

Loss Prevention For Small Business



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Introduction

Loss prevention is one of the most overlooked professions in the retail world, but it should not be. In the past, loss prevention has been viewed as “rent-a-cops” or “store security”, and this is largely due to the fact that most retailers either didn't understand the reason for having a loss prevention department, or didn't see a real need, except that the loss prevention team could catch shoplifters. Harry Joiner, in his weblog Marketing Headhunter.com, observed the following:

“When it comes to retail loss prevention, **a penny saved is not a penny earned.** It's fifty cents earned! Although this HBR article does not mention this, let me do the math for you:
\$27 billion is the bottom line, after tax outflow to these retailers. That means that if these retailers did not incur this blood loss, they would be \$27 billion more profitable. To NET \$27 billion in an industry that has an average net profit after tax of 2%, these retailers would have to sell $\$27\text{B} / 2\%$ — or \$1.350 trillion. **That's trillion, with a “T”.**
To recover a single penny of net profit requires fifty cents in sales ($.01 / 2\% = .50$). This calculation applies to any business. Simply take a penny and divide it by your company's net margin percentage.”

Talk about ROI! By this math, if your programs save your company even as little as \$1000.00 against your shrink budget, you've just managed to save \$50,000.00 in earnings!! Once retailers realized that savings in shrink really contributed to earnings in such a significant way, the face of loss prevention changed forever.

The focus shifted from the “cops and robbers” mentality to more of a “sales support” role for loss prevention. That meant that loss prevention

professionals were asked to learn more about the businesses that they were protecting. They needed to become knowledgeable in all areas of the business so that they could offer sound solutions to the problems facing retailers in relation to shrink and loss.

Unfortunately, many of the “old school” loss prevention people got left behind because they were not prepared for the shift in focus. Those who held onto the old “gotcha” attitude were gradually replaced by loss prevention agents and managers who were willing to learn the business, and become a part of the team.

In the following pages, you will find some habits that, if executed properly, will guarantee a reduction in shrink, and the ability to maintain low shrink/loss levels.

What Is Shrink?

[Wikipedia.com](https://en.wikipedia.org) has a very good definition of retail shrink. Simply put, Shrink is the loss of products between point of manufacture or purchase from supplier and point of sale. Sometimes shrinkage may be as high as 15% to 20% of total volume, having a major negative effect on profits. The total shrink percentage of the retail industry in the United States was 1.7% of sales in 2001 according to the University of Florida's, National Retail Security Survey.

48.5% of shrinkage is due to employee theft and 31.7% due to shoplifting. The prevention of this type of shrinkage is one reason for security guards, cameras and security tags. Also, some shrinkage is due to damage in transit, shipping errors, or misplaced goods. When dealing with perishable goods, such as produce, natural spoilage becomes a source of shrink. The four major sources of inventory shrinkage in the retail industry are:

1. Employee theft
2. Shoplifting
3. Administrative errors (e.g. warehouse discrepancies)
4. Vendor fraud

The following are some ways to reduce and/or prevent shrink:

Integrate Loss Prevention Policies:

If a [Loss Prevention](#) Program is to be successful, it must be integrated into every level of the business. Everyone, from the part time employee to the owner(s), must *OWN* Shrink, and work toward the common goal, to reduce it. That sounds simple, but it is much more complicated than you might imagine.

Integration means that everything includes loss prevention. LP is part of every program. LP has a place in every call, every meeting, on every bulletin board. What good does it do to have a great new product if you lose as much or more of it than you sell? Or, even if you do have a plan in place to protect it, but nobody knows about it? Everybody has to buy into the loss prevention program if it is to be successful. Everybody must be educated on the benefits of the LP programs, and the consequences for not executing them correctly.

Integration also must include distribution, allocations, merchants, etc. Operations may be more directly involved, but these other areas must be educated in the same areas so that they can be part of the solution to shrink.

Finally, all documents pertaining to training, policies, procedures, and programs must contain elements of the loss prevention program. For example, in the company SOP pertaining to merchandising, the tagging, or exposure standards must be included, as necessary steps for completion of the task. Training manuals or CBTs (Computer Based Training) must include the loss prevention mission statement, goals, and programs.

If a company wants its employees to take shrink reduction seriously, it is essential that the shrink reduction strategy be integrated into every part of the business. Loss Prevention is not just about catching thieves, it's also about inspecting what you expect, training and educating, and instilling a strong awareness of shrink-causing factors into your employees.

A good loss prevention agent or manager will become integrated into the business, also. He or she will be a selling partner, and an essential part of the staff. This is crucial. Integration means that LP becomes part of the team, working toward the same goals as the rest of the team. Too often, the loss prevention team is deliberately separated, which usually results in the LP team getting “tunnel vision”, and focusing on investigations or audits instead of looking at the big picture and using investigations, audits, training, and awareness as tools that help the company reach their sales and shrink goals. For smaller and medium sized businesses, it is a great idea to assign a trusted employee the role of loss prevention. That employee can train the other employees on your programs, help you keep records of your losses, and even be a point of contact for networking with loss prevention at larger retailers to help stop theft in your establishment.

Customer Service – The Number One Way To Prevent Losses

Without customers, no business can survive, let alone grow. When it comes to loss prevention, it is sometimes difficult to maintain a focus on customer service. This is due to a couple of things. First, loss prevention tends to deal with the dishonest types more, and so we tend to be more suspicious of everyone's motives. Secondly, loss prevention professionals haven't historically been taught the power of customer service as a deterrent to theft.

Good customer service accomplishes two things related to the loss prevention strategy. First, it is the best deterrent to theft. No thief wants to be noticed, and if the employees are actively engaging the would-be thief in conversation, 9 in 10 will walk away without attempting to steal. Of the 10% who try anyway, 75% will get caught in the act if good customer service standards are being maintained. That's a huge win for loss prevention, and it costs nothing, zero, nada!

Second, good customer service boosts sales. Any loss prevention program that is not concerned with increasing sales is lacking a key element. It is possible to out-sell shrink, because shrink is a percentage of what? SALES! The more sales your company, region, district, store, etc. has, the less shrink based on the same amount in dollars! Here's an example:

Say you have a store with \$40,000.00 in shrink. If that store sells \$5,000,000.00 that year, your shrink as a percent to sales is 0.8%. Now, say that same store maintains the same shrink for the next year, but

increases its sales by 10%. The shrink, as a percent to sales, is decreased to 0.72%, for roughly a 10% decrease in shrink on the same number!

Now, let's say you have a great customer service program, and at the same time you increase your sales by 10%, you decrease your shrink dollars by 10%. Your shrink of \$36,000, as a percent of your sales of \$5,500,000.00 is 0.65%! Never underestimate the power of great customer service. Even for small businesses, customer service can produce great results both by increasing sales, and by reducing losses.

Any good customer service program begins at the front door. It is important to greet your customers when they enter. Just recognizing your customers by saying "Hi" can go a long way. And, while it may not be possible to give one-on-one personal service all the time, employees should be trained to spend as much time as possible helping customers. After all, they are the life of any business.

Control Your Exits

The front door to your business is the most important door. It's where your customers enter and exit. It is also where the thieves will enter, and at least most of the time, exit. Most businesses do a fairly good job of locking their back doors. But we can't lock the front door, or else we have no customers. So, what is the answer? There are several ways to control the front doors from a loss prevention perspective.

Most major retailers use electronic article surveillance, or inventory control tags, to help protect their inventory and deter theft. With this system is a set of pedestals that work as receivers and alarms at the front doors. The problem is that, when this system is not used effectively, it becomes dead weight to the business. Tags cost money, and so does the maintenance on the system. So, why not use it? If would-be thieves perceive that no one is going to even approach or question them if an alarm sounds, then the deterrent factor is lost. Every alarm should be followed by a response by an employee. It should be approached as a customer service issue, because if a tag is mistakenly left on product, it creates an inconvenience for the customer to come back to the store to have it removed without damaging their merchandise.

Closed Circuit Television (CCTV) systems are extremely effective at deterring theft and at providing evidence in cases where deterrence efforts are ignored by thieves. Any store that uses CCTV should have a good, clear shot at all public entrance/exit door(s). The best identification video will always be the shot at the entrance. Along with that, it is worth the couple hundred dollars investment to loop that video into a public view

monitor, which shows would-be thieves that you are monitoring your doors.

Finally, a greeter is a great idea for door control. Not only can the greeter help your customer service by being available for questions and to give customers direction, but they also show the would-be thief that there is a person at the door that they'll have to pass to get out with your merchandise. It is a proven fact that no shoplifter wants to be noticed, let alone engaged in conversation by an employee. By greeting every customer, coming and going, your door greeter will deter more theft than you will probably ever realize. That person can also be available for EAS alarm responses.

Now, let's look at the receiving doors. It is imperative that these doors be secured at all times, and that a member of the management team is present any time they are open. Keys and alarm codes must be controlled, and only members of management should have access. One bad associate can take more merchandise than 20 shoplifters if allowed free access to the back doors. CCTV should also be used to monitor this area at all times.

Inspect What You Expect

Simply put, if you have certain expectations of security within your organization, from a cash handling program to merchandise protection standards, you must audit these procedures regularly, or they will lose much of their effectiveness. Why? Because your employees will perceive them only as important as you do.

If you place high importance on a particular program, you will follow up regularly to ensure that it is running properly, and efficiently. Employees see that, and will take their cue from you, in most cases. For example, if you demonstrate great customer service skills, and demand that same level of customer service from your employees; and, you regularly review with them any opportunities and strengths to help them improve, they will “get it”. Essentially, they will become very good at customer service, and will thereby increase your sales.

By the same token, if your employees know that you are going to review your security policies and programs, and that you are going to follow up with them about any deficiencies or strengths you find, then of course, they will follow your lead, and make those programs important to themselves, too.

It's really about managing people. You just have to apply the same principles you employ to increase your business to the programs that protect your assets. If you never check to see if the back door is locked, your employees will not think it is important to keep it locked.

Even small businesses can, and should, have a security audit in place. Depending on the size of the business, and the specific need, the audits could range from a simple checklist to a full-blown multi-area, detailed audit process. When it comes to security, here are some things that every business owner should be checking on a regular basis:

- Physical Security – Are your doors locked? Is your building secure? Is your alarm working properly? Including all motion sensors and door contacts? If you have cctv, is it working properly? Are the times correct on your video output?
- Cash Handling – Is your cash handling policy being followed? Are the proper signatures, dates, etc. in place? Is your safe always locked? Do you regularly remove cash from registers so that you limit your liability in case of theft or robbery? Are your daily/nightly deposits secured? How are your registers counted? By whom? Are the fail-safes being used consistently? Is there accountability for discrepancies?
- Merchandise Protection – Are your lockable cases kept locked at all times? If you use Inventory tags, are they being used to your expectation? Do your employees respond to alarm activations?
- Operations – Are you checking your receipts of goods for discrepancies? Are you following up with vendors on any issues to ensure you get credit for mistakes? Is your stock area clean and organized, so that any theft activity will be more obvious?
- Safety – Are your customer areas free of any potential dangers? Are your fire exits clear and unobstructed? Are your back areas clean, organized, and a safe work environment for your employees?

Do you have an emergency plan? And, do all of your employees understand it?

This is just an example of the basic items that any business owner should be auditing on a regular basis, be it monthly or weekly. Sometimes, a simple checklist will work. The key to the audit is the follow up. All discrepancies must be corrected, and reviewed with the employees to ensure that everyone understands the importance of the programs. If you inspect what you expect, you will find that you will see improvements in execution, and a reduction in losses and shrink.

Network With Other Retailers

One of the first things any business owner must do to help reduce losses through theft is to know who is stealing, and how they are doing it. A great way to get this information is to network with other retailers.

Don't be intimidated by the larger retailers, either. They want to reduce losses as badly as you do, and they will probably share information with you about who is stealing, and how they are doing it. The more eyes there are looking for these people, the better the chances of catching them.

Most loss prevention departments appreciate the effort made by other businesses to help stop theft. When businesses work together to prevent crime, everybody wins. So, go visit your neighbors, introduce yourself, and be willing to share what you know with them. If you have video of a thief that has stolen from you, chances are, other businesses in the community have been victimized by the same person or people.

Be sure to attend any meetings with your local police department set up and hosted by local retailers. You will receive a lot of great information, and you will meet other business owners and/or managers, like yourself, who are being victimized by thieves. Police love the opportunity to speak to groups of retailers in an effort to build cooperation and a strong anti-theft network. If no businesses have sponsored one of these meetings, maybe you should. Call up your local police department and ask about a workshop for the local businesses. If you host, the police department will very likely advertise it for you. They will invite every business in your community to attend. This is a huge win in most cases,

because the information you gather during these meetings will help you identify potential thieves, and you will get some great advice about how to better protect your merchandise without sacrificing sales.

Still another, great way to participate in community networking is a new, web-based service called [PostaCrime](#). This is a free service where retailers, police, or even individuals can post video or pictures of thieves who were not apprehended at the time of the theft. They even sell signs and stickers that you can post in your establishment to warn would-be thieves that you will post their pictures on the website if they steal from you. The best part is that the community can then log onto the site and look at the video or pictures, and hopefully help you identify the thief for police. Every small business should be using this service, and advertising it to their customers.

Have A Goal For Shrink Reduction

Every successful business sets goals. In fact, most businesses have many goals, both short term and long term. Sometimes, though, small and medium sized businesses may overlook one very important goal: The shrink goal. To reduce shrink, you need to know your current shrink level, have a plan to reduce it, and have something (a goal) by which you can measure the effectiveness of your efforts. Jim Lockwood, at SevenActions.com, has written a great [article](#) on setting SMART goals. These same principles can be applied to setting shrink goals. Here is how:

- **Specific Goal** – Specifically, how much shrink is acceptable? Most of us would immediately answer, “None”, but that is not realistic in most cases. Businesses need to understand what [shrink](#) is, and then set a goal as to what is the acceptable number, in dollars, and as a percent to sales.
- **Measurable Goal** – This is where you need to know your current situation. You’ll need to take inventory to see what is “lost”. Spot checks throughout the year on high shrink items will help you measure progress, and then a follow up inventory, at least annually, will give you your results.
- **Achievable Goal** – Don’t set a goal that you don’t even believe you can reach. This is very important. If you have a high shrink level, an achievable goal may be to cut that shrink by 20% over the next year, or it may be achievable to cut it by 40%. If you believe it is possible, after identifying the causes, to reduce shrink by 40%, then it is.

- **Reasonable Goal** – It is not reasonable to expect to eliminate all shrink at once. Most of the time, shrink is reduced incrementally by eliminating the current causes, and then reacting to new causes as they arise. With the right plan, and a real commitment to reduction of losses, it is reasonable to expect to lose less than 1% of sales to shrink.
- **Time-Based Goal** – Set a date by which you want to achieve your shrink goal. Give yourself a year so that you have a full year of sales to compare with your losses and have a true read of your shrink as a percentage of your sales. However, you can also set “waypoint” dates where you can perform mini-inventories in high shrink areas so you can re-direct your efforts and revise your plan if necessary.

Because a [reduction in shrink equates to a huge increase in profits](#), it is absolutely worth the time and effort to set a shrink goal and hold your business, and yourself, accountable for reaching it.

Invest In The Right Equipment

Closed Circuit Television is a basic tool for any loss prevention program. In today's world, the investment for a good CCTV system can vary, depending on the quality and size of the system. But small business owners should not be intimidated by some of the price tags they see on CCTV packages available out there.

There are good quality products available for small retailers that will minimize the cost, and still provide adequate protection. Even DVR systems are getting more and more affordable, and they provide the best solution for recording and maintaining video records. It is important to do your research before making a decision on what system will fit your needs.

Electronic Article Surveillance, or EAS, is also something that most thought was only affordable to large retailers. No more. Today, there are very good EAS solutions available that are very affordable, even for small businesses. Tags are re-usable, and alarming pedestals can even be purchased refurbished, with warranties, at an affordable cost.

Other, often overlooked, equipment that can help businesses protect their profits are things like locks, key boxes for key control, safes for protecting cash, using the right cash registers, and even the right POS software.

Know Your Employees (Trust No One)

Even the best employees don't have your business's best interest at heart like you do. The fact is that, statistically, up to 25% of employees steal from their employer on a regular basis. It is important that employers know who is minding the store when they can't be there.

One way is to perform background checks on all employees. The cost for this is usually minimal, less than \$50 per search through a reputable company, and the benefits are huge. How do you know that the cashier that you like so well is not a convicted felon? How do you know that they are not stealing from you, or even your customers, every chance they get? There are even some resources provided by local governments that will give you some peace of mind, and cost nothing but time. Just be sure you get written permission from the employee before performing a background check, and do this before you offer them a job. Also, does your job application ask if the applicant has been convicted of a felony within the past 7 years? If not, it should. As a business owner, you have a right, and a responsibility, to know who you are employing.

There are many ways to determine whether or not an employee is causing your business losses. For most of these, however, you will need professional help. There are many great consultants out there who specialize in employee dishonesty and theft. They can help you identify the cause of losses, and most will even interview suspected employees for you (for a fee, of course), and then follow through with the prosecution process, if necessary. If you know you are losing assets, but can't find the cause, don't hesitate to call in a professional.

Resources

In this booklet, we have mentioned quite a few loss prevention resources available for retailers. I am providing a list of some resources here for you. It is my hope that you have found this information useful, and that you will be able to use this information to help you reduce your losses due to shrink.

- [Joe's Bunker](#) – Loss Prevention Resources
- [Postacrime](#) – Free service for retailers to post videos
- [CCTV](#) – Closed Circuit Television Providers
- [Private Officer.com](#) – Shoplifting News Source