Security

LESSON 9

How Theft Affects a Business

Protecting a store from inventory loss is a major concern for businesses. Theft of inventory causes significant expenses for retailers. The losses caused by theft are referred to as inventory shrinkage. Shrinkage is the term used to describe inventory losses resulting from shoplifting, employee theft, inaccurate paperwork, damaged or misplaced merchandise, and vendor error. While administrative inventory losses are not caused by theft, they do contribute to lost revenue for retailers.

How Much Do Businesses Lose to Theft Annually?

Theft places a considerable financial burden on retailers and, ultimately, on the customers who will pay higher prices to account for retailers' losses. It is estimated that U.S. retailers lose over 41 billion dollars a year due to theft. Losses from theft ultimately erode profits and can mean the difference between profit and loss.

Determining Shrinkage

Shrinkage is calculated by performing a physical inventory. A physical inventory is a count and inspection of all the merchandise in a store. Physical inventories are normally conducted at regular intervals, usually once or twice per year. Once the inventory count is completed, the value of the merchandise counted is computed. The total is then subtracted from

Main Idea

In this unit we will study the topic of store security. We will begin by examining how theft affects a business and how much businesses lose to theft each year. We will then study the different types of theft. Next we will discuss some methods for loss prevention. Lastly, we will review mathematics associated with store security.

After completing this lesson you will be able to:

- Calculate shrinkage based on merchandise book value and physical inventory counts
- Give examples of internal and external theft
- Explain the importance of conducting a physical inventory in terms of loss prevention
- Explain how rearranging products in a store can lead to a decrease in shoplifting
- Use financial statements to determine expenses related to security and the impact on profit

Key Terms

- Shrinkage
- Physical Inventory
- Book Value
- Shoplifting
- Employee Theft

the book value of the inventory. Book value is the amount of money the inventory is shown to be worth in the business's records. The difference between the book value of the merchandise and the inventory value is the amount of shrinkage. The normal shrinkage rate for retailers is between one and five percent of sales each year.

Types of Theft

Retail theft generally falls into two categories: external theft (shoplifting) and internal theft (employee theft).

External Theft

Shoplifting is the removal of items from a store with the intention of not paying for them. Some shoplifters are professionals and some are amateurs. Professional shoplifters use sophisticated techniques to accomplish their thefts. Professional shoplifters often enter a store knowing exactly what they plan to steal. They are experts at concealing merchandise or at passing it to an accomplice and leaving a store undetected. Professional shoplifters are difficult to spot and catch. They deliberately dress and act in a manner that will not attract attention.

Amateur shoplifters steal primarily for the excitement or because they are acting on a dare. These shoplifters often arrive in groups and usually do not have a plan to steal a specific item. They are opportunistic and will take merchandise that can be easily hidden as they leave the store.

Internal Theft

Internal theft is also called employee theft. Employee theft involves the unauthorized taking of merchandise by an employee from an employer. An employee may physically take merchandise from the store or he or she may engage in "sweethearting," a term that describes discount abuse. This practice involves an employee giving unauthorized discounts to friends or relatives. Whatever form employee theft might take, the result is the same—a loss of revenue for the retailer.

It should be stressed that most employees are honest and would never steal from their employer. However, there are some dishonest employees who take advantage of the trust placed in them by their employers. Employee theft, the largest cause of shrinkage, accounts for almost half of retailers' inventory shrinkage.

Loss Prevention

Retailers can use several tools to help prevent the loss of merchandise by shoplifting and employee theft. These tools can help detect and prevent both.

Preventing Shoplifting

Shoplifting losses can be reduced through intelligent store layout, employee education, security devices, and other precautions.

- The layout of your store should avoid blind spots in which theft can occur. Entrances and exits should be visible to all employees. The checkout area should have a good view of the store. Fitting room entrances should be easy to see and fitting rooms should be monitored at all times.

- Store employees should be trained in how to spot shoplifters. Training guidelines are available through local law enforcement agencies; search the Internet for other sources of information.
- A variety of security devices can help prevent shoplifting. Many retailers use tags containing ink or an electronic sensor that alerts employees to tags that have not been removed or deactivated. Installing convex mirrors can help employees see large areas of the store. Hiring uniformed security personnel is another effective method of prevention. Some stores use closed circuit television cameras to view the store. This system is expensive to install and has to be monitored in order to be effective. Many retailers prosecute shoplifters as their signs say—to the fullest extent of the law.
- Locked display cases are often used to display small or expensive merchandise in secure conditions. If a customer wants to handle an item, a sales associate is required to open the case.
- Many convenience stores place height markers near the inside of the front door. In the event of a robbery, store employees can observe the height of the thief and report that information to the police.

Preventing Employee Theft

Employee theft can be prevented through the use of pre-employment screening, store policies, and security devices.

- When hiring a new employee, the retailer should check and verify both previous employment and references. Some retailers also require drug testing before an employee can be hired. These two types of pre-employment screening can help reveal potential problem employees before they are hired.
- Retailers can establish store policies that help reduce employee theft. Policies may include having employees enter and exit the store through one designated door or requiring employees to store all bags, packages, and coats in a designated area subject to being checked. Other policies might include having management approve all returns, refunds, and discounts, and routine checks of the back room and trash bins for hidden merchandise.
- The security devices that can help prevent shoplifting can also be useful in preventing employee theft. If employees know that they are being observed, they are less likely to be tempted to be dishonest.

Summary

In this unit we learned about store security, how theft affects businesses, and how much businesses lose due to theft. We then studied external and internal theft and and how to prevent both. Lastly, we reviewed mathematics associated with store security.

Key Math Concepts

COMPUTE SHRINKAGE IN DOLLARS

Shrinkage is an important problem for retailers to recognize and control. Shrinkage can be computed in dollars or as a percentage of sales. To compute shrinkage in dollars, use this formula:

Shrinkage in Dollars = Merchandise Book Value – Physical Inventory Value

For example, if Merchandise Book Value is $845,700 and Physical Inventory Value is $820,500 then:
$845,700 – $820,500 = $25,200 (Shrinkage in Dollars)

COMPUTE SHRINKAGE AS A PERCENTAGE OF SALES

To compute shrinkage as a percentage of sales, use this formula:

Shrinkage as a Percentage of Sales = (Merchandise Book Value – Physical Inventory Value) ÷ Sales Between Physical Inventories

For Example if Merchandise Book Value is $845,700, Physical Inventory Value is $820,500, and Sales Between Inventories = $998,740 then:

($845,700 – $820,500) ÷ $998,740 = 2.5%

Shrinkage as a Percentage of Sales = 2.5%

Key Terms

Shrinkage
The term used to describe inventory losses resulting from shoplifting, employee theft, inaccurate paperwork, damaged or misplaced merchandise, and vendor error.

Physical Inventory
A count and inspection of all the merchandise in a store.

Book Value
The amount of money inventory is shown to be worth in the business's records.

Shoplifting
The removal of items from a store with the intention of not paying for them.

Employee Theft
The unauthorized taking of merchandise by an employee from an employer.

Security

1. Your business has three branch stores. The recent physical inventory reports that the merchandise value for each store is: Store A $454,385, Store B $586,855, and Store C $632,525. The merchandise book value for each store is: Store A $495,275, Store B $615,225, and Store C $655,495. What is the dollar amount of shrinkage for each store?

2. A recent physical inventory at a department store reports merchandise values for the following departments: Women's sportswear $875,435, Men's sportswear $947,345, Children $645,895, and Shoes $737,780. The merchandise book value for each department is: Women's sportswear $907,340, Men's sportswear $1,040,280, Children $694,325, and Shoes $795,235. Sales for each department between physical inventories were: Women's sportswear $1,637,270, Men's sportswear $1,988,345, Children $1,984,765, and Shoes $1,629,860. What is the shrinkage as a percentage of sales for each department? Which department has the greatest problem with shrinkage?

3. You are considering the purchase of a closed circuit TV monitoring system for your store. The quarterly physical inventory has shown inventory shrinkage to be 2.5%. Sales for the period were $875,495. The store is open 11 hours a day, 7 days a week. You estimate that you will have to pay an employee $7.50 per hour to monitor the system. Compare the monthly cost of monitoring the closed circuit TV system to monthly shrinkage.

4. You are opening a new store and must project in your business plan the amount of inventory shrinkage. You have forecasted $1,200,000 in sales for the first year. Assuming your shrinkage will be 5%, the high end of the national average, calculate the projected annual shrinkage for your business plan.

Security

1. Think about three stores at which you shop frequently that sell different types of merchandise. Recall the types of security devices designed to prevent shoplifting. List what devices are used at each store and why you think they were installed.

2. Using the same stores as in activity #1, call each store manager and ask what the store policy is regarding shoplifting and how they handle shoplifters. Record your responses.

3. While on the phone with store managers for activity #2, ask if employee theft is a problem and what measures are taken to prevent it.

4. Visit a grocery store, a bookstore, and a clothing store. At each store, make observations regarding the presence of security tags on merchandise, convex mirrors, and security cameras. Record your observations, noting the placement of security tags on merchandise, location of convex mirrors, and whether the security cameras are visible. If they are, where are they located?

COMPUTER EXERCISE

Security

LESSON 9

GOAL: Your goal is to minimize shoplifting in your store through the use of security cameras and careful product placement.

YOUR SITUATION: In this lesson, you control Physical Inventory, Merchandising and Equipment. All other actions are controlled for you.

1. Run the **Physical Inventory**, **Run To**, **Products**, **Merchandising**, **Equipment**, and **Financials** sections of the **Tutorial**.
2. Open the **Security** lesson.
3. Using **Actions->Physical Inventory**, elect to conduct physical inventories every week.
4. Using **Options->Run To**, run the simulation to January 29th. Open the **Products** report and uncheck the **Sales** button. Check **Stolen Goods** and click **Table** under **Show As**. Record the total amount of stolen goods for the most recent week in the row marked "Original Store Layout" on **Worksheet 1**.
5. With the **Products** window still open, uncheck **Total** and check the **Products 1-12** box. Then check the **Products 13-25** box.

QUESTION 1: What products are being stolen among **Products 1-12**? What products are being stolen among **Products 13-25**?

6. Using **Actions->Equipment**, add security cameras aimed at the aisles where products are being stolen. Using **Options->Run To**, run the simulation to February 12th. Record the amount of stolen goods for the most recent week on **Worksheet 1** below on the line marked "Cameras Only."

QUESTION 2: Use **Financials** to determine how much you spent on security cameras each week. (Use the More Detail button to show the cost of the security cameras.) Was the expense of the security cameras more or less than the reduction in theft?

7. Using **Merchandising** on the **Actions** menu:
   a. Rearrange products in your store to further minimize shoplifting. You must carry all items in your store.
   b. Run the simulation for 4 more weeks.
   c. Check the **Products** window to see if theft is decreasing.
   d. Record the amount of stolen goods in **Worksheet 1**.

8. Repeat Step 7 several times trying different product positioning. When you get stolen goods as low as you can, print-out a copy of your store layout.
9. Hand in the worksheet and the print-out of your best store layout.

WORKSHEET 1

Layout with Physical Inventory	Amount of Stolen Goods (After 4 wks.)
Original Store Layout	
Cameras Only	
1	
2	
3	
4	
5	