Simple strategies to minimise internal theft

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GROUP 1 SECURITY

Shrinkage (or loss) can be broken into two categories, known and unknown. Known shrinkage is where a business can track the loss. Some examples of this are soiled and damaged products, out-of-date perishables and markdowns. Unknown shrinkage is loss that can't be identified prior to stocktaking. This will be the focus of this article.

Unknown shrink is typically divided into four areas and, according to the most recent Global Retail Theft Survey, the results for these categories for Australian retailers are as follows:

• Employee theft – 40.6 per cent
• Customer theft – 36.8 per cent
• Administrative error – 17.3 per cent
• Suppliers/vendor fraud – 5.3 per cent.

As you can see, employee theft is the largest contributing factor to unknown shrinkage in Australia. Also worth noting, Australia is the only country in the Asia-Pacific region that has a higher percentage of employee theft over customer theft. The main categories of employee theft are:

• Merchandise – 37.4 per cent
• Refund fraud/false markdowns – 23.9 per cent
• Cash/coupons/vouchers – 16.6 per cent
• Collusion – 15.7 per cent
• Large financial fraud – 6.4 per cent.

The Retail Theft Survey identified that the average dollar theft by a customer was $74.52 while the average dollar theft by an employee was $392.56, almost five-and-a-half times greater than customer theft. The reason for such a large variance is due to staff members having greater time and mobility around products and company assets.

> "Employee theft is the largest contributing factor to unknown shrinkage in Australia."

The good news is businesses can develop strategies to dramatically reduce or even eliminate theft through these areas. Below are a few examples of effective strategies businesses may implement to improve their bottom line.

Merchandise

Here we are talking about the theft of product. The type of product you sell will also impact on the amount of merchandise theft you will suffer. Obviously, a retailer selling cosmetics or electronics is likely to suffer greater merchandise theft than a retailer selling fruit. Some things you may implement are:

• Implement a bag-checking policy
• Provide a secure area where staff must store their bags until home time (under the view of CCTV if you have it)
• Develop a uniform code banning the wearing of cargo pants (which have several large baggy pockets where stock can be hidden)
• Where possible, have two people lock up at the end of the day's trade
• Use check seals for product purchased.

Refund fraud/false markdowns

The largest fraud investigations I have been involved in have all been refund fraud. If you have lazy and/or poor procedures around your refund process, you will be a sitting target. Some strategies to implement are:

• Have refund dockets counter-signed over a certain amount
• Ensure staff destroy used dockets left behind by customers
• Check for multiple refunds conducted in quick succession
• Review weekly markdowns for any unusual spikes/trends
• Restrict the number of people who can authorise markdowns.

Cash/coupons/vouchers

This is another common form of theft as it can be very quick and, at times, difficult to prove. Again, if you have relaxed procedures around cash handovers or many people working off the one till without counting it between operator changes, you are a sitting target.

• Ensure the banking is counted by two people
• Count the register monies before allowing another operator to access it
• Restrict access to coupons and vouchers
• Ensure all coupon and voucher numbers are recorded accurately
• Ensure that coupons and vouchers aren't easy to copy.

Collusion

Collusion can be one of the hardest forms of organised theft/fraud to break. The best way to handle collusion is to stop it before it begins.

Some strategies to increase the difficulty of collusion are:

• Create a rotating roster to minimise the frequency in which staff work together
• Develop an anonymous reporting system where staff can report possible fraud or issues of collusion
• Create a policy around how staff are to interact with suppliers/vendors
• When hiring new staff, conduct detailed work history checks – at a minimum, contact the previous two employers, ensure at least one referee was a direct supervisor of the employee and closely scrutinise any gaps in their employment history (see the last issue of *Retail World* for more information on this).

Large financial frauds

The number of people in your business able to carry out large frauds will be limited to a smaller number of key people but this doesn't mean it won't happen.

• Put stringent processes in place regarding how the banking is conducted
• Have duel signing on all banking and checking accounts
• Investigate any sudden drops in the daily takings
• Segregation of duties (ie, when stocktaking is carried out) the final sign-off should be between two parties such as finance and audit.

While the above is by no means an exhaustive list, it does provide several ideas that can be implemented with minimal fuss yet have a dramatic impact on improving your bottom line. ▊