



Retail Loss Prevention Council May 2011

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Welcome New Members:

Krista Osborne, CPP

Steven May, CFI

William Napier, CPP

Jon Stokes, CPP, CFI

Message from the Chairman

This edition of the ASIS LP Council Newsletter contains two excellent articles which I believe everyone will find both interesting and informative. Council Member Joe Davis, CPP offers his insights on a recent Wharton/ASIS Program for Security Executives which he recently attended entitled "Making a Business Case for Security". Joe's quote from his article which states "This course delivered such a new perspective and practical insights, that I believe living by them can advance security in organizations to a whole new level" clearly demonstrates that this article is a must read.

Committee Member Steven May, CFI, who has just joined our Council, has also offered a great article covering a topic that provides significant focus and understanding on an important issue. His piece entitled "Shrinkage Reduction-Does This Put Cost or Retail Dollars on My Bottom Line?" helps us understand, in basic terms, an important part of how an LP departments' contribution to the organization should be viewed.

In addition to Steven May, CFI, who is CEO of Loss Prevention Innovations, we are very happy to announce the addition of three other Committee Members who have just joined our Council. These include Krista Osborne, CPP who is Director of International Asset Protection for Starbucks; William Napier, CPP, who is Sr. Manager of Asset Protection at Cabela's, Inc.; and Jon Stokes, CPP, CFI who is the Director of Loss Prevention for Fresh & Easy Neighborhood Markets. We are very pleased to have these outstanding professionals join us.

I want to acknowledge that Council Member Joe Davis, CPP has been named by ASIS and Security Management Magazine as one of 2011's Top Security Executives. Congratulations Joe on a well deserved recognition. Also, two of our members have recently been named to the Board of Directors for the Loss Prevention Foundation. Congratulations to Jeff Levitt, CPP from Panera Bread, and William Napier from Cabela's!

Finally, many of our council members will be in attendance at the NRF Loss Prevention Conference in Dallas June 13-15. Look us up and let's discuss the business.

Enjoy the Newsletter and give us your feedback as to how we can continue to address those topics which are most important to you.



Shrinkage Reduction—Does This Put Cost or Retail Dollars on My Bottom Line?

By Steven May, CEO of Loss Prevention Innovations



Recently I attended a meeting with a CFO of a Men's Apparel Retailer who is very supportive of proactive loss prevention programs. He has been in the retail industry over 30 years at senior level and has a demonstrated record of success in both good and bad economic times. During the meeting we had an interesting debate on whether or not a reduction in shrink improved EBITDA at retail (CGS + Margin) or at cost (CGS)*.

This issue of retail versus cost contribution to the bottom line goes to the core of a loss prevention programs ROI. Hopefully, most Loss Prevention professionals would argue from the retail method perspective. The challenge for us is most CFO's (finance professionals in general) are clearly thinking from the cost method contribution. To better understand this debate the CFO stated the following to me, which helped crystallize the core issue;

“You have helped me improve my earnings at cost by reducing my inventory losses, but show me the margin pickup on that inventory. You would need to help me improve my sales to improve my bottom line at retail.” In essence he believes that shrink reduction only equates to reduced inventory losses and that inventory is owned by the retailer at cost (the landed cost of the manufactured goods).

For the record he (and every other CFO) is absolutely correct. Based on GAAP accounting rules the inventory sits on his books at cost and when it is stolen (or lost) it is relieved from his inventory at cost, otherwise called shrinkage. Further, when you apply a proactive and effective loss prevention program, less of that inventory is stolen and the resulting shrinkage improvement equals an EBITDA improvement directly related to the cost of the inventory. However, here is where things start to get a little dicey. First my friend the CFO runs a “retail” company not a “cost” company and sells his inventory at a markup (retail). His success and profitability is directly related to the margin pickup based on those sales. Also contributing to the confusion is an absence of GAAP rules relating to how shrinkage is calculated or reported (an interesting debate for another time).

Now let's review the Loss Prevention perspective on this subject in order to really confuse things. Let's think about the stolen inventory scenario and add in the concept of “inventory turns”. First a good Loss Prevention professional has implemented a program that has reduced the amount of inventory losses. In its simplest terms the inventory wasn't stolen and is now sitting safely in the store waiting to be purchased (the CFO contribution). At some point (and I don't know when) the inventory will be sold at retail (not cost), resulting in not only obtaining cash for the cost of the inventory, but also the margin (markup) or the retail contribution.



As it relates to inventory turns it is best to think about it in terms of an example. Let's say you happen to have an inventory turn rate of 2.5 (you sell through your store inventory 2.5 times per year) then it is reasonable to suggest that the inventory you protected in the store during the first 6 months of the year will indeed be sold that fiscal year thus contributing to your EBITDA at retail (COGS + Margin).

Did you capture all the margin dollars on the inventory in your stores based on your shrinkage reduction? Clearly the answer is NO but in the scenario above I did capture all the cost (calculated based on year end physical inventory) and at least half the margin. Further, if the retailer had a higher inventory turn rate, more margin would be captured.

A Loss Prevention professional would also make the point that the product that is typically stolen (whether through internal or external theft) is the higher value, more desirable product which also makes it more saleable. Therefore, it stands to reason that when shrinkage is reduced the store now retains more of this type of product for sale, resulting in improved sales. So, although I can't say to my CFO friend with absolute accuracy that I helped improve earnings on a dollar for dollar basis at retail in a particular fiscal year, I can absolutely say that *the improved shrinkage results did contribute to the bottom line; "all" of the cost and a "good portion" of the margin. AND if this shrinkage improvement continues or is maintained, the retailer will eventually capture "all" the margin on the protected inventory over multiple fiscal years.*

In response to the original statement made by the CFO; YES, a good loss prevention program reduces inventory losses, improves earning at retail (cost & margin) and IMPROVES SALES!

If you want to test this outcome, analyze your shrink results year over year and compare that to comp sales, by store, for three separate categories. Group stores together where shrinkage increased, decreased, or stayed the same. Compare each group's comparable sales performance to the overall comparable store results.

Written by Steven May, CEO of Loss Preventions Innovations, and Committee Member of the ASIS Retail Loss Prevention Council.

** EBITDA is the accounting term Earnings before Interest, Taxes, Depreciation and Amortization. CGS is the accounting term for Cost of Goods Sold.*



Away With Logic and Other Advice for Security Professionals in Retail

By Joe Davis, CPP, Director of Loss Prevention for T-Mobile USA.



Having served in retail for 19 years, I'm not big on endorsing vendors or third-party products. The cardinal rule of showing complete objectivity when it comes to outside companies has been deeply engrained in me. Yet, I'm about to share with you rave reviews of the Wharton/ASIS Program for Security Executives: Making the Business Case for Security, which I recently attended. I am making this exception because in doing so, I believe there is enormous benefit to be gained by my peers. This course delivered such a new perspective and practical insights that I believe living by them can advance security in organizations to a whole new level.

For my part, I feel as though I went from zero to Ivy League MBA in 10 days. So what exactly, you might ask, did I learn that was so valuable?

Not New Information, But A New Perspective

The program that I attended is the Wharton/ASIS Program for Security Executives: *Making the Business Case for Security*, or as I like to refer to it, Wharton's Executive Boot camp for Chief Security Officers. Like any executive business program, it is designed to lay a foundation for individuals in business who may not have a comprehensive understanding of all the different functional areas. As you would expect, the program is broken down into several different areas: strategic thinking, leadership, essentials of finance, fundamentals of marketing, and a few more. My expectation was to walk in and learn an extensive amount of new information about the functional areas to which I am not typically exposed to in my career. Walking out, I realized that the greatest achievement was taking things that I already knew and refining my understanding of the application of these things into my business in a day-to-day process.

While the program is called, Wharton/ASIS Program for Security Executives: *Making the Business Case for Security*, there is absolutely no material on security presented--a clever approach by Wharton. Why would they need to teach security experts about security? What they want to do is teach security experts how to most successfully achieve their goals in the whole business environment. I did not necessarily learn new information; what I learned was how to look at my job from a new perspective. Think about the difference in climbing into a helicopter and taking an aerial tour of the Grand Canyon, as opposed to experiencing it as a hiker at the bottom of the canyon. Let me tell you, the perspective is starkly different. Here are some examples of insights I took away from the program that you can bring to your organization as well.

The need to define strategy differently

Think of how many different books and articles are written on strategy: what it is, how to define it, how to create it. At Wharton, they teach that the definition of strategy is simple: "A plan to win." Too often, business executives focus on strategy as a process: A means to an end rather than the end itself. But strategy is ultimately about achieving outcomes. In security, that means reducing losses, expanding the revenue model, increasing sales, or any other number of enterprise business objectives. If you don't infuse your team with the ultimate goal, strategy quickly digresses into the realm of implementing tactics, with focus lost on winning. We don't want participation trophies, we want championship trophies.

Too often we are overcome with the process that may hold us captive. At Wharton they encourage the development and implementation of a sound business strategy, but, more importantly they stress the critical nature of defining what winning looks like to you and your business. In my business today winning is hitting key financial metrics as well as the overall protection of the assets of my company. Taking strategy out of the visionary realm and placing it into the tactile world of specific outcomes will drive ownership and accountability within your business.

Logic is not always the best tool

Security professionals have a tendency to respect logic above all else. After all, it's essential to success in our own jobs. We have to follow a path of facts to their logical conclusion to identify and solve problems. And while logic is a critical tool in security, it is not always the best tool when working with other functional areas in the organization. Sit down. This isn't going to be easy. But sometimes you have to let go of logic and focus on relationships. While it might sound eerily like something off of the

Oprah Winfrey show, it's the truth. When it comes to getting buy-in from different groups or winning over skeptics to your way of thinking, logic is not necessarily the most effective tool. It is true for communities, families, businesses and any human network: people do things for people they know and like. Asking for a favor as a friend is likely to yield better, quicker results than trying to enforce action through formal channels.

What does this mean for security professionals? Well, it means getting out and getting exposure to colleagues across the organization and interfacing with them on a regular basis. Often, security professionals limit their exposure to executive leadership and other functional areas unless it's required by a specific project or event. This is often done in the name of efficiency. So when security needs or wants something, they are reduced to delivering dry arguments for action, which produce little enthusiasm and gain a paltry following. An investment in colleagues and relationships is an investment in your strategy. Let's say you want to change the way you are protecting a distribution center and want to increase guard coverage. Many times, a security professional will pull together a plan and give a list of reasons why additional guards are needed. But without relationships, the executives see you as a walking blank check. Knowing you as a person along with the corporate goals your department contributes to, and what you are trying to accomplish for the organization--makes accepting your proposal much easier, and much more personal.

How to ask for money

Our instructor for this session, John R. Percival, PhD is a professor of finance at Wharton. Dr. Percival provided some excellent case studies on building shareholder value within your business. His real life examples and engaging delivery had me more interested in Finance than I thought was actually possible. Asking for budget dollars in the security realm is a tedious annual process that is many times bane of a CSO's existence. I learned that it's easier to ask for funding if you can do it in a manner that drives value into your organization by delivering the message in the language of the finance team. Shift your focus from asking about financing for your project to telling how your project will positively impact financials. This is about communicating in the language of your audience. Instead of asking for money and justifying why it should be spent, position your projects in light of the value they will drive to the bottom line: the reduction in loss, the savings in personnel, the increase in time spent focusing on the customer.

Security is often pigeon-holed as a cost center, when in reality it can and should be marketed as a competitive advantage. Think about how security positively impacts the business. For example, by mitigating risk, the company can deploy more stores in the market. By reducing shrink, the business can invest in growth initiatives. By streamlining operations to reduce loss, security improves efficiency and helps save labor costs. It's easy for security professionals to focus on what's inside their area instead of focusing on their true impact to the outside organization.

Prepare for meetings

"Really?" you're asking. "Prepare for meetings?" It seems obvious, but amidst the frantic pace of business today, think of how inefficient most meetings are. How many times have you been to a meeting at a set time and the only preparation time you have is the time it takes from you to walk from the last meeting into the next? The executive course really delves into the value of being prepared for meetings. The prepared person is more effective at gaining their expected outcome than the person with no agenda. It's a small, seemingly unimportant concept, but the result of poor preparedness is simply that all your time spent in meetings gets thrown down the drain. When you think about how many meetings you have each week, that's a significant loss.

In conclusion: Escape out of the security silo

In short, the big lesson I learned was how to avoid getting caught up in the security silo and how to start viewing my work as a program that aligns with the company's overall strategy. I know that what I am doing in security is helping the organization achieve its goals, but often I reduce my programs to tactical plans that I fail to communicate to others in the organization on a regular basis.

Security is its own animal. It's not like sales or marketing and will not be treated like those things. In some ways, it's the least understood function in the organization. Therefore, our job of explaining how security supports the overall strategy of the organization is much harder than it is for others. We have to look for points of integration as opposed to points of differentiation. The good news is that as security professionals we have many strengths which we can leverage to better communicate our messages and objectives. We know people. We understand interviewing and picking up on body language and other clues. We can easily tell how people are responding to our interaction. Use this skill to guide you when presenting proposals and communicating with others.

The program's academic director, Mario Moussa, told us, "Reality is a liquid, not a solid." It's the truth. In the security world, we pine for a firm foundation from which to work. We must learn to be willing to step into the liquid and immerse ourselves in the fluid reality in which business exists. We have to gain flexibility outside of the self assurance that we have developed in our specialty over the years and recognize that there is a different way to doing things. Failure to do so limits our success and that of our companies.

Joe Davis, CPP is a Director of Loss Prevention for T-Mobile USA and a member of the ASIS Retail Loss Prevention Council. He manages a team of corporate and field level investigators focused on enhancing profitability within the enterprise. Joe's team is responsible for all internal and external operational improvement and investigative programs in the business. Since joining T-Mobile in 2008 Joe has designed and implemented numerous cutting edge programs from risk mitigation in the retail stores, to reducing operational expenses by \$30MM.

Join the Retail Loss Prevention Council at the [ASIS Annual Seminar](#)

