



## Loss Prevention: Bringing Executive and Management Perspectives into Alignment

protiviti®  
Independent Risk Consulting

Business Risk

Technology Risk

Internal Audit

# Introduction

With annual retail shrink averaging 1.59% of net sales, according to the University of Florida’s 2006 National Retail Security Survey – a figure that adds up to \$40.5 billion for the retail industry – it is no wonder that loss prevention is a high priority. Retailers are making significant investments in their loss prevention programs, devoting time and money to such areas as theft and fraud, shrink management, safety, training and awareness, and compliance auditing.

While these investments in loss prevention programs are essential, the ultimate success of the programs is dependent upon the individuals managing and implementing them. A cohesive team that addresses the same loss prevention priorities, maintains regular communication on key issues, and receives adequate guidance and training is more likely to achieve the desired goals. However, a research study conducted recently by Protiviti shows definitively that senior corporate leadership and loss prevention management personnel are not always on the same page with regard to loss prevention, and that retailers have work ahead of them as they strive to align these two groups.

In the third quarter of 2007, Protiviti conducted separate surveys of 1) senior level retail executives, and 2) loss prevention management, to provide benchmarks by which loss prevention departments can measure their current skills and knowledge and identify gaps to be addressed. Respondents included C-level executives and corporate vice presidents, as well as a variety of field and corporate personnel responsible for loss prevention, including vice presidents, directors, corporate managers and field managers.

The respondents represent a diverse range of segments in the retail industry: apparel; discount/warehouse and general merchandise; food, beverage and grocery; restaurants and food service; and specialty. They work for companies that generate annual revenues ranging from less than \$100 million to well over \$20 billion.

In the two surveys, executives and loss prevention management were asked to cite the areas that most need improvement in their company’s loss prevention programs. The findings reveal a notable disparity in the responses of executives and loss prevention management, most notably in the areas of loss prevention strategy, internal theft, keeping current on industry trends, and internal marketing of loss prevention. This disconnect may be reducing the profit-saving capabilities and overall effectiveness of current loss prevention programs.

## The Findings: Strategic vs. Tactical Priorities Emerge

Executives said the top five areas in which their organization needs to improve its loss prevention efforts are:

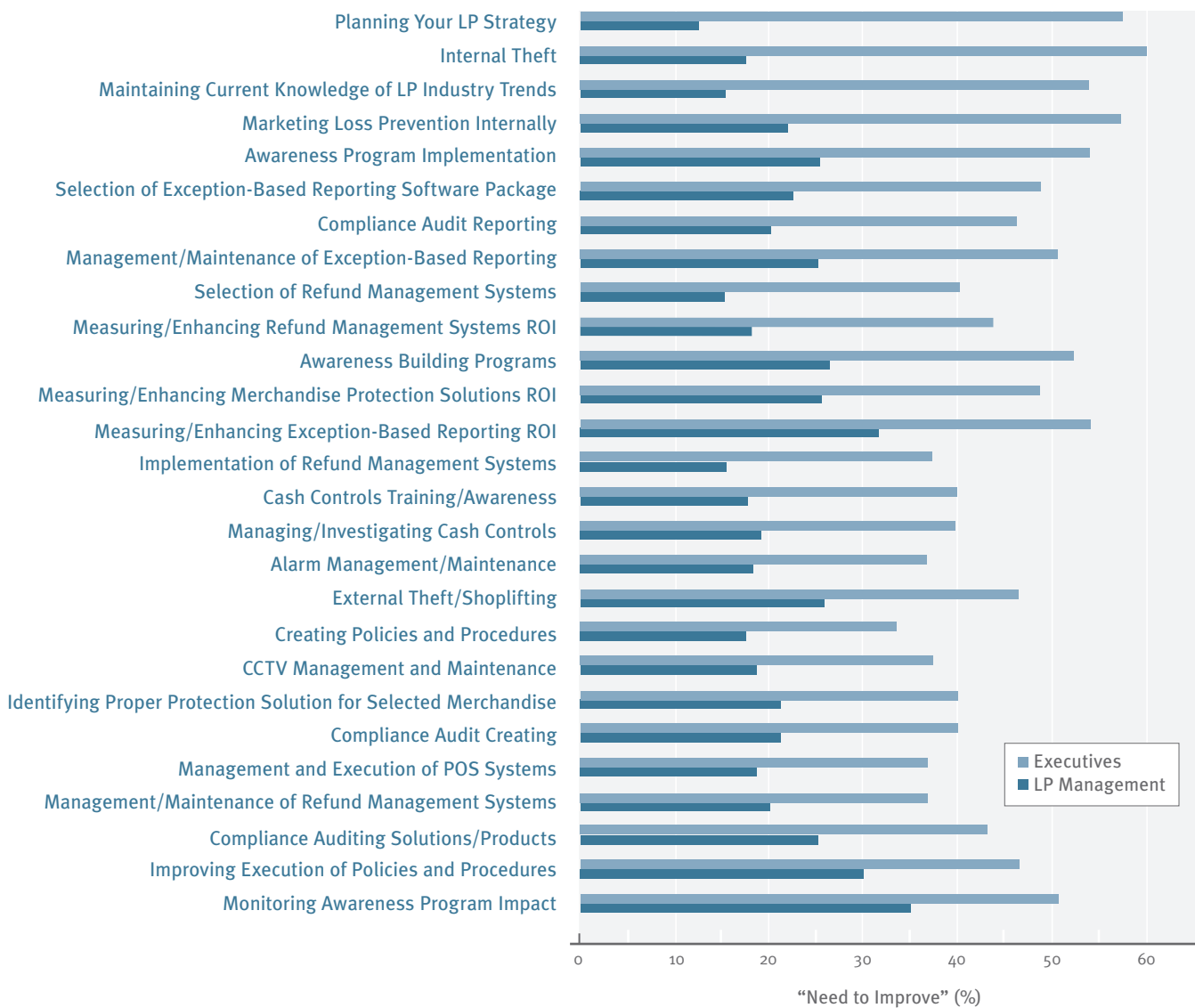
“Need to Improve” Rank	Executives Responses
1	Internal Theft
2	Marketing Loss Prevention Internally
	Planning Your Loss Prevention Strategy
3	Measuring/Enhancing Exception-Based Reporting ROI
	Awareness Program Implementation
	Maintaining Current Knowledge of Loss Prevention Industry Trends
4	Monitoring Awareness Program Impact
	Awareness Building Programs
	Management/Maintenance of Exception-Based Reporting
5	Measuring/Enhancing Merchandise Protection Solutions ROI
	Selection of Exception-Based Reporting Software Package

The top five responses from loss prevention management were quite different, focusing more on tactical than strategic issues:

“Need to Improve” Rank	Loss Prevention Management Responses
1	Organized Retail Crime
2	Monitoring Awareness Program Impact
3	Emergency Response Procedures
4	Handling and Managing of Hazardous Materials
5	Measuring/Enhancing Exception-Based Reporting ROI

One particular area of concern is the significant disparity that appears to exist between the perspectives of executives and those of LP management. For example, executives and LP management were asked separately to identify policies and processes within their organizations that they believed to be most in need of improvement. The graphic below illustrates the gaps in the responses of these two groups (by percentage):

### Loss Prevention: Gaps in Perceived Need to Improve Company’s Competencies



As indicated in the chart, 57 percent of executives identify “Planning Your Loss Prevention Strategy” as an area they need to improve, while only 12 percent of loss prevention management cite this as an area for improvement, a difference of 45 percent. This is a remarkable gap considering that retail companies devote significant resources to developing and implementing loss prevention strategies. Clearly there are inefficiencies in this process if corporate and loss prevention management hold such divergent thoughts about the organization’s views, goals and tactics around loss prevention.

Internal theft is the largest source of loss for retailers. While executives are well aware of that fact, rating it as their greatest area of concern (with 60 percent saying there is a need for improvement at their companies), only 18 percent of loss prevention management believes internal theft is an area where improvement is needed.

There also is a notable gap when it comes to staying on top of loss prevention developments. Fifty-four percent of executives say their companies could do a better job of maintaining current knowledge of loss prevention industry trends, but only 15 percent of loss prevention management believe their organizations need to improve.

There is a similar disparity in the area of internal marketing for loss prevention. Fifty-seven percent of executives note that this is an area for improvement, while just 21 percent of loss prevention management considers it a concern.

## Closing the Gap

The disconnect between C-level executives and loss prevention management can be attributed largely to a difference in professional and educational backgrounds. It is common for loss prevention management to have started their careers in loss prevention and worked their way up the ranks in the field. Their skill sets may be deep but are also narrow, as loss prevention is their sole expertise and their experiences do not address broader organizational strategies. Those who did not rise through the loss prevention ranks often fall back on what they learned in careers begun in retail operations or law enforcement. In doing so, those with operations backgrounds build programs focused heavily on auditing and compliance, while those with law enforcement backgrounds center their programs on physical security and fraud resolution. In all three scenarios, the loss prevention executive has an experience that is vastly different than many of their C-level executive counterparts. Companies that have a senior loss prevention executive who has a broader range of education and professional experiences generally have greater alignment with their C-level executive counterparts.

To begin to bring these two groups into alignment with the organization’s loss prevention strategy, retailers should consider the following steps:

- 1. Be inclusive** – Retailers should make a more concerted effort to include loss prevention professionals at every level – area, district, regional, corporate – in planning sessions. Transparency is crucial. Loss prevention management in the field are better able to understand the strategic value of loss prevention programs if they are given insights about the business as a whole and how their role supports broader objectives. They will gain a broader perspective by collaborating on key issues and refining plans from the early stages of development.
- 2. Champion cross-training** – Providing opportunities for loss prevention management to learn about other functions in the organization and apply their expertise in new ways will allow them to develop more of a “big picture” mindset, changing the way they might look at everyday loss prevention challenges and initiatives launched at the corporate level.
- 3. Promote continuous learning** – Encourage loss prevention management to maintain current knowledge of loss prevention industry trends and devote greater resources to training and education. As loss prevention efforts move away from being reactive and focus more on proactive solutions, field personnel need to build their expertise in such areas as compliance auditing and awareness training. Eighty-six percent of loss prevention management surveyed said they prefer formal training (classroom-style education) to increase their loss prevention knowledge. Seminars and workshops also may be useful.

## Conclusion

Bringing corporate executives and loss prevention management into greater alignment on loss prevention strategy will not happen overnight. However, by understanding the unique factors affecting the average loss prevention manager's understanding of the corporate perspective and by making changes, this divide can be bridged. The key is to create an inclusive culture that enables loss prevention management to be part of the loss prevention strategic planning process and not just implementers and executors of an already agreed-upon approach.

---

## About Protiviti

Protiviti ([www.protiviti.com](http://www.protiviti.com)) is a leading international provider of independent risk consulting and internal audit services. The company provides consulting and advisory services to help clients identify, assess, measure and manage financial, operational and technology-related risks encountered in their industries, and assists in the implementation of the processes and controls to enable their continued monitoring. Protiviti also offers a full spectrum of internal audit services to assist management and directors with their internal audit functions, including full outsourcing, co-sourcing, technology and tool implementation, and quality assessment and readiness reviews.

Protiviti, which has more than 60 locations in the Americas, Asia-Pacific and Europe, is a wholly owned subsidiary of Robert Half International Inc. (NYSE symbol: RHI). Founded in 1948, Robert Half International is a member of the S&P 500 index.

## About Protiviti's Loss Prevention Practice

Protiviti's Loss Prevention Consultative Practice helps companies identify, prioritize and manage risks to reduce cash and inventory losses and ultimately improve stakeholder value. We develop and implement an array of cost-saving measures focused on both historical cost recovery and strategic loss reduction programs.

We complement your existing Loss Prevention department or act as your outsourced provider. Cash losses and inventory shortage are just two areas our Loss Prevention Consultative Practice can impact through operational audits.

### *Identify the Breakdowns in Internal Controls*

Store audits are a catalyst for change. They validate your current policies and procedures from many perspectives, including employee integrity, franchise reporting and procedure compliance. Most importantly, they provide an accurate snapshot of what is happening, versus what statistics or managers say is happening. The result is critical insight into the sources of your financial loss.

Unfortunately, paper-based processes and subjective audit questions can leave you with outdated data that provides little insight into operational performance. That is why the Protiviti LP team uses COMPAS™ to perform your store audits.

The beauty of COMPAS is that it provides you with a real-time picture of organizational performance. As our team collects data, COMPAS instantly collates and analyzes the audit results, which you can access via web interface. Once breakdowns are identified, we can help you develop policies and procedures designed to mitigate risk at the store or distribution center.

So sit back and let our team do the walking, while you gain insight into your business from the comfort of your PC.

**Audit automation** – Gain a real competitive advantage with a scalable auditing solution that leverages the latest audit technology – COMPAS – to collect and report on your audit data.

**Global footprint** – Augment your existing operational audit team by allowing Protiviti to conduct best practice audits within your locations.

**Operational experience** – Tap into a team of retail internal audit, loss prevention and operations professionals to not only collect data but to provide a true coaching environment within the field.

## *Audit Services*

**Audit strategies** – Design the structure, questions, scoring model and specific reports necessary to capture corporate compliance data while identifying trends and operational performance issues.

**Audit execution** – Manage the execution of your operational audit program, completing best practice audits.

**Policies & procedure development** – Once the breakdowns are identified, develop policies and procedures designed to mitigate risk in the field.

Each member of Protiviti's Loss Prevention Consultative Group has senior management experience with a scope of responsibility that led to direct reporting relationships with executive management and the Board of Directors.

For more information, please contact one of our Loss Prevention experts:

### **Key Contacts:**

Craig Matsumoto (Boston)  
Product Lead  
617.330.4849  
craig.matsumoto@protiviti.com

Rosemary Lernowich (Chicago)  
312.931.8928  
rosemary.lernowich@protiviti.com

Christopher Gillen (Dallas)  
469.374.2524  
christopher.gillen@protiviti.com

Tracy Branan (Cleveland)  
216.696.6098  
tracy.branan@protiviti.com

James Curtis (Boston)  
617.330.4840  
james.curtis@protiviti.com

Protiviti ([www.protiviti.com](http://www.protiviti.com)) is a leading international provider of independent risk consulting and internal audit services. The company provides consulting and advisory services to help clients identify, assess, measure and manage financial, operational and technology-related risks encountered in their industries, and assists in the implementation of the processes and controls to enable their continued monitoring. Protiviti also offers a full spectrum of internal audit services to assist management and directors with their internal audit functions, including full outsourcing, co-sourcing, technology and tool implementation, and quality assessment and readiness reviews.

*Protiviti is not licensed or registered as a public accounting firm and does not issue opinions on financial statements or offer attestation services.*