RETAIL LOSS PREVENTION PLAYBOOK

An overview of loss prevention methods using Video-Driven Business Intelligence™

Retail Loss Prevention Playbook

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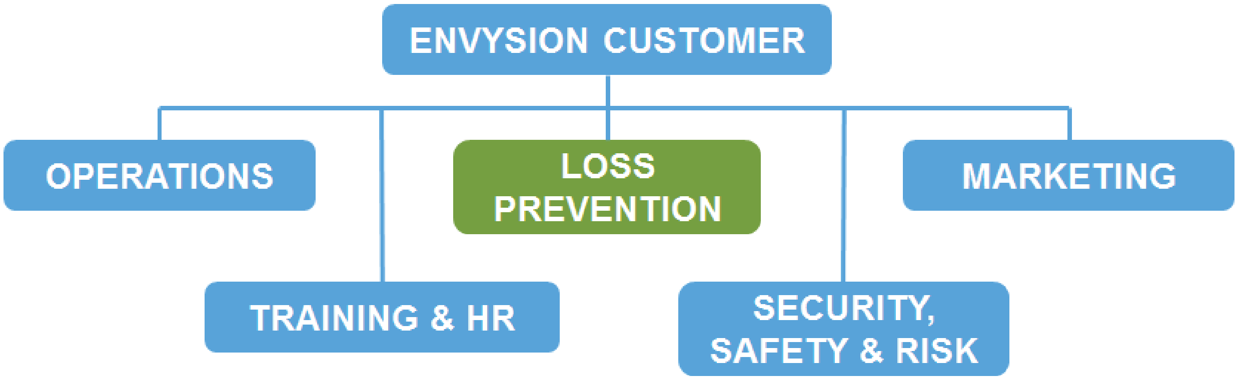
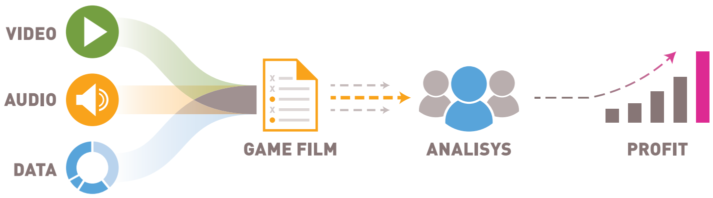


Introducing Envysion

Enabling businesses to increase profitability 10-15% by putting powerful video-driven business intelligence™ into the hands of the entire organization.



Who is This Playbook for and Why Use It?

This playbook is for those who are new to Loss Prevention, new to using video for Loss Prevention or just looking for some new ideas.

This playbook will help you with strategies and tactics to enhance your loss prevention effort and get the most out your Envysion service.

When using this playbook, as you consider adopting or adapting any of the plays included herein, be mindful of company culture and make sure you operate within the bounds corporate policy.

Each play in this playbook will help you hone your own best practices and give you valuable insight into your business so you can excel in your role.

Play: Keeping Honest People Honest

One of the interesting aspects of employing a video system for Loss Prevention is the deterrence factor. Regarding employee theft, communicating effectively your policies and technologies used to reduce shrinkage with employees helps keep honest people honest.

Consider employees falling along a spectrum: at one end of the spectrum there are those who will steal regardless; on the other end of the spectrum there are those who are an epitome of everything that is good in the world and would never dream of an unethical act; but in the middle where most of us reside, people tend towards the precedent and may even begin to feel an entitlement.

"Tommy gave his brother an employee discount. The boss doesn't seem to care. I'm going to give my sister a discount."

We have a way of rationalizing petty dishonesty, especially when the lines between right and wrong are blurry.

The very first thing to do when you up the ante with any incremental form of security or loss prevention measure is to tell your employees. It's important to avoid coming across as, "I'm out to get you…" but rather, "I am trying to run a business well and successful businesses use technologies to deter theft and fraud."

For video and exception reporting specifically, as part of policy and employee training, let your employees know that certain transactions and their corresponding video are reviewed.

If policies and expectations are clear, you will help keep honest people honest by making the lines between right and wrong easier to see. There's a lot to be gained from deterrence alone.

Actions

- Develop a Loss Prevention policy and include it in your employee handbook
- Make sure you use clear language communicate expectations and consequences for violations
- Post policy reminders in visible locations – e.g. backdoor policy reminders on the backdoor, cash handling reminders in the counting area, etc.
- Have formal discussions when training new hires
- Have an ongoing, open dialog with employees

Play: Prevention with a Good Cash Handling Policy

Employing an effective cash handling policy can do a lot in the way shrinkage prevention by putting in place the correct checks and balances and processes to mitigate opportunities for theft. Your policy should be posted where employees who handle cash will see it on a regular basis as a friendly reminder. It should also be including in the new employee on-boarding materials; employees should sign a copy to be kept in their employee file.

Your Cash Handling Policy should cover:

- Cash Counts

- Single-drawer accountability
- Cash Drops
- Cash transactions with Customers

Cash Counts

Cash Counts should happen at the beginning and end of all shifts. As a check and balance, two individuals should count the cash – the manager and the employee manning the register. A record should be kept of beginning and ending cash (the policy should stipulate the amount of beginning cash).

Excessive over- and under-rings, voids and refund activity should also be recorded. This may be an indicator of poor training or a bigger problem such as theft. Video should be used in conjunction with an exception report to review specific, problematic transactions to identify the problem.

Single Drawer Accountability

Single-drawer Accountability means one employee, one drawer. That way, if there is a problem when balancing the drawer at the end of the shift, there's only one person responsible and it makes it a lot easier to troubleshoot.

Cash Drops

Cash drops (deposits from the drawer) during a shift should be dictated so that there is never too much cash exposed in the drawer at any given time. If you use a POS system that can track the amount of cash in the drawer in real-time, your policy can stipulate the maximum allowable amount in the drawer. A cautionary note, if speed-of-service is a value proposition, be careful with timing cash drops while lines are long.

Instructions for cash drops:

1. Wait for lull in customer traffic
2. Pull the drawer with the employee and the manager present
3. Both the manager and the employee count current balance in the counting area (not in the open)
4. Subtract current balance from policy beginning balance: this is the amount that should be removed from the drawer and deposited
5. Both the employee and the manager should count and sign-off on the amount removed from the drawer
6. Both the employee and the manager should witness the deposit into the safe

Cash transactions with customers

Handling cash transactions well with customers eliminates ambiguity and confusion that can be introduced when cash changes hands.

Instructions:

1. Clearly state the cost of the purchase
2. State the amount of the received payment – e.g. "out of five dollars"
3. Set the received payment atop the drawer until the change is paid out. This will ensure that there is no confusion on the part of the employee nor the customer about the payment that was rendered by the customer
   - Validate with video that bills are being left outside of the drawer
4. Count back the change – again, to minimize the confusion on both the part of the employee and the customer
   - Validate with video – is a pile of change being handed back to the customer or are bills being handed back individually?

Actions

- If you don't already have a Cash Handling Policy, create one
- Post your policy where it can be seen as a friendly reminder to those who handle cash – e.g. in the cash counting area
- Include a copy of the policy in the employee on-boarding materials; have new employees sign the copy acknowledging have read and understood the policy. Keep the signed copy in the employee's file
- Validate that cash handling policies are being followed with video. Take corrective action where problems are discovered including additional training up to termination

Play: Spot Return Fraud

Return fraud occurs in a variety of forms and may involve collusion with a store employee. For example:

- An employee issues a bogus return for a friend even though merchandise was not returned
- A customer returns stolen merchandise or merchandise that was picked up off the shelf but never purchased

- An employee issues a "no receipt" return for a legitimate customer return and then uses the customer receipt to issue a second return and pocket the money
- An employee grabs a high dollar item from the shelf and issues fraudulent "no receipt" returns to gift cards that can be sold or used at a later date
- An employee saves receipts for high dollar cash transactions cash and uses bogus returns to take money from the register

What to look for:

- Employees who have an above average number of a refunds
- When auditing refund transactions, is there a customer on the other side and is the merchandise being returned present?
- Did the customer bring merchandise into the store to return it, as opposed to picking it up off the shelf?
- For "no receipt" returns does the customer actually present a receipt?
- For returns with a receipt, does the employee follow the return policy guidelines?
- A large amount of returns for the same item at a particular store or stores within an area. This could indicate stolen merchandise
- The employee issuing the return made the original sale

Employee return fraud is a common form of theft because employees know this theft will not raise red flags as their till will still balance at the end of their shift. Build exception reports to highlight suspicious return activity and use video to validate that a customer and/or merchandise is present when returns are issued.

Customer return fraud is more difficult to curtail, since most customers do have legitimate returns. Engage employees to help cut down on customer return fraud by ensuring all employees understand and follow the return policy. Tell employees to report customers with frequent returns to the loss prevention team for investigation.

Actions

- Make sure that your policy includes how returns are to be qualified and issued
- Create POS reports for returns, especially for employees with a high percent of returns and "no receipt" returns
- Schedule time to review (daily or weekly)
- Validate suspicious returns with video; check that during the return both a customer and merchandise are present

Play: If Nothing Else, Audit High-Risk Transactions

There are certain transactions that can be classified as high-risk. These are transactions that relatively easily enable skimming or under-ringing, allowing employees to pocket your cash. These include:

- Voided sales
- Discounts and coupons
- Zero dollar (or small amount) transactions
- No sale
- Cash refunds

Voided sales are a common form of skimming. What makes a void so susceptible to theft is that by definition, a voided transaction did not happen (it's not recorded on the books), so employees can merely relieve you of the cash overage, and then everything balances.

What to look for:

- In a typical situation the customer purchases items with cash, walks away and after the fact the employee voids the sale in order to pocket the proceeds.
- To validate, look at the time leading up to the void and watch the customer walk away with purchased items.
- Look to see that the employee is alone or isolated from others at the time the void occurs. Look for the employee lifting cash or making a tally (it may be that the employee will lift the cash at the end of the shift when the cash drawer is switched out).

Discounts and coupons are part of normal operations in most retail businesses, which is what makes them susceptible to abuse. These transactions can be prevalent because, to the employee, it may not feel wrong because they are not blatantly pocketing cash.

What to look for:

- High dollar amount of employee discounts. Is the employee really purchasing $300 of merchandise? Is there someone on the other side of the counter?
- Transactions with a coupon or discount a $0 total.
- Employees who have a high number of employee discounts in a single day. Did the employee buy ten rolls of wallpaper?
- Employees who have the highest number of a specific type of discount or coupon. From a random selection of transactions, does the person on the other side of the counter really qualify for the discount or promotion code?
- Employee discounts performed by the same employee receiving the discount

Zero dollar (or small amount) transactions are a more subtle means of skimming and under-ringing. A zero dollar transaction is akin to a void transaction where items are cancelled after the customer walks away. The small amount transaction can, at first glance, look valid, but under closer scrutiny you may discover a problem.

What to look for:

- The customer clearly purchases and walks away with several items, but the receipt shows a $0 dollar total or only a small amount – perhaps the price of a single, small item.
- Especially in the case of small transactions, be sure to check the previous transaction to make sure that the other items were not previously rung up and the small item was not just a last minute decision to buy a point of purchase item.

No sale transactions are an easy way for the employees to open the till to, for example, break larger denomination bills for smaller change. The problem is, "…it's an easy way for the employee to open the till."

What to look for:

- When a customer is present, look for a customer walking away with purchased items even though a No Sale was rung in. The employee may quote the customer the price of the items purchased without actually ringing in the items, ringing in a No Sale to open the till.
- Look for no sale transactions when the employee is alone or isolated; look for blatant cash theft from the till.

Cash Refunds, like the other high risk transactions, are a relatively easy way to get at cash.

What to look for:

- There is no item and/or no customer present at the time of the transaction. The refund is pocketed.
- There is a customer receiving a suspicious refund where there is no item or the item does not appear to match the refund.

Actions

- Create high probability POS reports
- Schedule time to review (daily or weekly)
- Validate suspect transactions with video

Play: Spot Time Clock Abuse

Requirement: your employees to use your POS system to clock in and out.

Employees can squeeze extra paycheck dollars for hours not worked by abusing time clock policy. If you use your POS system for employees to clock in and out, this can be relatively easy to spot.

What to look for:

- In an exception report, look for employees working long hours, that do not match the amount of time they are scheduled to work
- In the video:
- Employees who showed up earlier and clocked in and then left again
- Employees who left and then showed up later to clock out
- Friends clocking in or out on behalf of the employee

Actions

- If you don't use your POS for employees to clock in and out, set up your system to do so
- Create POS reports based on employees clocking in and out
- Schedule time to review (daily or weekly)

Play: Chase Your Tail

There's only so much time in the day. When randomly looking at any one "risky" transaction, there may be a perfectly logical explanation behind it. To hone your efforts, compare employees relatively by looking for deviations from the norm; employees in the wrong tail of the normal distribution curve – employees who, for example, consistently have more voided transactions or who give more discounts.

Any of the high risk reports mentioned above can be modified to target the worst offenders by looking at the top 5% across all employees for the given transaction:

- Voided sales
- No Sale
- Zero Dollar (or small amount) transactions
- Cash Refunds

This will make you more effective, by spending time not only on high risk transactions, but also high risk employees.

Actions

- Create POS reports based on high probability transactions with a filter to only include the top 5%
- Schedule time to review (daily or weekly)
- Validate suspect transactions by reviewing the corresponding video

Play: Limit Loss from Fraudulent Liability

In today's litigious society, retailers are at risk of several types of unfounded claims from both employees and customers.

- Harassment
- Wrongful Termination
- Slip and Falls
- Assault and Battery

Having video evidence of what actually happened in the alleged case can mitigate losses by showing the retailer was not responsible or only partially responsible for the damage. In many cases video will deter would-be-defendants looking from pursuing a fraudulent claim, saving the retailer thousands or millions of dollars in lawyer fees, court costs and a settlement.

Actions

- Always perform employee performance reviews in an area with video surveillance and audio surveillance if permitted by law
- Save video clips of written up offense in the employee's case file
- Make sure customer areas of the store, walkways and parking lots are covered by video cameras
- Always save video of any customer complaints

Play: Guard Against ORC

Organized crime can make catching thieves more challenging than catching a single shoplifter, as ORC often involves collusion and misdirection between multiple thieves in multiple store locations. Because organized crime is premeditated, thieves often try to catch store employees off guard to make the theft happen smoothly.

While it is difficult to catch the thieves in the act the first time, once the routine has been identified, retail chains can prevent further theft with the right technology, collaboration between stores and an informed sales staff.

When fighting ORC, time is of the essence, as ORC rings can use the same scam to hit all of the company's stores in the area in a day. The ability to quickly share video evidence among sister stores is critical to protecting against additional ORC theft.

Actions

- Make sure loss prevention can quickly access video remotely and share video evidence with store managers
- Create an ORC Action Plan to include:
  1. Store managers to notify Loss Prevention immediately after an ORC theft
  2. Loss Prevention should save and share video of the ORC theft with all local store managers
  3. Local store managers should post snapshots of the ORC suspects in high traffic employee areas, such as the break room or near the time clock
  4. Appropriate actions to take if the ORC suspects enter the store, i.e. call the

police

Play: Protect Your Employee Entrance

The employee entrance provides employees a discrete way in and out of the store for employees. Having only one entrance/exit for employees during their shift also isolates potential merchandise theft by employees. Managing the employee entrance with the appropriate policies and procedures, aided by technology, you can help to protect yourself against potential issues.

An effective employee entrance policy should include:

- Only employees should use the employee entrance
- The employee entrance should never be propped open
- Where personal items are to be stored
- Purses, cell phones, lunch boxes, etc. should not be allowed under the register
- Whether bag will be checked when employees exit the store, if so who should perform bag checks

Actions

- Have an employee entrance policy for employees on the clock
- Make sure employees know and understand the policy. Post the policy where employees will frequently see it – perhaps on the entrance itself
- Use a video surveillance system on the employee entrance
- Bonus points for cameras both inside and outside (for outdoors you will want a camera that works well in poor lighting such as an IR camera)
- Validate EAS alarms at the employee entrance with video

Play: Audit Your Procedures and Systems

When conducting a post-mortem of a store loss, it's important to understand the store procedures and systems that may have contributed to the loss to avoid repeating past mistakes. Communicating lessons learned and best practices gathered during an audit to your staff can help you avoid future losses.

Start with a store-wide audit to gain insights into past problems and increase the efficiency of your staff by correcting operational and system issues. Best of all, the audit will help you move from reacting to a problem after the loss to making proactive changes to avoid the loss in the future.

Goals of a Process and Systems Audit:

- Uncover valuable information about a loss
- Ensure that those providing feedback understand the importance of their role going forward
- Create employees buy in by giving them an outlet for feedback and involving them in process

By auditing multiple store locations, lessons learned from each can be leveraged across your business by collecting and disseminating information to all locations, creating an enterprise-wide set of solutions.

Actions

- Audit the procedures and systems that contributed to the loss
- Provide the opportunities for employee feedback via informal discussions and/or confidential surveys
- Maintain a list of common shrinkage-causing factors
- Communicate findings across the enterprise

Play: Form an Executive Loss Prevention Team

Each department within a company can provide a different, critical perspective on loss. For example, distribution, operations and merchandising are all responsible for store product, but in a different way. By forming a cross-departmental team focused on reducing shrink, you gain valuable insights from different perspectives, allowing you to make better decisions.

Who to Include on Your Team:

- Executive management – CEO and/or CFO
- Head of merchandising and operations, who will provide the in store perspective
- Head of loss prevention and internal audit

- Head of distribution, who will provide insight into shrink before product reaches the store

Actions

- Select the members of your executive team
- Schedule regular monthly meetings
- Set the agenda, which should include:
  1. Develop on-going action plans to reduce shrink
  2. Evaluate results of action plans
  3. Make decisions to strengthen overall effort

Play: Engage Your Managers

Feeling overwhelmed by the day-to-day workload of your loss prevention duties? Outsource. You have an entire loss prevention team at your disposal – your regional managers and perhaps even your store managers. By engaging your managers to aid in the loss prevention process, you are reinforcing an ownership culture, further holding your managers accountable for profitability.

To get buy-in you need to reinforce an ownership culture.

Sell it

In order to successfully rollout a program amongst your managers you are going to need to get buy-in. This is important. You are asking them to take on more work so there will be a natural tendency to push back.

To get buy-in you need to reinforce an ownership culture. Your managers are accountable for profitability and therefore, reducing shrinkage. And in turn, it helps if their pay (i.e. bonuses) are reflective of store performance which incentivizes their willingness to participate since they will directly reap the benefit.

Develop a program

The key components to a successful program are:

- Training
- Key processes
- Feedback

Expectations

It's important for key personnel to understand shrink results overall and from their areas of responsibility. If your managers know clearly what is expected of them, they will be in a stronger position to understand and meet the goals of the company. Key expectations include:

- How often to conduct audits – e.g. daily, weekly, bi-weekly, monthly
- How much time to spend (this will often correlate with how often they are conducting audits – e.g. daily audits will tend to be shorter than monthly)
- How thorough to be (managed through processes)

Management should regularly follow up with personnel to ensure success. Issues and solutions discussed during follow up meetings will reinforce the importance of shrink reduction and its impact on profitability.

A Department Manager should know the shrinkage result for her department and have specific actions to address those issues which contributed to losses in her area.

Training

- Training is of course integral to ensure competence so that your managers are able to meet expectations. Also, if a task is abstract, it won't get done. You cannot give your managers a video surveillance tool and say, "go reduce shrinkage…"
- In person training is best; however, if that's not possible, web conference tools are quite adequate. Additionally, if possible, smaller class sizes (5-10) will ensure participants are more attentive.
- Have a limited number of exception reports you want your managers to use – i.e. simple reports targeted at high-risk transactions. Review each report, its purpose, and what customer and/or employee behavior to look for in the video clip.
- Hands-on learning is most effective. Let one manager drive through the task while soliciting comments from other managers as she goes.

Processes

Processes span from what to do in case theft is discovered to what data you want to collect from your managers on an on-going basis to ensure the task is being completed as excepted.

Knowing the processes in case theft is discovered is really critical, especially given that there may be legal ramifications for mishandled circumstances. Your process should conform to your established loss prevention policies. This will typically include: saving the video clip and escalating the incident to your Loss Prevention and/or Risk Departments.

Another potential process to include is around report rotation. For example, if you want to your managers to conduct weekly audits, send out Monday morning which report to use for the current week's audit. This limits the scope of the task for managers and it keeps them engaged by "keeping it fresh" (e.g. not looking at the same thing every week).

Lastly, it is up to you to decide how closely you want to "police" the program. It may be sufficient to only lightly monitor it through processes, and otherwise manage the program through feedback loops. To that extent, the key to is to collect just enough information from your managers that you know a task is being completed as expected (without micro managing), but not so much that you cause the program a slow death by bureaucracy.

You can create a basic form to capture the time, location, register, and transaction type of the audit. You can also require that your managers capture some obscure information – e.g. the shirt color of the patron in the clip – in order to reinforce that attention is truly being given to the task.

Feedback

Feedback can be gleaned from both the system (usage statistics) and your managers. Use the system to ascertain which managers are participating and which are not. Talk to managers to get feedback about what works and what does not. Feedback is key to continually evolving your program and adapting it to your company culture; listening to your managers' input gives them more ownership of the program which will ultimately drive better results.

Actions

- Select the group of managers you wish to have participate in your program
- Provide training
- Clearly communicate processes
- Collect feedback and iterate

How it all Comes Together

Employing a few simple strategies and tactics will help you get the most of your video surveillance system. Having gone through this playbook, you've probably noticed a few recurring themes:

- Have a policy and program that is tailored to your organization
- Clear communication of expectations will go a long way as a means of deterrence by playing to the psychological disposition of your workforce and minimizing perceived gray areas
- Reinforce your efforts with video by identifying and addressing training issues and potential fraud

Video-Driven Business Intelligence™

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ABOUT ENVYSION

Envysion enables large, national retail, restaurant, cinema and convenience store operators to increase profitability 10-15% by putting easy-to-use, video-driven business intelligenceTM into the hands of the entire organization. Envysion created the Managed Video as a Service (MVaaS) model which transforms video surveillance into a strategic management tool that provides instant and unfiltered business insights to users across operations, loss prevention, marketing and human resources. The MVaaS model enables Envysion to accelerate innovation by rapidly responding to market opportunity and making new capabilities immediately available to all users. Envysion's platform quickly scales to 1000s of locations and 10,000s of users without straining the IT department or network. For more information, visit www.envysion.com or call 877.258.9441.