

# Finding the Needle In the Haystack

If you're a retailer that's trying to curb shrink, there are much easier ways to find clues than fussing with miles of register tape.

United Supermarkets in Texas recently went from paper to pixels. The family-run chain of 47 regional grocery stores just installed an automated loss-prevention tool. The POS-based exception-reporting system called ShrinkTrax, by Scottsdale, Ariz.-based Trax Retail Solutions Inc., continuously monitors register behavior and uses statistical analytics to spot irregular patterns in the tens of thousands of daily transactions. Anything outside of normal can be easily spotted in the reports ShrinkTrax generates. It took three days to discover that a trusted employee was stealing from the company. "Her returns stuck out like a sore thumb," said Todd Reynolds, United's LP director. "They gave us a strong enough case to sit down with her and ask questions. After 15 or 20 minutes of showing what we had, she confessed. It surprised us all since she was a long-term employee."

Unfortunately, United's case is not unique. Employee theft continues to be one of the biggest challenges in retail that even outstrips shoplifting. According to an Ernst & Young loss-prevention survey, dishonest employees on average steal more than shoplifters by a factor of eight to one. And fewer insiders are caught. The result is an annual industrywide loss of \$46 billion, which constitutes 50% of all shrink. This growing trend is why retailers are turning to loss-prevention tools such as exception reporting. Because the majority of theft is occurring right at the terminal where dishonest employees are exploiting voids, hand-keyed transactions, line-item corrections and refunds. Of course, most of these special transaction types are legitimate, which is where the latest exception-based reporting systems come in. They're designed to integrate with most modern POS systems and wade through the voluminous amounts of innocuous data generated daily to find the few notable exceptions that represent points of loss in real time. Even when the register balances.

Modern exception-reporting systems can draw from



multiple-data streams such as inventory management, human resources and payroll. In this way, events across the enterprise can be referenced, which helps build a solid case against the fraudulent employee.

Exceptions-reporting systems can also be network or Web-based and accessible over the Internet; be used as stand-alone solutions or hosted options and can even pull up security-camera footage alongside transaction data. Hours of review can be saved since it can all be

Today's advanced exception-based reporting programs help retailers distinguish between cashier error and outright theft.

indexed. Digital-video technology becomes a powerful tool in quickly resolving theft investigations since it can be pulled up to clearly show the difference between a suspect transaction such as sweethearting (a practice where the employee gives away merchandise to friends and co-workers) and plain human error. Slower-than-average checkout speeds, for example, might indicate sweethearting or just a need for more cashier training. The intelligence allows managers to make informed, pre-emptive decisions as well as forensic ones. It's a big leap from what was offered 10 years ago when retailers eyeballed store reports or cobbled together their own proprietary systems. Back then it was more of an "after the fact" kind of routine. "Some managers even walked around the storage room with a checklist, counting boxes," said Paul Glen, a technology management consultant. "It's not particularly efficient but it works, which is why some companies actually still do it this way."

Famous Footwear, a 900-store division of Brown Shoe, uses Datavantage's XBR to help smooth operational snags and identify training issues. One of the first discrepancies it identified when installed in 2003 was a high number of loyalty-coupon redemptions. Apparently, employees were honoring expired coupons and hand-keying default codes to bypass the system. The reason was because the cashiers did not want to confront the customer and lose the sale. It was a costly problem and widespread. But the management didn't want to punish employees since it wasn't really a theft issue. "You have to be compassionate to your people on the front lines," said Jon Grander, VP of asset management. The solution was a matter of training the employees to deal with the problem differently and adjusting the POS system to better communicate the terms of discounts. The problem decreased by 40% in a few months. "We still address issues of employee theft, but changes like these give us bigger results," said Grander.

"Overall, loss-prevention applications have already become the second most important store-centric application being used in the enterprise," said Robert Garf, research director at AMR Research. And though it is a costly investment, it's one that can offer a quick return. It all depends on how well retailers utilize the layers of information and integrate the technical side with a more comprehensive loss-prevention plan. Starbucks Coffee, for example, also uses Datavantage's XBR. When any suspicious activity is detected, the system is set to inform the corporate office. A panel reviews questionable transactions and responds as

needed. For small incidents, a letter is sent to employees, which asks them to explain their actions. According to Starbucks, the letters typically stop the activity or the employee ends up quitting. Either way, Starbucks claims this soft approach has helped reduce shrink levels by 50%. Exception reporting allows them to curb human behavior.

Jay McIntosh, Americas director of retail and consumer products for Ernst & Young, believes the intelligence also needs to be applied more holistically across the entire chain, especially as organizations grow and inventories increase beyond the ability to remember. He questions why some chains make the



obvious mistake of spreading their loss-prevention budget equally across all stores. "Retailers need to focus on where shrink is happening," said McIntosh, who believes decisions need to be made on a store-by-store basis. For example, a high number of returns at one store may be a red flag for fraud. But in another store, a lot of returns can be blamed on not having enough dressing rooms for customers to try clothing on. "It's not just about being more sophisticated but also doing things in a smarter way to manage shrinkage," he said. **RTQ**

Loss-prevention applications can offer a quick return on investment when integrated with a comprehensive loss-prevention plan.

—Dennis Nishi