Structuring the Loss Prevention (LP) Function: Generating a Strong ROI through People, Benchmarks and Training

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Retail loss prevention (LP) must be understood within the context of return on investment (ROI) analysis. Without a clear indication of ROI, there is no case for investing the time, money and resources necessary to staff, administer and monitor an LP function. Without a positive ROI, a retail organization is better off accepting the loss as a part of doing business while investing nothing to reduce the profit drain. However, with an effective LP function in place, gains can be realized, losses mitigated and profitability increased. The benefits are real.

LP success relies on an organization's ability to anticipate and manage loss, while creating an LP team who will learn and grow with each experience. Also vital to LP success is the structure of the function that is put into place.

However, despite the potential benefit of LP, many retail organizations are investing less in the function. According to a recent University of Florida National Retail Security Survey, the average LP budget has dropped to 0.43 percent of sales. The decline in LP spending at many retail organizations can be attributed to a downward trend in shrinkage, as well as budget-trimming measures by company management – which tends to view LP as a business expense rather than a cost center – in response to lagging sales and profits. Thus, "do more with less" has become the mantra of LP.

So, with losses in the billions and a constrained fiscal environment, how can a retail organization maximize its return on capital and payroll investments and consistently provide clear, measurable ROI on LP efforts? Smartly structuring the LP function may be the simplest and most cost-effective answer.

What is the responsibility of the LP function?

LP is concerned with the loss of merchandise and currency outside the sale and management of goods. While there are subtleties in how LP is employed by department stores, big box retailers and specialty retailers, the overriding purpose remains the same: minimize shrinkage, while driving a positive ROI.

Many factors contribute to shrinkage including shoplifting, employee theft, inventory loss, paperwork errors and damaged goods. But shrinkage can be minimized through multiple, different means such as electronic surveillance, merchandise protection, in-store security, exception-based reporting and employee screening.

The goal of LP is to increase store and company profitability by minimizing the loss of merchandise and currency. Thus, it is common for LP to be considered in relation to store design, employee training and hiring assistance as well as procedural reviews for money handling, customer returns, and vendor and customer relations.

Ultimately, economics drive LP decisions. A retailer chooses its LP methods, such as merchandise protection devices, electronic surveillance and on-site security personnel solutions, based on its assessment of loss threats in relation to the benefits of addressing them. For instance, it would not be profitable for retailer to spend $1,000 to protect a $500 loss, or to employ the same LP solutions to protect both authentic and costume jewelry.

Who does the LP unit report to within the traditional retail framework?

There are two elements of LP reporting to consider when developing an LP structure: on-site requirements and reporting structure.

LP solutions serve varying needs that are dependent on store space, merchandise value, volume of sales and foot traffic. In retail environments such as department stores, for example, it is common to have on-site LP personnel reporting to and working closely with local management. Meanwhile, at metropolitan specialty stores, which typically have a high volume of foot traffic inside and outside of the store, on-site security may be necessary to deter theft and shoplifting.

Beyond the store, the LP reporting structure is influenced by a company's objectives, preferences and personnel capabilities as well as its vision for the LP function.

A recent survey of the top 100 retailers conducted by Downing & Downing, a consulting firm specializing in retail LP, indicates the most common reporting relationship for LP is to operations (42 percent); finance is second (28 percent). Several companies reported that they lead LP from other departments and offices such as legal, human resources and risk management. Nine companies stated that LP reports to the chief executive officer and/or president.

What is LP's role in the context of the entire organization? Where do the synergies lie?

LP is not a onetime event or isolated effort; it is ongoing and pervasive. Driven by the need to support a positive ROI, LP shares many goals with other company departments and divisions. As with operations and human resources, for example, LP has a vested interest in the training of personnel. Skilled workers make fewer errors, take more pride in their work, feel less frustration, and tend to be more dedicated to their employer and coworkers. From an LP perspective, this leads to less employee theft, reduced loss of inventory due to human error, and more attention to details that minimize loss.

Of course, in some cases, there is potential for adversarial relationships. Due to LP's breadth of responsibilities and the investigative element involved, tension can exist between LP and other departments. To ease this tension and encourage a cooperative atmosphere, LP personnel can benefit by approaching their work as problem-solvers and partners who want to help ensure the success and profitability of the company and its individual stores.

How does LP adapt to the complexities within the retail segment?

Not all retailers are alike – nor are their store environments. Dissimilarities in operations and environments often make it necessary for companies to take unique and differing approaches to LP. Department stores – characterized by their large space, multiple floors, numerous entries and exits, high volume of foot traffic, and distributed cash registers and merchandise returns – tend to require a people-intensive approach to LP. The mere volume of shoppers and amount of store space necessitates more in-store LP personnel. In this environment, shoplifter surveillance and store security tend to drive on-site LP functions.

In comparison, both big box retailers and specialty retailers, which typically have stores with fewer entries and exits, fewer points of sale and return, and less foot traffic than department stores, usually require fewer on-site personnel to manage shoplifting issues. Retail stores in these categories generally need personnel to implement an LP program. These resources are often off-site. The use of off-site resources, exception-based reporting, and electronic surveillance may be all that is required.

However, stores in metropolitan locations where there is a significant amount of foot traffic and busy streets outside of the store may require yet another approach. In these environments, LP may include door security, which is used as a deterrent to shoplifting and other types of store theft.

In all cases, matching a solution to the threat and value of a potential loss is critical to profitability and a positive ROI for LP efforts. Making the right decision between the balance of people and LP technology requires a solid understanding of the threat and the associated costs to prevent a potential loss, as well as sound business judgment about the measures employed to maximize profitability.

Establishing benchmarks for each store will help a retail organization monitor the effectiveness of its LP program and measure ROI. Knowing how the company performs against others in the market and understanding how each store performs in comparison to one other are useful measurements. Benchmarks such as overall shrinkage and refund and discount percentages help retailers measure the health of their business and identify areas for profit improvement. Analyzing store and region results against the benchmarks helps identify specific areas of focus and determine the effectiveness of certain LP initiatives and options.

What are the implications for the LP structure when managing an international store presence?

In many respects, international LP structure and concerns are the same as those at the domestic level. Both are driven by profit and loss, share concerns with other company departments, and use shrinkage and ROI as measures of success.

But international LP presents several unique challenges. In many circumstances, domestic policies cannot be applied to international operations. “One size fits all” is a failed international LP strategy; local customs and laws must be considered when implementing an international LP plan. To ensure a positive LP environment, attention must be paid to cultural “norms” and comfort levels related to surveillance, investigative techniques, conflicts of interest and customer policies.

Language, a common barrier, also must be taken into account, as communication issues can present challenges to LP success. So, too, can cultural differences which often come into play when issues such as employee theft, surveillance and oversight are discussed. Understanding and being mindful of how certain words and phrases actually translate can help avoid confusion and build trust.

If there is a key to international LP success, it is great local representation. It is critical for retail organizations operating internationally to employ or work with companies familiar with local norms, customs and laws. However, finding such individuals and business relationships can be difficult. In some cases, when a retailer does not have an existing relationship it can leverage, it may be necessary to relocate key domestic personnel to the international location to build relevant relationships, establish key priorities and cultivate a better overall understanding of the local environment.

How do you structure and train LP staff to build subject-matter expertise?

Much is invested in LP personnel. Their knowledge of LP methods is developed over many years of experience and through their intimate familiarity with store, market and industry operations. Attracting and retaining top talent is critical to LP success.

As with all key business functions, management should take care to positively challenge and professionally grow LP staff. Due to the breadth of LP responsibilities, the interaction with other company functions that is required, and the sensitivity of LP work, companies are wise to maximize their investment in skilled LP personnel. Mentoring and task force assignments can be effective ways to grow subject-matter expertise and retain top-performing employees.

Mentoring LP personnel can be a particularly valuable way to deepen their understanding of certain LP issues and skills. Matching staff with skilled mentors helps strengthen employee loyalty while facilitating the exchange of valuable experience. Task forces provide opportunities for employees to share experiences and develop skills, while providing beneficial services to the company.

For instance, by gathering unique skills and talent to address a systemic challenge, companies can build LP competencies and realize a quick ROI. A task force of this type not only can address a pressing need for the organization, but can be used as a “training ground” for LP staff and facilitate knowledge sharing between different areas of the organization.

Conclusion: Implementing a smart LP strategy

There is no “one size fits all” solution to building a high-return retail LP staff and function. Considerations of store size, geography, threat and functional emphasis influence the LP function, and how it is staffed and reports within the corporate structure. Balancing good business decisions to needs and opportunities affect the use of LP methods and help ensure a positive return.

Once a thorough needs assessment has been conducted and an LP strategy is in place, the critical steps necessary to address staffing issues, establish an effective local presence, and implement other relevant measures that will profitably prevent loss can be taken.

Leveraging the investment your company makes in LP personnel is critical to minimizing shrinkage and realizing a positive ROI. Specialized knowledge of your business, operations, store management, and vendor and personnel procedures are not replaced easily. And losing this vital knowledge, even temporarily, can create gaps in your organization’s ability to implement and monitor LP programs.

Smart LP strategies must take multiple factors into account: on-site LP personnel, electronic measures, performance benchmarks, reporting structures, and training and career development of LP staff. Through the optimization of these factors, it will be possible to “do more with less” and generate a compelling return on your LP efforts.

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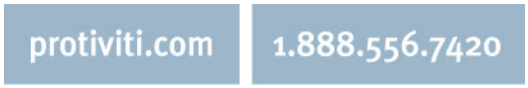
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