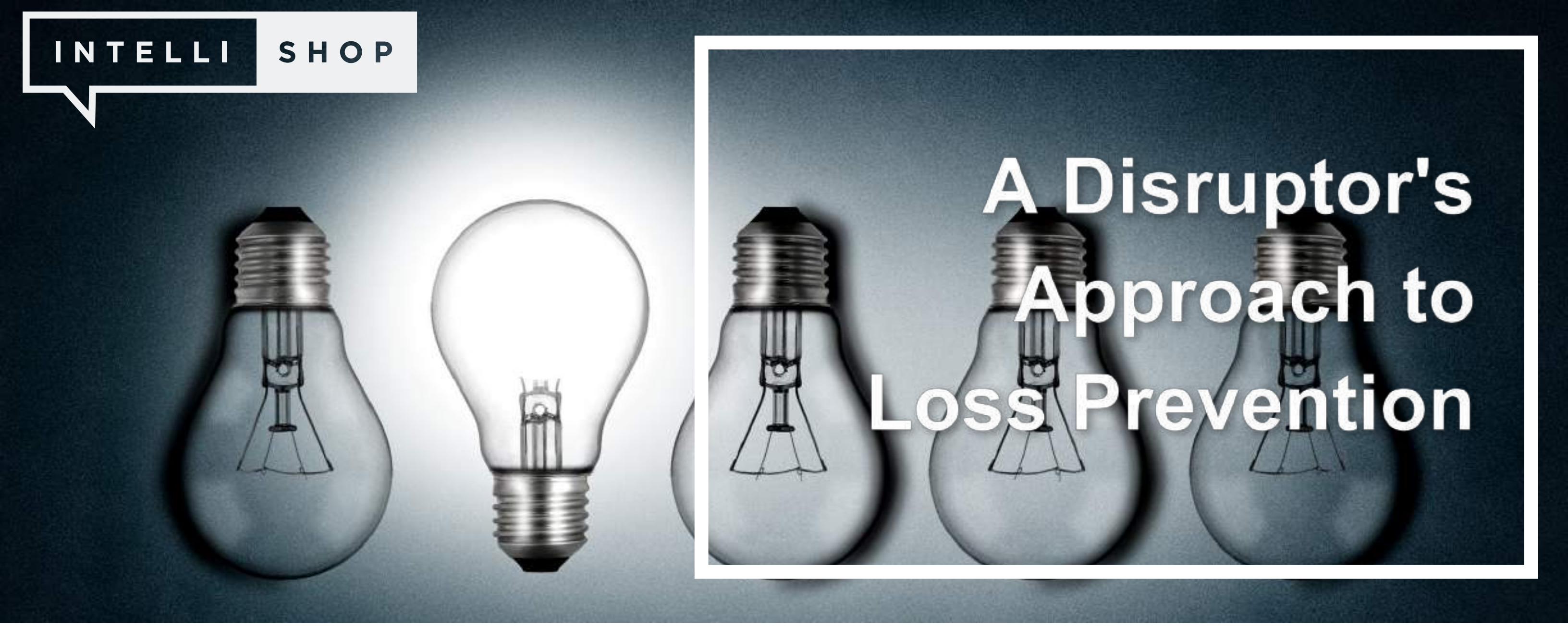
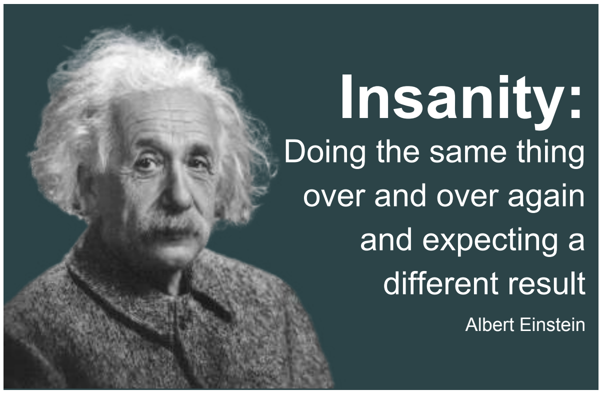


A Disruptor's Approach to Loss Prevention



When Albert Einstein uttered this famous sentence he may have been speaking about any one of several topics: quantum mechanics, mass-energy equivalence, or the photon theory of light. At one point Einstein was at the center of controversy after endorsing a popular psychic in 1932, and he himself was considered to be a “mentalist.” Perhaps, Einstein was indeed able to peek into the future and decided to forecast what the state of the retail loss prevention industry would look like 65 years after his death.

The National Retail Security Survey is published each year by the National Retail Foundation and is completed in partnership with Dr. Richard Hollinger and his students at the University of Florida. The survey, now approaching 30 years old, collates data provided on-line by retail loss prevention and asset protection professionals. This data is organized and used to identify trends in inventory loss (shrink), internal and external investigation, loss prevention programs, and departmental budgets. This survey along with the Hayes International Annual Retail Theft Survey are widely regarded as the leading authorities on the state of the loss prevention industry in the United States. For the 2020 National Retail Security Survey (NRSS) responses were collected from 69 retailers across the spectrum –shoes to sporting goods, furniture to pharmacy, convenience to crafts, clothing to computers. Key findings appear on the following page.

Key findings of the 2020 National Retail Security Survey:

Shrink sky-rocketed to an all-time high, approaching $61.7 billion industry-wide, reflecting a loss of 1.62% of retail sales.

Approximately 69% of respondents indicated they expected their departmental budget to remain flat or increase. *

52.2% of respondents indicated they will be increasing their technology spending.

Approximately 85% of respondents stated that they expected their departmental size to remain flat or increase. *

49.3% of respondents indicated that they see the greatest increase in loss coming from traditional brick and mortar stores.

Finally, a full 75.4% of respondents believe that for their programs to be successful their teams need to become more analytical.

**Note: There is no attempt by the authors of the study to reconcile how 85% of respondents expect their department size to remain flat or increase while only 69% anticipate a flat or increased budget.*

There is little debate: the NRSS does a solid job collecting data and presenting it in a compelling manner that allows LP executives to cut and paste it into PowerPoint slides and budget presentations. The survey itself is holistic and areas examined are as varied as solution provider booths at an industry trade show, including:

- Manpower
- Technology
- Analytics
- Exception Reporting
- Training and Awareness programs
- Codes of Conduct
- Hotlines
- Bulletin Boards
- Burglar Alarms
- Armored Cars
- DVRs
- Electronic Article Surveillance

Yet the National Retail Security Survey, one of the foremost resources for Corporate LP decision making, falls short in a significant area - most obviously it fails to ask the question: Did any of these things – people, processes, products or programs – actually allow retailers to reduce inventory loss?

This question is of paramount importance, because while reported shrink industry-wide stands at $61.7 billion, this is only part of the problem. The balance lies in those LP department budgets: on average the budget for a retail LP program is approximately 1% of a company's sales. Factoring that with dollars lost to inventory shrink, $61.7 billion quickly jumps to nearly $100 billion.

In this context then, the National Retail Security Survey continues to read like a script for a sequel to a bad movie… Year after year retailers invest billions into LP budgets, yet rarely see a reduction in inventory loss. This is what Einstein spoke of in the introductory quote: LP programs and budgets continue to increase year after year, while shrink remains a significant problem facing businesses across all spectrums. Money is spent on growing departments and on emerging technologies, conference attendance and on-going training, yet shrink never markedly improves. The only differences being introduced to the equation are larger numbers. Perhaps the reason the NRSS isn't asking if any of this spending led to a reduction in inventory loss is because of a fear that the answer will be a resounding "No!"

What do retailers do now?

Corporate executives have many obligations – to their shareholders, board members, senior leadership, direct reports, customers and to themselves. Often times this places them in untenable positions, as it is rare that the interests of all of these groups align. As if this were not pressure enough, the societal changes of the last 24 months have forced businesses and their leaders to redefine what "corporate citizenship" means; no longer can retailers check that box simply by giving a portion of their revenues back to local schools or by donating short-dated food to the local shelter, rather they find themselves on the frontlines of public health and social justice initiatives.

In response to these pressures the most successful organizations have implemented changes company-wide. Inclusiveness training, Title VII awareness, reimagined real estate strategies to target underserved neighborhoods, self-checkout options, contactless payment, BOPIS, refreshed marketing campaigns, domestic partner benefits, improved pay and benefit offerings for non-exempt staff, and tuition reimbursement programs have all been born out of this recent era. Yet most LP programs continue to swim upstream and have been slow to evolve.

To positively impact shrink and begin to claw back some of the $100 billion referenced above, leadership must complete the following internal assessment:

- Use all available metrics to identify if shrink has remained flat or gotten worse. This includes shrink at cost, shrink at retail and shrink as a percentage of sales; additionally, year-to-year units lost should also be studied, particularly in high-risk, and/or low-margin departments.
- Examine the role your internal loss prevention team plays within the organization. Are they focused on safety, theft and fraud, or are they global business partners that tailor their approach to total profit protection around the needs of your business? If LP/AP senior leadership does have that global mindset, is it reflected in day-to-day routines of field LP personnel?
- Has your organization been successfully sued because of the actions of your LP team? Has your HR team been unable to defend itself during unemployment hearings stemming from internal loss prevention investigations that lead to terminations?

If any of these areas are of concern to an organization the next step is to partner with an outside firm that can assess the viability of existing programs within the context of our evolving retail climate. Following a comprehensive assessment they should provide you with plans for retooling your company's approach to loss prevention and help you implement new program components. By using an independent firm you ensure transparency among key stake-holders; silos are broken down and dialogue focuses on large-scale topics related to global changes that drive down shrink, increase sales, reduce liability and improve employee morale.

Case Study 1
Specialty clothing retailer >600 locations.

• Shrink Reduction:	$9,800,000
• Program Cost Reduction:	$785,000
• Travel Expense Reduction:	$398,000
Total Savings:	$10,983,000

In this first study, a specialty clothing retailer partnered with IntelliShop to co-source their loss prevention program. While maintaining some members of the internal LP team to provide program oversight and to serve as a liaison between the two companies, a majority of departmental functions were contracted out.

By utilizing IntelliShop's Loss Prevention Operations Center the client realized a 300% increase in telephone interviewing, a 400% increase in ethics hotline calls being addressed, and a decline in average case value – a direct result of a more streamlined investigative process, designed to identify fraud early.

Additionally IntelliShop Field LP Auditors completed 1,500 store audits, and the IntelliShop Loss Prevention team developed a Store Manager LP Audit, of which 3,500 were completed.

Case Study 2
Footwear retailer >1,000 locations.

• Shrink Reduction:	$8,000,000
• Annual Sales Increase	$186,000,000
Total Savings:	$194,000,000

In this instance the client approached IntelliShop about increasing sales at under-performing stores. The client had clear measures of success: deter theft at these locations in order to protect inventory levels and improve suggestive selling so as to drive accessory sales.

Working in unison, the IntelliShop LP and Guest Experience teams developed two custom, comprehensive evaluations. By engaging customers quickly upon entering the store, sales associates created a perception of control in the location, thereby deterring theft. The average location realized a year-to-year decrease of $8,000 in shrink at retail.

Further, the suggestive selling allowed the brand to realize a dramatic increase in accessory sales – margin rich items that traditionally had a very low turn-over. This case clearly illustrates the value of having motivated and engaged store associates, as the brand made no changes to merchandise protection strategies, invested in no new equipment, and maintained pre-program staffing levels in store locations and in the LP department.

At this point we've covered the following: Einstein, The National Retail Security Survey, and $100 Billion. Let's talk about Harvard.

Harvard Business Review

In 2007 Adrian Beck and Colin Peacock published "Lessons from the Leaders of Retail Loss Prevention" in the November issue of the Harvard Business Review. The summary begins as follows: "Arresting thieves and investing in technology, the main approaches to retail loss prevention, haven't managed to diminish it over the past 15 years." Sound familiar?

Beck and Peacock, state that "inventory loss in the United States has remained stubbornly high over the [prior] 15 years," and, ironically, they cite data from the University of Florida's annual National Retail Security Survey! The study reviewed LP practices at retailers whose shrink rates averaged 44% below the mean score reported in the NRSS. Findings were organized in three categories: strategic, culture, and operations, illustrated on the following diagram.

These findings support the theory that it is an investment in leadership, and an ability to "trust the process" that will best enable employers to drive results. It's worthwhile to remind ourselves that store employees and field managers were not hired to implement LP programs and processes. Nor were they hired to apprehend shoplifters or identify internal fraud or abuse. It is incumbent upon leadership – internally, or from a contracted partner – to "connect the dots" and illustrate how properly executing daily tasks, as a cashier in a store or an order picker in a distribution center, drives shrink down and sales and margin up.

At IntelliShop our Loss Prevention practice is lead by a team of experts respected throughout various verticals, including big box and specialty retail, restaurants and bars, hospitality and manufacturing, and wellness and personal care. Our team members hold advanced certifications in their field, and, on average, have over 20 years of experience in loss prevention, operational and forensic auditing, OSHA compliance, and human resource/workplace violence and Title VII investigations. Members of our team regularly appear in industry publications, as well as in print and broadcast media.

We partner with our clients strategically to design and implement LP programs that are sustainable, scalable, and relevant to each client's unique set of circumstances. Everyday we challenge clients to be open to changing their current way of thinking, knowing that we are there to support them.

And on that point, we go back to where we began… Einstein. The thing is, Einstein never uttered the quote most frequently attributed to him. While it certainly sounds like something he would say, a newspaper editor traced its origins back to a more recent time. In her 1983 book, "Sudden Death" author Rita Mae Brown writes about a fictional "Jane Foulton," saying: "Unfortunately, Susan didn't remember what Jane Foulton once said: 'Insanity is doing the same thing over and over again, but expecting different results.'"

What else can we change your perception of?

Join us on June 30th at 12 pm ET
to learn more.

About the Authors

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Mike Mershimer is a globally recognized speaker and advisor to global brand Executives. He is the past President of MSPA-Americas, and sat on the MSPA Global Board of Directors.

Mike has been a member of the National Restaurant Association's Internal Audit and Loss Prevention Executive Study Groups, where he has served as past chairman of both groups, the Association of Certified Fraud Examiners and the National Food Service Security Council, where he is a past Board Member.

Bob Casar

Throughout Bob's 20-year career he has held positions of increasing responsibility managing loss prevention, audit and risk management programs for big box and specialty retailers, restaurants and bars, and other businesses in the service industry as an internal or external partner. A Certified Fraud Examiner, Bob has collaborated on investigations with law enforcement agencies of all levels throughout the US and Canada, and he has managed audit projects throughout North America, the Caribbean and Eastern Europe.