

The message on shrinkage is... shrink it

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Experts say that firms must get tough to reduce losses caused by thefts or system failures. Yet many bosses are complacent about the problem, writes Stefan Stern

For the hapless George Costanza in TV's cult sitcom Seinfeld, shrinkage refers to the disconcerting phenomenon experienced by men on entering a chilly swimming pool. But for everybody else in business, shrinkage is far more serious and much more embarrassing.

Keep an eye on business and get serious about shrinkage

This kind of shrinkage has to do with unnecessary and avoidable losses: whether caused by members of the public (shoplifting), by staff, or through a failure of systems within the business. Whatever the cause, the only sensible thing to do with shrinkage is... shrink it.

And yet many firms are complacent about the issue. As Laurence King, managing director of the ORIS Group - experts in this area - says: "Some retailers don't even know what their shrinkage numbers are. I know of two major businesses, one in pharma and the other in fashion, neither of which want to know how bad the problem is, because they know they would have to do something about it. They have put it in the 'too hard' basket. The trouble is it does cost money to find out what the losses are. And then you have to spend more to act on it."

King knows what he is talking about, having spent his entire 40-year career in retail. He started out as an accountant at Swan and Edgar, the old department store at London's Piccadilly Circus, whose fine building now houses a Virgin Records Megastore. From there he experienced life inside many of the UK's best known retail businesses - Debenhams, Burton Group, Arcadia, BHS, and finally B&Q, where he was director of profit protection.

Whereas in the past retailers may have thought that shoplifting was the only real source of shrinkage they had to worry about, today attitudes have changed. It may have once been true that losses due to staff actions accounted for only 10 per cent of the problem. Today's rule of thumb is that there is an equal, one-third-each divide between staff, "customers" and systems behind the shrinkage numbers.

What explains the change? Modern approaches to staffing have something to do with it, King suggests. "Not that long ago most retail staff were full time, it was a career, they had their pensions there, it was their future. Now retailers have cut their costs, there are far more part-time staff, so the manager in a typical small shop may be full time but everybody else isn't. That may not be true in bigger stores, of course, but the general trend is the same."

This much more flexible workforce is not like the one that used to walk the floors of Swan and Edgar 40 years ago. "There is a lot less loyalty, a lot less commitment than there used to be," King says. "The pay can be lower too. Retailers are not the best payers in the world, so maybe people feel there is an opportunity to supplement low rates of pay by helping themselves a bit."

King's advice is that cutting costs on staffing levels is probably going to be a mistake. "It's been proven that one of the biggest deterrents to shrinkage, in terms of shoplifters, is staff," King says.

"When you interview shoplifters they say that the thing that puts them off is the presence of staff - not CCTV, not tagging. Those things all make a contribution. But at the end of the

day, if there is a member of staff there, the shoplifter doesn't go in there. Staff and customers put shoplifters off."

Today loss prevention has become a fully-fledged business function, alongside finance or IT or HR. And the seriousness with which business approaches the matter has intensified. "The perception among retailers used to be that it was a problem with the public," King says. "Consequently the people who were generally employed to deal with it were ex-police officers. They were regarded as having the right skills to prevent loss. That tradition went on longer than the change in risk required. The typical approach of a police officer had to change."

Today's "director of loss prevention" would have been a security manager 20 years ago. And this executive has to influence every bit of the business: buying and merchandising, the whole of the supply chain, knowing what stock levels are at any point.

"The companies that are successful in defeating shrinkage are the ones where leadership comes from the very top," King adds. "The CEO has to understand it and know what to do about it. Until a few years ago it would not even have come on to their agenda."

So what are the scams you have to be on the lookout for? While King is reluctant to offer a masterclass for criminals, he does describe one or two of the favourite frauds. Creating a fictitious refund while working on a till is a popular one, because you never have to take money out of the till, as it goes straight to your credit card or bank account.

But, King says, there are data mining tools which help retailers identify patterns of activities among members of staff that lead them to detect that they may be up to something like this. One business King knows well recently noticed that they had a massive number of refunds on a product they had bought very little of. Only 1,000 items had been in stock, but 60 per cent of them had been refunded after a sale. "What it was: the person at point of sale kept the bar code tag, and every time there was no one looking they gave themselves another refund," King explains. "It was only because the buyer happened to notice it that it was uncovered. It became a £65,000 fraud."

Once again, we come back to management's basic responsibility to supervise what is going on. But there is a problem here: as soon as you rely on people to do something for you there is a potential weakness in the system.

"Is the manager really going to check all the refunds at the end of the day?" King asks. "In a big supermarket or M&S the number of refunds in a day is massive - it's just not do-able. You need an IT tool to do that. You can't always depend on people - they may have too much to do."

You also need to look out for "sweet-hearting" where people on the till fail to scan items their friends are "purchasing" - this could happen at a supermarket check-out or a clothes store. If you think of the closeness in age and attitude between shoppers and staff in some outlets, you can see how this might become a problem if it is not managed properly.

Burger King has dealt with this in an ingenious way: its tills are weight-sensitive, so when burgers and fries are being rung through, the till knows how much coinage should be in there. In common with many other retailers, Burger King's CCTV (greatly improved picture quality these days, by the way) keeps an eye on staff as well as on customers.

The messages that management send out are key here. "When people join a business make sure they know what the rules are," King advises. "Make sure they understand that if they are found being dishonest they will be dismissed."

"Good heads of loss-prevention make sure there is effective communication of that. It is about creating a low-shrinkage, anti-fraud culture. People actually grow to dislike it and do something about it. You can incentivise people to do the right thing: if you have a good

shrinkage result in a store you can reward that. Celebrate success. If there is a bad result - you know there will be consequences, it might block a promotion, for example. Retailers have to make all this clear."

Dealing with shrinkage also requires attention to detail. Tesco was worried about losses on the sale of its premium ham slices at the deli counter. What was going on? Only a cradle to grave investigation of the supply chain revealed that, while Tesco was paying for whole legs, they were of course only charging for the meat cut from it, and not the bone. Obvious in hindsight of course, but significant losses were being incurred thanks to this systems failure.

The biggest threat to a business may be collusive crime, when different elements in the supply chain conspire to defraud. Again, only vigilance, attention to detail and an attempt to make scams culturally unacceptable will stamp them out.

Everyone in business is affected by this. Even the "saintly" John Lewis Partnership, which for years did not like to believe it had a problem with shrinkage, has recently sought the help of IntelliQ, another loss prevention consultancy.

So if you haven't done already, it is time to get serious on shrinkage. When margins are so tight, particularly in retailing, can you afford not to get a grip? "Shrinkage is the only free money left on the table," according to Phil Wrigley, CEO of fashion retailer New Look.

Yet some firms have still dithered. Why? "This is a less-told story because it isn't part of the published accounts, so it isn't an official number," King explains. "There is no formal metric for shrinkage. If you had to declare it you would do a lot more about it. It's an indication to shareholders of how efficient and effective you are."

So if a shop assistant comes up to one of your customers one day soon and asks: "Is that a BlackBerry in your pocket or are you just pleased to see me?" make sure that customer has a good and legally defensible answer.

Get serious about your shrinkage

This is a board level issue. It cannot be swept under the carpet. If you are not trying to reduce shrinkage it will continue to increase.

Zero tolerance for theft or fraud among staff, no matter how senior, experienced or valued that colleague is. It is the only way to go.

Set up confidential whistle-blower hotlines for staff allowing them to report any malpractice.

Make shrinkage culturally unacceptable, an enemy of the business. If profits are under 10 per cent of turnover, but shrinkage is costing you up to half that figure... do the maths.

New technology can help. CCTV is vastly improved. Data mining software identifies wrongdoing fast.

Don't overdo the short-term cost saving idea of cutting back on staff. Assistants put shoplifters off more than any other measure.

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