

The Results Are In

The Implications of the 2002 National Retail Security Survey for Small Business Owners

Robert Schuller

Background

For the past 11 years, the Center for Studies in Criminology and Law at the University of Florida Gainesville has published the National Retail Security Survey (NRSS). The NRSS is a nationwide annual study comprised of empirical data on retail loss prevention, asset protection, and security activities. Its two main goals are to determine the overall level of inventory loss for retail stores (called “shrinkage” in store jargon) and to determine the sources of that loss. The results send a strong message to all business owners, retail or other: make sure you’re protecting your bottom line.

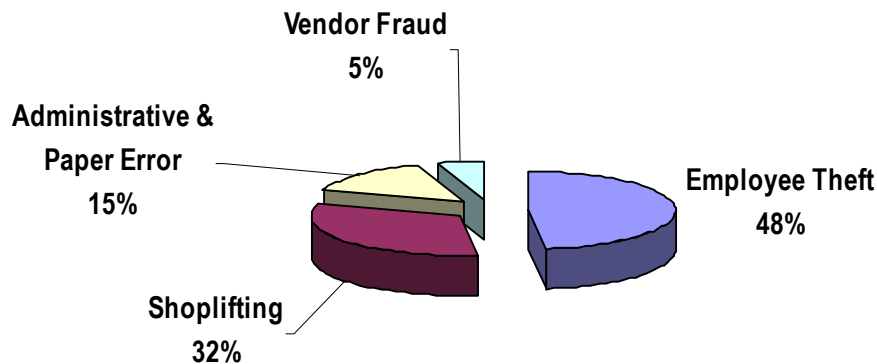
Results

In 2002, the average shrinkage level for all retail store types was 1.70% of total annual sales. This means that for every \$100 in retail sales, business owners lost an average of \$1.70 due to employee theft, shoplifting, administrative error, or vendor fraud. Depending on the type of retailer, the loss rate reached as high as 2.24% of total annual sales.

The year before, this loss figure was 1.80% of total annual sales. Although this is a significant one-year drop, the average has remained in the 1.69% to 1.95% range over the lifetime of the survey.

According to the survey, retailers in 2002 lost an estimated \$31.3 billion due to inventory shrinkage. Even more disturbing than the loss amount are the sources of this loss.

Sources of Inventory Shrinkage



Source: 2002 National Retail Security Survey

As you can see from this graph, the NRSS identifies the most common source of loss as internal—employees who steal. This in no way implies that all employees are involved in loss. The survey does not say what percentage *if any* of employees are involved in theft—that figure varies from business to business and depends on a number of factors, including management’s attitude toward theft, pressures on employees, theft opportunities, and employees’ ethical predispositions, among others. Simply put, employees have the most frequent and often unsupervised access to inventory; more than shoplifters, who represent the next most common source of inventory loss. Administrative and paperwork errors account for an additional 15% of losses, with fraud committed by vendors—such as shorting shipments, failing to credit returns, or shipping lesser quality merchandise—completing the list.

Inventory shrinkage, however, is not the only type of loss businesses can face. Losses due to bad checks, cash till shortages, and credit card charge backs amounted to an additional 1.19% of total annual sales in 2002. Combined, the two groups of losses represent a sizeable portion—almost three percent—of total annual sales.

Points to Consider

Ask yourself...

- Do you have procedures in place to address employee theft, shoplifting, administrative error, and vendor fraud?
- Do you have procedures to limit bad check losses, cash till shortages, and credit card charge backs?
- If you have such procedures in place, have they been tested recently?
- Do you need a comprehensive loss prevention program?

Implications

When reviewing these statistics, realize that even if you're not a retailer, any loss that takes away from your bottom line can keep your business from growing. If you don't have a retail storefront, then shoplifting isn't really a concern. Chances are, however, you have more than one employee. Additional employees multiply the likelihood of both employee theft and administrative errors.

There is no one-size-fits-all program or procedure that can solve all business problems in a cost-effective manner. Business owners must consider a number of factors: the number of employees and the strength of the manager-employee relationship, the physical layout of a retail store or a warehouse, the average cost per inventory item, and the benefit to be derived from a particular loss prevention strategy.

Loss Prevention Strategies

These are some of the most popular strategies employed by business owners to prevent loss.

Pre-employment screening measures

- *verification of past employment history*
- *criminal conviction checks*
- *multiple interviews*
- *personal reference checks*
- *driving history checks, drug screening*

Asset control policies

- *customer refund controls*
- *register void controls*
- *employee package checks*
- *POS bar coding & scanning*

Loss prevention awareness programs

- *discuss shrinkage during new-hire orientation*
- *bulletin board notices & posters*
- *anonymous telephone hotlines*
- *periodic lectures*
- *employee code of conduct*

Loss prevention systems & personnel

- *burglar alarms & closed circuit TV cameras*
- *check approval database*
- *armored car deposit pick-up*
- *mystery shoppers*
- *electronic security tags*

Source: 2002 National Retail Security Survey

Clearly, those owners who use a combination of loss prevention strategies are more likely to see lower shrinkage rates than those who don't.

There is no rule of thumb that tells a business owner how much to spend on internal controls and loss prevention strategies. A strategy that may be cost-effective for a company with 100 employees may drain the resources of a company with only ten employees. One thing is certain: as sales increase, the amount of money spent on ensuring those sales make it to the bottom line should increase at the same rate.

Robert Schuller is the founder of Schuller & Associates, a management consulting firm targeting the problems of growing businesses, including internal control and loss prevention issues