

# THE WALL STREET JOURNAL

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What's News—  
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# Emerging Trends in Loss Prevention

By King Rogers, Contributing Editor

Loss prevention is a unique discipline that has changed measurably in the past forty years. By analyzing this evolution in light of today's retail realities and tomorrow's pending technologies, certain industry trends can be identified. To put those trends in context, first let's review what has led up to loss prevention today.

## A Short History of Loss Prevention

In the sixties, retailers called the departments that were engaged to impact loss *security*. Many of the practitioners in those departments fit the nomenclature of their department in demeanor, behavior, action, and results. There was little communication between the security practitioners and the senior management of the retailer, unless, of course, a major debacle occurred that resulted in legal action taken against the store. When that happened, the communication that resulted was very much negative in nature.

As losses continued, enlightened practitioners and occasionally their enlightened chief financial executives began to understand the value of *prevention*—a proactive approach versus the reactionary past. As this concept became more commonly accepted through the seventies, retailers began changing the name of that department to *loss prevention*. Those in charge of this function began to think of their responsibilities in different terms. A significant metamorphosis continued through the eighties and into the nineties.

Loss prevention executives learned to relate what they did to profit improvement. The bottom line was impacted through measurable reduction in losses, such as inventory shortage, cash loss, credit fraud, expense management, and the liability lines on the profit and loss statement (general and workers' compensation).

As some of the professionals of this emerging function continued to deliver results, they gained recognition and appreciation from their companies' senior management teams. Some of these departments were renamed once again, this time to *assets protection*, a designation that implies a broader scope of involvement in the successful results of the retailer.

Often, these assets protection teams carried out their mission with a true client and service provider relationship. They made certain their internal retail clients completely understood the role of assets protection, what were the expectations, and how they were to measure performance. In addition, both assets protection and the client learned how to work together to maximize the return on any capital invested in technological solutions for prevention and detection.

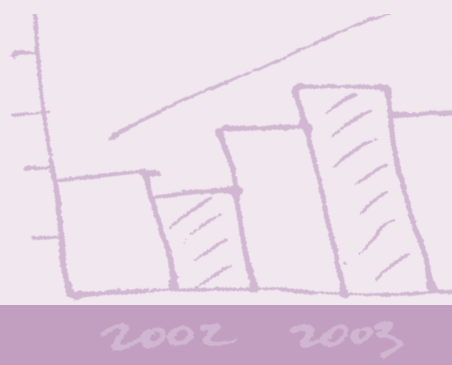
Today, more than ever, there is a need for increased intelligent and effective ways to protect assets. Access to data, analysis of that data, and utilizing the results of the analysis to improve productivity and efficiencies and detect potential theft, fraud, and other forms of loss is essential.

Effective supply chain monitoring by loss prevention (still the most commonly used name of the profit-enhancement function) will uncover and resolve many opportunities to impact previously unmeasured loss, from outright product and cargo theft to vendor manipulation and fraud. Sometimes the complexities in many retailers' logistics systems can cause inventory misstatements and other data integrity issues, which should be detected through effective monitoring.

The *brand* of any retailer is a critical asset that must be preserved. Erosion of the brand will directly impact top-line revenue and eventually (often very quickly) shareholder value.

The employees of the retailer are considered by some to be the most important asset in the company, even more so than the customer. That belief is based on the premise that the employee represents the brand in the best light to the customer, provides a great experience for the customer, and thus contributes to both the top and the bottom lines.

Looking back on the events and the developments that have occurred in the last few years, the current national and international issues, and numerous evolving technologies, it is interesting to speculate on emerging trends in loss prevention.



## Changes in the Process of Loss Prevention

### Employee Selection and Training.

There is continued emphasis on centralizing the role of loss prevention. Intelligent strategy development and decisive tactical leadership are both essential in today's lean, mean business environments. Ensuring both loss prevention and store operations field personnel are properly trained and effective in preventing, detecting, and resolving loss is a must.

There will continue to be fewer to do what needs to be done. *Selection*—the hiring process, testing and background screening—is more critical for success than ever. There will be more training assessments and follow-up by expert third-party providers in the future. Utilizing these expert outside resources along with their proven investments in learning technologies will actually protect several expense lines for the retailer, including all of the costs associated with technology design, development, and deployment, internal help desks, and additional training staff, and measurably impact the bottom line.

In the most recent National Retail Security Survey, published by Dr. Richard Hollinger of the University of Florida ([www.soc.ufl.edu/srp.htm](http://www.soc.ufl.edu/srp.htm)), the opinions of the survey respondents reflected that internal theft (dishonest employees) caused 46 percent of the losses retailers experienced versus 32 percent attributed to external theft (shoplifters). If these numbers are anywhere close to an accurate reflection, it begs the question, "What is being done about internal theft?" The future must require loss prevention to stand up and be heard about hiring practices, selection procedures, screening requirements and compliance, orientation and training, awareness programs, hotline availability, and opinion surveys and follow-ups.

**Vendor Compliance.** Another process is emerging as an outgrowth of both internal criminal activity and crisis management. Many retailers have

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# Benchmarking: The Next Big Idea in Loss Prevention Management

*By Robert Figlio, Ph.D.*

Over the last twenty years or so of progress in managing retail loss prevention and security, three insights have profoundly shaped the LP programs of virtually every major retail company across sectors: measurement, prediction, and benchmarking

These tools are overlapping, interrelated, and ongoing. And each positively influences the thinking and decisions of today's generation of LP executives and their corporate management.

## Measuring Loss

Loss Prevention and its sister discipline of corporate security have not historically been accused of being early adopters of new management techniques. Until relatively recently, LP management actions were more akin to an intuitive art than to management science. The now familiar management dictum of "If it can't be measured, it can't be managed" did not initially resonate within our discipline as valid. Measurement implied not only having the ability and will to collect and analyze data, it also seemed to open a trail to accountability for what was being measured. And crime, of course, while seen as something that could be contained or suppressed, also was not viewed as completely controllable by LP manager activities.

Nonetheless, measuring retail crime has been in vogue, driven as much by the new management mindset about measuring key business performance factors as by the national preoccupation with crime rates in general. The first important step in measuring retail crime involved surveys of employee theft, shoplifting, and vendor fraud. For several years running, the National Retail Security Survey has garnered national headlines – in part because consumers can intuitively believe that \$30 billion or more of annual losses due to retail fraud can and do translate into higher prices.

Capturing and analyzing loss data at the individual store level have become routine today, but originally represented important steps in helping LP managers demonstrate the effectiveness of their prevention programs and justify their annual budgets. Even simple, but compelling ROI measurements—comparing the year-to-year changes in the annual cost of LP programs with lower total losses—became compelling arguments for more and better prevention investments.

## Predicting Loss

About 15 years ago, a group of mid-Atlantic gasoline station operators became concerned and then irritated about the seeming inability of both their security managers' and local law enforcement's inability to stop a rash of robberies. They asked if it would be possible to predict which stations were most likely to be



robbed, thereby opening the possibility that measures could be taken to prevent future robberies at the most likely locations.

Research concluded that the site-specific likelihood of crime *could* be predicted for those owners' specific properties. Since then, retailers of all types and sizes, with as few as one and as many as thousands of sites, use predictive data to identify and address crime vulnerability. Based on the melding of various crime and socioeconomic data with statistical and actuarial analysis and modeling, crime vulnerability prediction has been extensively validated as a highly accurate crime predictor. Such a tool allows LP professionals to manage their programs and participate meaningfully in such strategically important corporate business processes as site selection and risk management.

### Benchmarking Loss Prevention

Today it seems a perfectly natural logic flow that benchmarking of loss data and of the performance of LP and security programs is becoming the next big idea in our industry. The ability to measure events makes it possible to identify trends, which inevitably makes it possible to compare events and determine how best to alter those trends. Thus, we are now seeing a growing interest in benchmarking, primarily by executives whose companies are heavily involved in organization-wide quality improvement programs.

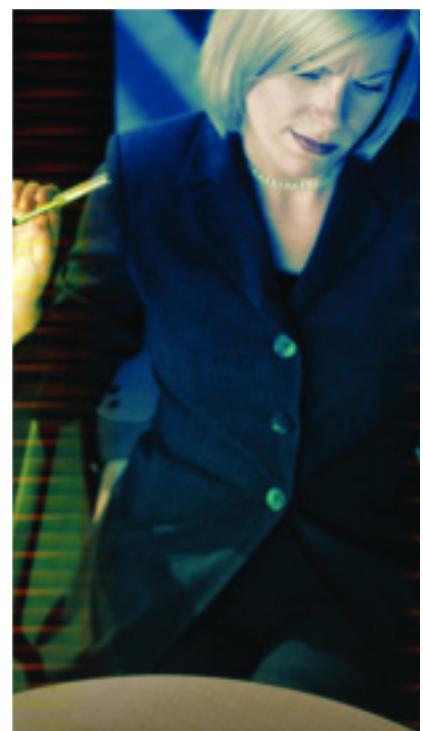
Benchmarking is commonly defined as the process of measuring and comparing actions taken and results achieved against some standard or reference. The goal of benchmarking is continuous improvement driven by the desire to identify and adopt...or at least try...measures or tools that are proven to produce the best comparative results.

*Internal benchmarking* is perhaps the most intuitively appealing and demonstrably effective method of determining the comparative effectiveness of various LP and security measures. If a retailer has in place an incident-tracking capability across all or some sites and has obtained the crime vulnerability scores for those sites, it is not difficult over a period of time to compare the effectiveness of various security measures among those sites.

*Industry benchmarking* involves the willing collaboration of companies within the same industry to determine on a broader scale what works and what does not in an effort to determine best practices. In virtually every industry today, there are consortia of companies committed to sharing data on everything from costs of pollution control to handling workers' compensation claims. Professional associations or independent managers of these consortia hired by the participating companies observe strict protocols about the anonymity of the data that are contributed by members. Emerging from such benchmarking efforts are deeper and more statistically valid findings about what measures represent true best practices.

Benchmarking in loss prevention and security is coming into its time, even though there is still great sensitivity about sharing of proprietary loss data. As LP becomes squarely centered in mainstream business processes, this sensitivity will give way to the realization that the identification and adoption of proven best practices really are what the best companies do to become even better.

*Robert Figlio, Ph.D., is co-founder and CEO of CAP Index, Inc., based in Exton, PA.*



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employees of outside contractors who need access to stores, distribution centers, information technology centers, and even customers' homes. From maintenance workers in the store to computer program developers to furniture and appliance delivery personnel, these outside contractors often roam freely and the retailer doesn't really know who they are.

Furthermore, employees of product vendors help stock shelves, take inventory, and set up displays. Little is done to monitor their activity or track their whereabouts. Third-party providers are emerging who can verify the authenticity of the vendor/contractor, screen their employees, and provide them with universally accepted identification...all paid for by the vendor/contractor, not the retailer. But the retailers and their customers are the ultimate beneficiaries through the increased assurance that the outside employee does not pose a criminal threat.

**Crisis Management.** Since September 11th, crisis management has taken on a new meaning to retailers and loss prevention organizations. Large shopping centers and malls are terrorist targets according to Department of Homeland Security and FBI sources. The recent sniper events in the Washington, DC, area required responses by retailers that most had never even dreamed of before. The impact from the loss of business in certain stores in that market was also felt by other stores within that chain elsewhere in the U.S. because of the national news reports. Some chains dispatched loss prevention personnel to the rooftops of stores in the affected market area to monitor and report

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parking lot activity and to be able to render aid quickly if needed.

**Organized Retail Theft.** The recognition of the problem of organized retail theft is growing daily. Read Hayes, Ph.D., CPP, executive director of the Loss Prevention Research Council, heads up several studies currently underway to provide better understanding of the problem. These studies include flea-market research and analysis, product protective packaging impact on thieves and their fences, item analysis for tracking the most commonly stolen products, and further research into the offender population.

According to Dr. Hayes, "Losses tend to cluster in relatively few places (hot spots/hot stores) and in relatively few individual products (hot products). This clustering allows for more precise assets protection protocols, and, in turn, more cost-effective LP efforts."

**Refund Fraud.** Retailers' profit lines are directly impacted in several ways due

to refund fraud: net sales deterioration (gross sales minus refunds = net sales), inventory shortage, gross margin impact, and increased handling expenses. Just as there are several "membership" service providers today in pre-employment screening and check authorization adding value for their members in many ways, it makes sense for a membership-type refund authorization provider, through the collection of refund activity from many retailers in real time, to be able to provide instant analysis and risk management information regarding the acceptance of the refund by the retailer. Further analysis of this data will provide intelligence for additional investigation by loss prevention and law enforcement.

**Supply Chain.** As stated earlier, the supply chain presents loss prevention with a new frontier. Traditionally, 95 percent of the field loss prevention personnel have been deployed to the stores with some minimal presence resident in the distribution centers. The emerging trends show that some retailers have redeployed some of these field personnel to address organized retail theft and others have been redeployed to monitor the supply chain.

Imagine standing on the receiving dock of a distribution center and figuratively looking upstream at the path the merchandise takes to get to that DC. That route is loaded with slippage opportunities, from vendor manipulation to organized cargo theft to cross dock pilferage. (See "Securing the Supply Chain Against Terrorism" in the November/December issue of *LossPrevention*.) Depending on the inventory system, oftentimes those losses don't show up until a physical inventory is taken in a store. By then, of

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*KING ROGERS is one of the industry's leading loss prevention executives and a contributing editor for LossPrevention magazine. This is King's third contribution to LossPrevention. He wrote the cover story for our premier issue on "Organized Retail Theft," which has been distributed to members of the U.S. Congress and used by law enforcement departments around the country in their efforts to combat organized theft. In the March/April 2002*

*issue, King discussed the concept of modeling the process of loss prevention to help decision makers focus capital expenditures and create better operational strategies. King is the former vice president of assets protection at Target. He is now CEO of the consulting firm KingRogers International. He can be reached at 866-894-5464 or by email at King@KingRogers.com.*

course, it's far too late to be able to identify and resolve where the loss occurred.

## The Effect of Advancing Technology

**Digital CCTV.** We have all seen the explosion of digital CCTV and the storage of the video on hard drives. It's just the beginning of the future of CCTV. More and more video is being delivered via the Internet as the cost of bandwidth continues to drop. Storage capabilities are becoming very cost effective and the advances in how the information flows to the storage provider are numerous. Third-party storage providers will soon be enhanced with third-party data analysts who turn the analyzed data into intelligence for the retailer, who then directs their own investigators or outsourced investigators to resolve the issue and proceed with prosecution and recovery where and when appropriate.

Other technological developments in the CCTV arena include object tracking and 360-degree viewing. As these two technologies mature, cost-effective applications will be found in the retail loss prevention marketplace.

**Exception Reporting.** Either integrated with CCTV or web delivered, or pushed from the host via intranet, exception reporting is becoming the standard versus the exception. Today, that exception information is generally reported from point-of-sale data. In the near future, exception reporting will also come from the supply chain. Merchandise shipping and receiving information is rife with data that can be mined and reported on rules-based logic and pattern recognition.

**GPS Tracking.** Exactly where were those 100 gross of men's cotton shirts that were being shipped from Hong Kong just in time for an ad when the labor strikes shut down the ports on the West Coast? GPS technology, sometimes integrated with RFID, will be able in the future to tell us where our merchandise is in real time, anywhere in the world. GPS cargo and transportation tracking technology is very inexpensive and very

effective today, especially when it is satellite based.

Some forms of the technology allow the virtual construction of a "geo-fence." If the transporter strays outside of the "fence" on the tracking device (deviates from the expected route from point A to point B), an alert is initiated and management and law enforcement can respond in real time.

**Access Control.** The technology for controlling access to stores and facilities is changing rapidly as well. Ultra long-range RFID technology is being used by the government and military in identification cards that can be read by readers from as far away as 150 feet. The cards have data storage capability and can contain the digitized photo of the card owner, readable by an image display unit from a great distance. The card can also store and validate the owner's fingerprints for immediate positive identification. Retailers are finding more and more uses for biometrics in their businesses, particularly in access control.

## The Continued Growth of Loss Prevention

Loss prevention has proven to be a dynamic discipline, one that has risen in importance in retailers throughout the world. The function is integrated into senior management levels today, and, predictably, in the board rooms tomorrow, particularly at the audit committee level.

The head of loss prevention must have the integrity, reliability, and credibility to not only deliver outstanding service to his or her corporate client, but also be trusted by the highest levels of our country's government and law enforcement officials. For example, in the search for known terrorist operatives, it is quite conceivable that the head of loss prevention could, through the prudent use of data mining and analysis, develop intelligence assistance specific to a limited small number of suspects without in any way infringing on the privacy rights of 99.99 percent of

customers or employees. This service can be a significant link between our commercial enterprise and our nation's efforts at national security. This partnership has already occurred in other commercial industries and it will occur in retailing...but only through a proven, trusted professional loss prevention function.

The analysis of the current state of loss prevention and the emerging trends leads to one overriding conclusion: Loss prevention professionals must continue to grow on both a personal and industry basis to meet the evolving challenges of their expanding responsibilities. Being as well versed in business operations and strategic thinking is as important as understanding basic loss prevention techniques. Embracing technology and partnering with both internal and external suppliers will help you push the envelope both inside your company and as an industry. Actively participating in the industry, through trade associations and avenues like this magazine, will not only keep you on the forefront of the evolution, but also allow you to contribute to the changes.

The current state of loss prevention and the trends that are emerging today are due primarily to those forwarding-thinking professionals of yesterday who identified problems and pushed for new and better solutions. The lesson learned is that it is up to each of us to strive to be the trend setters of tomorrow. ■

*EDITOR'S NOTE: LossPrevention magazine and KingRogers International (KRI) will jointly host a two-day conference this spring entitled Think Tank '03 for invited participants from retail loss prevention and technology solution providers. The objective is to provide a forum where the future needs of loss prevention can be discussed, solutions created, and issues resolved. Anyone interested in being invited may contact KRI at ThinkTank@KingRogers.com. However, invitations will be extended only on a space-available basis.*