

Eliminating the Five-Finger Discount

By Lauren Gibbons Paul

The right combination of technology and best practices can dramatically reduce shoplifting and in-house rip-offs in your stores.

Shoplifting and employee theft are problems as old as the retail industry itself. But for many small and midsize store owners, theft prevention remains, at best, an afterthought. Often that's because retailers are too swamped to do much more than install a couple of surveillance cameras and check new employees' references.

"Most small retailers wear 27 different hats. They're the store manager, the buyer, the salesperson, the shipper, the receiver—they do everything. The job of security chief would probably fall to about 20 on that list," says James Dion, president of Dionco Inc., a retail consulting firm in Chicago. Most small and midsize retailers don't ponder how much money they lose to so-called "internal shrink" until they get burned.

Roy Wood, owner of APet, a pet store in the Baltimore suburb of Elkridge, Maryland, took a proactive approach to shoplifting and employee theft. Having spent nearly a decade as a police officer before purchasing APet, Wood was well versed in retail's darker realities. He also has a computer science degree, so he was already convinced of the benefits an automated point-of-sale system could provide with regard to collecting customer information, tracking inventory and improving security by better controlling cash flow. "Regular cash registers don't have an audit trail," he notes.

Wood went with Microsoft® Retail Management System (RMS). This automated system allows retailers to set different access privileges for each employee. RMS also creates an electronic audit trail that shows exactly who did what, with the ability to flag suspicious transactions.

For example, under one common scheme, an employee takes an item off the shelf, processes a return at the register and then pockets the difference. Wood says that Microsoft RMS helps prevent such activity because the system tracks every transaction by every employee. Store owners who suspect particular employees can set up an alert each time those employees process returns, or they can reduce access rights so that employees can't process returns without manager authorization.

"The security levels dictate down to the most finite level what a person can and can't do on the system," says Wood. For instance, you can limit certain employees' ability to do a void, open the cash drawer absent a sale or change items' prices at the register.

Despite his background and general security savvy, Wood himself has been victimized by employee theft. One worker seized the moment

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Security Checks

What's the single best practice for improving retail security? Don't rely on any one system to the exclusion of others. In addition to using an automated POS system such as Microsoft RMS, here are other security measures that you might consider:

- Install a video surveillance system.
- Hire a security guard or appoint a front-door greeter.
- Bring in a loss-prevention consultant.
- Assign associates to rove the sales floor.
- Provide antitheft training to all employees.
- Conduct reference and

halfway through ringing up the sale of a \$50 animal carrier. The customer exclaimed that she had left her money in the car. The employee offered to carry the item out to the car and took the money from her there. Back inside, he voided the sale, then went into the system to reduce the number of animal carriers in stock so that the number on the shelf matched the number in RMS. "He didn't know the computer was tracking everything he did. The system told me what time he logged in and what time he made the change," says Wood, whose next call was to the police. "I laid out the audit trail and the detective said, 'This is just too easy. I don't have to do anything.'"

Microsoft RMS also helps Wood identify fraudulent returns. Lightbulbs for aquariums are a frequent problem. Often, someone would return a bulb in its original packaging, complaining that the bulb didn't work and requesting a refund. "Ninety-five percent of the time they bring in their burned-out lightbulbs and try to get cash. Often they're not even the same brand as the one on the package," says Wood.

To combat the problem, he has instituted several controls. When a customer has no receipt, employees look up the transaction by name to verify that the purchase was legitimate. They also check to make sure the bulb brand and packaging match. And when someone buys a lightbulb, the employee tests it at the POS, confirms that it's working and records that information in the system. If the customer later complains that the bulb was defective, clerks can look up the transaction and confirm that it worked when it left the store.

Of course, store owners must decide on their own just how restrictive their systems should be. For Wood, it's a constant balancing act, weighing the need for good customer service against the need to mitigate losses. He doesn't want to establish a no-returns-without-a-receipt policy, because he knows that his customers wouldn't stand for it. But because clerks can look up every transaction on RMS, he's got no reason to undertake such a draconian measure anyway. Where there is no record of a particular sale, a fraudulent return is immediately apparent.

What's *Your* Shrink?

Wood is ahead of the majority of smaller retailers, many of which don't even know how much shrink they are experiencing. Dion says that if you're losing less than 1 percent of your inventory annually, you can chalk that up to the cost of doing business. If you're losing more, it's time to take a closer look.

RMS enables retailers to do a "cycle count," counting only a portion of the inventory. For example, Wood could take inventory of APet's dog food section. If he found that he was missing a large amount of premium dog food, he could start investigating possible causes, and he might notice that the food was stocked in a particular spot that made it attractively easy to shoplifters. "Once you find out what category is causing the shrink, you can begin to address it," says Dion.

As for Wood, RMS has made one jaded ex-cop a happy man. "I'm always looking for what the next scam will be," he says. "When we figure it out, I have a good chance of stopping it using RMS."

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