formal training is not enough. If an organization hopes to measurably reduce shrinkage, it will take a committed effort from each and every employee.

References

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[Learn More About Retail Loss](#)

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