FEATURE

ENGAGING MERCHANTS IN THE PROTECTION OF ASSETS

THE CHALLENGES AND OPPORTUNITIES FOR LOSS PREVENTION

By Chris Trlica, Contributing Writer

The Retail Industry Leaders Association's (RILA) Asset Protection Leaders Council commissioned a study to look at the relationship between retail buyers and the asset protection function. In the authors' words, "This research identifies the various levers retail buyers have to influence retail loss and the obstacles asset protection groups have when seeking buyer engagement." The research involved interviews with representatives of thirty-one retailers that together account for about 23 percent of US retail sales, a figure amounting to over $1 trillion.

The study was performed and authored by Nicole DeHoratius, adjunct professor of operations management at the University of Chicago's Booth School of Business, and Dragana Pajovic, PhD student at the University of Chicago's Booth School of Business. Checkpoint and Ernst & Young underwrote the research.

Buyers and Loss

While the perception of shrink among the loss prevention industry has evolved from thinking about loss strictly in terms of theft to the consideration of all causes of inventory discrepancy, this change in approach hasn't necessarily diffused into all of the other teams in a retail organization. Retail buyers are a prime example.

Of the buyers surveyed in the study, only 32 percent "viewed the asset protection team as a partner in efforts to drive sales." Further, "when asked whether asset protection was a factor they regularly took into account, less than 10 percent of [buyers] surveyed identified it as a key driver for their category performance. The categories where asset protection was mentioned repeatedly included electronics, cosmetics, and fashion accessories. Most other buyers considered asset protection to be an activity delegated to other parts of their organization over which they had little control or influence."

Buyers are often seen as the CEO of their product category. They oversee decisions within their category over which products to offer, how those products are packaged, how new items are set up and rolled out, and product pricing, promotions, and planogram design as illustrated in the chart below.

Merchant Decision Rights

But the scope of these responsibilities is multiplied to staggering proportions when one considers that a typical buyer in the survey managed 13,000 SKUs and thirty-four different vendor relationships. "Not surprisingly," say the study authors, "our interviews revealed that buyers are essentially pushed to their limits in just trying to fulfill the requirements of their existing role."

Given such herculean workloads, is there any room for a closer relationship between buyers and loss prevention? Of course, any initiative towards reevaluating that relationship should respect the workload pressure that buyers are already under. But there can be significant overlap between the goals, outcomes, and methods of buyers and LP. Just as product designers must consider supply-chain constraints in their design decisions, buyers' choices have consequences reaching far beyond simply considering what assortment of products will best match their customers' preferences. The loss prevention objective would be well-served by advocating for buyers to consider full supply-chain and operational execution in their choices, in addition to LP goals.

For example, while conventional wisdom may view an increase in the variety of products on offer as an unambiguous positive, variety can actually reduce sales. Too much variety among a single product category can cause a customer to decide to make no purchase rather than decide among myriad similar alternatives. Variety can also cause chaos in inventory management processes like stocking and counting. A group of products whose packaging lacks clear visual differentiation can confuse both customers and stockers, leading to errors, wasted time, and frustration. "Research shows that lowering the level of product variety can result in lower levels of stock discrepancy, however few buyers are aware of this link."

The study authors identify five key ways in which buyers can help reduce shrink:

- Manage Vendor Relationships—Since buyers are the primary company representatives who interact with vendors, if LP wants to change something like product packaging, buyers are invaluable, necessary intermediaries. Buyers may also be the first to hear of widespread issues in a particular product category or product line, and could tip off LP to a problem before it gains traction.
- Product Selection—When selecting products, buyers can identify those items that might need additional security tagging and can work with vendors to ensure these items are delivered as desired.
- Merchandising Decisions—Buyers can select items to minimize the chance of discrepancies. And their decisions about the location of product placement can have significant impact on theft and operational losses.
- New Product Introduction and Resets—Introducing products correctly means that all of the data used to make management decisions about those products are accurate from the beginning.
- Determine Product Flow—Since buyers often are responsible for deciding how products move through the supply chain and how they are delivered, they can directly influence loss caused by complexity and mistakes.

Based on the results of this study, there exists a clear need…and opportunity…across the retail industry to have buyers and loss prevention teams work more together closely and better understand their mutually entwined goals. Winning over buyers' hearts and minds would benefit the buyers, the loss prevention department, and the company as a whole.

The Language of Loss

How best for the loss prevention department to translate this identified need into a functional relationship? Reexamining how LP trains buyers could be a start, according to the study: "Of the retail buyers surveyed, 88 percent of them were unaware of any asset protection training being held within the buying organization. The remaining 12 percent who reported that training existed noted that it was infrequent (e.g. less than once a year). Given the two-year turnover in the buying function, many buyers will have never been educated about their potential

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Costco Case Study

A significant component of the RILA study was a series of three case studies looking at different aspects of excellence at three different companies. One of these companies, Costco, stood out among all of the companies represented in the survey. "Their buyers, without prodding, identified asset protection as a key element to their performance."

What set Costco apart from the rest was its culture, one that placed a premium value on operational excellence. And a significant part of that excellence was established by the incentive structure that buyers operate under.

Costco buyers are allocated store space based on productivity targets. "Buyers must meet a minimum threshold of sales per week per warehouse per item in order to keep a select product in the assortment. Any stock loss due to damages, theft, or other factors means lower space productivity. As a result, buyers are very selective about what they put on the warehouse floor."

This incentive structure causes buyers to take into account warehouse labor expenses, which are minimized by collaborating with vendors to deliver product ready for the floor. This policy saves time and money by cutting out the need to unpack and shelve individual packages, and reduces the likelihood of damage or loss that comes with typical handling.

But the focus on ready-to-sell pallets, an approach unavailable to most retailers, is just one policy among many that results in exceptional operational efficiency. Costco buyers minimize variety within product categories, localize product categories to only one part of the store, and work with vendors to ensure that packaging design minimizes damages and returns.

And when calculating productivity targets for buyer incentives, it is not the price the buyer pays the vendor that is used as a basis, but the total cost of delivering a product to the customer. This ensures that the buyer considers the full supply chain when making decisions, including all avenues of loss, and incentivizes as efficient a flow of product as possible.

While incentivizing consideration of process inefficiencies to minimize loss is a significant factor in Costco buyers' awareness of and responsiveness to loss prevention, it's not the only factor. Costco also focuses on hiring buyers that have had previous in-store operational experience. This means that the buyers they hire are already in tune with LP- and operations-related challenges when making buying and merchandising decisions. Costco buyers were the most in touch with LP issues among surveyed buyers. It's no wonder that the Costco system is designed such that they think about loss prevention issues at every step of the way.

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role as part of the asset protection solution. Moreover, this lack of longevity among buyers means the asset protection teams continually have to build new relationships with new buyers and explain why they should care."

The language used to define and discuss the loss prevention role may also require reexamination. "52 percent of the buyers surveyed feel that shrink is not clearly defined. This confusion only impedes any progress asset protection wants to make in engaging buyers effectively." The historical association between shrink and theft means that even the continued use of the word "shrink" may be impeding progress. In fact, the study authors say that "the first and most important step is redefining the retail organization's notion of shrink."

Focusing on how stock loss impacts many of the metrics in the buyer lexicon—profit, sales growth, product availability, customer satisfaction—can drive home how interlinked buyers' methods and motives are with loss prevention's. By deliberately focusing on word choice, and moving away from "shrink" and towards phrases like "profit protection," "inventory discrepancies," "data integrity," and "product availability," LP teams can help to redefine their role in a collaborative way that more closely aligns with shared goals across the company.

Buyers are critical human components of any retail operation, but fewer than one in three buyers view LP as a partner to drive sales. Fewer than one in ten would say that LP was a key driver in their performance metrics. The potential for a closer, more productive partnership is evident.

Data Analytics

As the big-data focused paradigm continues to gain steam, data analytics remains a key capability when it comes to maximizing effectiveness, whether on the loss prevention side, the operations side, or the buyers' side. But according to the study, buyers think that LP isn't doing enough: "Only 25 percent of buyers surveyed believed their asset protection teams conduct in-depth analytics to identify the drivers of high-shrink items and identify innovative solutions for the prevention of loss." The majority of those surveyed thought instead that LP capabilities were limited to delivering lists of high-risk items for review. "Buyers perceive the lack of real-time information and analytics as well as the lack of root-cause analysis as two of the top three barriers to

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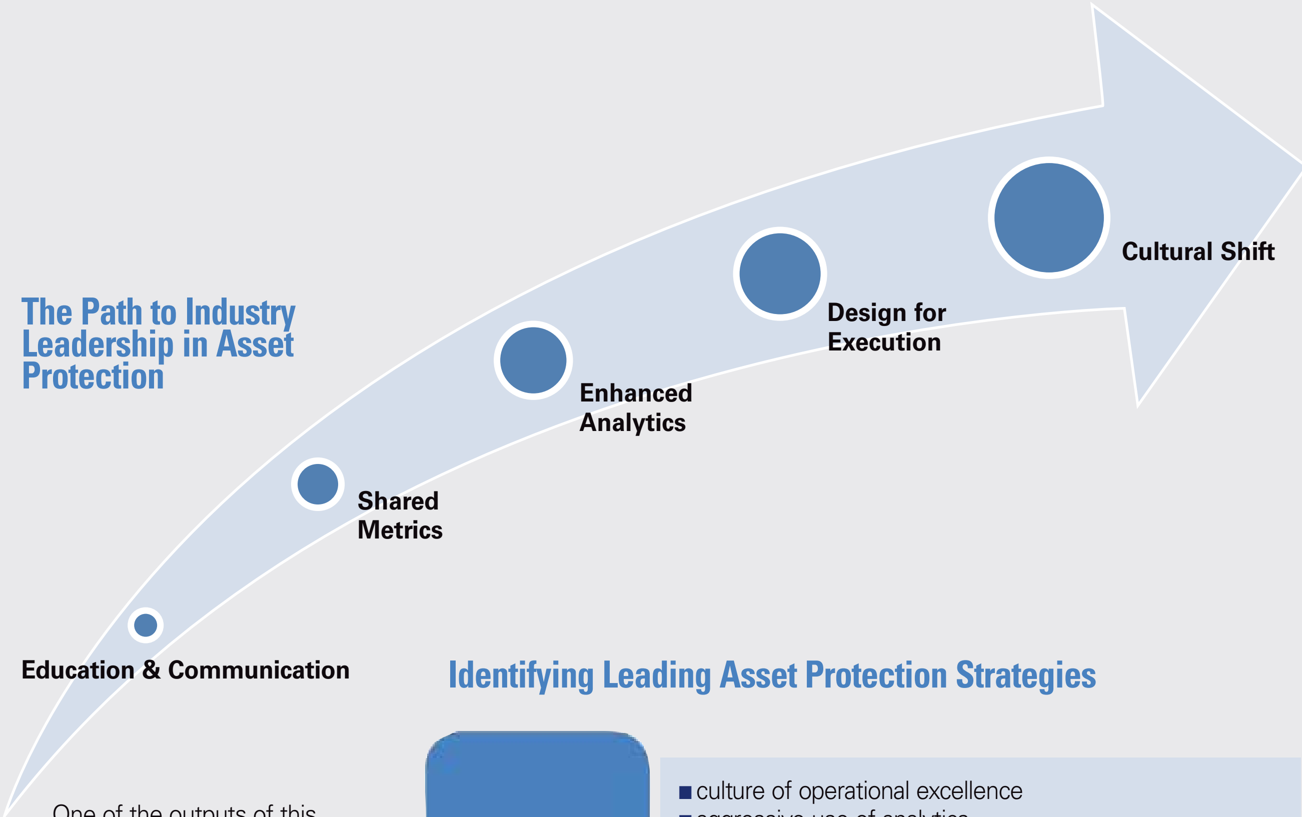
The Path to Industry Leadership in Asset Protection



One of the outputs of this study was an assessment of the evolution of an asset protection organization from basic competency to one perceived as world class. The authors identified specific LP strategies common to organizations at three different stages of this evolution as listed here on the right.

While individual organizations may have a mixture of these capabilities and the descriptions are not absolute, retailers may find it useful to benchmark their own organizations against these observations.

To aid retailers in their efforts to move toward best-in-class, the authors developed a path to leadership diagram shown above that identifies significant incremental steps along the journey. The purpose of this part of the study was meant as encouragement and guidance to asset protection organizations. As noted by the authors, "Our aim is to ensure asset protection groups do not remain static, but rather find themselves on a journey towards improved collaboration and broader impact within their organizations."

Identifying Leading Asset Protection Strategies

Industry Leader

- culture of operational excellence
- aggressive use of analytics
- common metrics across organizational silos
- solution-based approach with portable tools for use within stores and warehouses
- evidence-based approach to solutions (e.g., link solution to profit improvement or other key measures)
- product designed for effective execution

Developing Organization

- strong cross-functional coordination
- ability to promote broader set of merchandising solutions beyond theft prevention (e.g., reduced frequency of resets, accurate set-ups and paperwork, unidentified outs)
- close vendor partnerships
- purchase order accuracy and correct accounting
- loss prevention has a seat at the table for new line introductions
- conducts root cause analysis

Basic Competency

- focus primarily on prevention of theft
- solutions focused on tagging and security of merchandise
- works independently to implement prevention techniques
- limited funding to support loss prevention initiatives
- lack of real-time analytics
- asset protection team with traditional skillset

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collaboration between merchandising and asset protection."

Buyers don't have time to suss out the root cause that puts a particular item on a high-risk list. They want to interact with LP the way they are used to interacting with other teams. They want LP to identify the problem and the cause, and they want to be provided with a list of solutions to choose from. A major challenge, however, is that providing solutions to many of these problems requires coordination and collaboration between a number of different groups, which could include supply chain, buyers, vendors, operations, and others. This means that the question of ownership of a problem… and accountability for a solution… can be muddy and complex. "Any asset protection team seeking to offer long-term solutions needs to have deep ties to multiple organizational silos," say the authors, "and has to be prepared to have to navigate a tremendous amount of social and political resistance."

One solution that could assist buyers as well as other retail teams involves an approach that many LP leaders have had a great interest in over recent years—data-driven analytics. The patterns that can be uncovered in the truly massive datasets being generated by modern retail systems can be invaluable in informing management decisions on the LP front, as well as with operational partners, and, yes, with buyers, too.

Analytics tools can be used to uncover relatively simple relationships, like patterns of loss tied to certain times of day or certain days of the week. But they can also identify more complex commonalities across items that suffer from high shrink or high operational cost. They can test theories about what is driving shrink. They can evaluate the effectiveness of strategies implemented to test those theories. And they can predict which items might be troublesome in the future based on historical patterns, and plan how to address possible issues ahead of time.

Buyers benefit from these analytics by having access to critical data to hone their business. And LP teams benefit from buyers' use by providing them tools to make the best loss-minimizing decisions. Some companies even develop platforms deployable to mobile devices that keep up-to-date data at any user's fingertips. One company developed a set of criteria that would identify merchandise problem categories in real-time, and provide a checklist to store operators to guide them through the actions that could be taken to remedy the issue.

Buyers don't have time to suss out the root cause that puts a particular item on a high-risk list. They want to interact with LP the way they are used to interacting with other teams. They want LP to identify the problem and the cause, and they want to be provided with a list of solutions to choose from.

As the best LP teams already know, the results from good analytics can be game changing. By sharing these results, LP can help to sell closer collaboration with partners across the organization. "Better analytics can also help asset protection leaders build strong organizational coalitions and improve the perception of asset protection teams as leading problem solvers within the retail organization."

The loss prevention industry has made incredible strides in recent years, evolving into agile teams with sophisticated tools and continually evolving methods. But we can always be better. This study shines a light on another area where LP can stride forward. Buyers are critical human components of any retail operation, but fewer than one in three buyers view LP as a partner to drive sales. Fewer than one in ten would say that LP was a key driver in their performance metrics. The potential for a closer, more productive partnership is evident.

The Full Report

For further information, including access to the full study report, please visit the RILA website at rila.org.

There will also be a webinar on October 9, 2015, with the study's author Nicole DeHoratius along with Colin Peacock, strategic coordinator for ECR Europe Shrinkage and On-shelf Availability Group, and Libby Rabun, LPC, vice president of loss prevention for AutoZone. Look for information about the webinar on the RILA website. ■

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