

ON TOP IN TOUGH TIMES

In recessionary times many retailers face a highly competitive promotional environment: gross margin put under pressure, stress on excess inventory levels and a need to protect working capital whilst reducing business costs and losses and protecting the customer base.

Those retailers who invest in good loss-prevention programmes prior to the advent of adverse economic conditions – and then maintain those programmes during hard times – will be better equipped to deal with potential increases in shrinkage and stock loss. For some retailers the impact may be minimal, as they will already have disciplines in place and a 'hardened' target as a result.

It will generally be the soft targets that will suffer more.

Family-budget stretch and higher unemployment may be a catalyst for an increase in customer theft and 'buy some, steal some', but organised thieves and offenders who target high-value items or bulk theft of product will do so regardless of economic conditions. It is these organised and recidivist thieves that can cause the greatest dollar damage and they operate regardless of economic conditions – whether it be to support a drug habit or to on-sell stolen product at bargain prices.

They will always have a market. The danger in a recession, of course, is that the market size increases as more people hunt bargains via the 'informal' market-places. Not being prepared to counter this activity prior to a recession leaves the retailer exposed to higher losses when it occurs.

STAFF THEFT

Is staff theft an increased risk during a recession?

On the one hand, higher unemployment means there may be a greater pool of talent from which to select staff – and staff may value their jobs more and be more conscious of internal loss prevention compliance and the necessity, as a result, to protect the bottom line. On the other hand, the absence of sound internal staff controls and audit trails, ineffective recruitment and vetting procedures, and lack of staff loss prevention training, places the retailer at risk – creating the opportunity for increased loss in times of financial pressure.

Retailers who don't have the systems in place prior to a recession will be more at risk during it – and may not necessarily identify it until significant damage has already been done.

PROACTIVE

For retailers who take a proactive approach to loss prevention, the onset of recessionary times provides the opportunity to reduce the effect of the downturn: by reviewing the loss prevention programme, identifying how the plan can be better executed – and checking whether greater efficiencies can be squeezed out of what already exists. These retailers won't reduce or

increase the loss prevention budget, but merely prioritise it to where the best gains can be made as the source and cost of shrinkage can shift in recessionary times.

Shrinkage and loss is not just caused by customer or staff theft. In the good times, when the margins are high and sales solid, retailers may pay less attention to paperwork and process loss. But in recessionary times, when sales dip, poor systems become more exposed and the shrinkage percentage doesn't necessarily decrease in line with sales reduction.

Identifying and securing these non-theft areas of risk could result in some quick shrinkage-reduction wins. Stock processing, write-off causes, abnormal value variances, price change errors, vendor and supplier errors, point-of-sale file maintenance, invoice errors, and time-dated stock are all areas where effective and efficient processes will result in shrinkage reduction.

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All effective loss-prevention programmes require three key components:

1. Staff and business culture

Establishing a culture of loss prevention and honesty within the business – so that a loss-prevention ethic becomes embedded in everyday work practices in all aspects of the business operation.

2. Process

Building and implementing sound processes and policies that prevent, reduce and quickly identify loss-causing events and adverse shrinkage conditions: by type, value and source.

3. Technology

Using technology to support both staff and processes. The cost of technology need not be high; it is merely a case of establishing where the shrinkage issues are and why, and what the cost is – and prioritising your technology needs accordingly.

Shrinkage is a cost of doing business and that cost can be very high – a loss-prevention programme gives retailers the means of controlling and reducing that cost.

Such a programme needs to be all-encompassing, not just theft-related. ■

By **Dave Norton**, a member of the NZRA crime prevention group and the loss prevention manager at Foodstuffs (SIHD).