

Weathering the Perfect Storm

Loss Prevention Strategies to Minimize Exposure in a Strategic Retail Store-Closing Environment

By Michael P. Gilligan

Despite consolidation and narrowing margins, retailing is healthier now than it has been in many years. It is also true that retailers are doing more to protect themselves...and their balance sheets...against margin erosion as well as the next cyclical downturn in sales. One measure adopted by almost every multistore retailer is a more aggressive approach toward preemptive or strategic closing of under-performing stores.

As it pertains to loss prevention, the environment within and surrounding a store closing is similar in a metaphorical sense to conditions that enable formation of “the perfect storm.” In the meteorological version, three atmospheric phenomena—a hurricane, a nor’easter, and a strong high-pressure center—combine to form a powerful and disastrous natural force.

In a retail setting, the convergence and combination of three variables—poor store associate attitudes, negative customer perceptions, and diminishment of loss prevention personnel and systems—can combine to overwhelm even the best loss prevention professional who is tasked with protecting the company’s assets.

Fortunately, the retail version of the perfect storm is perfectly avoidable with the right strategies and a reasonable effort. There are some basic loss prevention strategies that have proven to minimize losses, time-after-time, despite the fact that store-closing environments can be quite unique, as differentiated by inventory, format, store size, floor plan, location, and time allocated to complete the closing. This article will outline many of those strategies and the rationale behind them.

How the “Perfect Storm” Forms in a Strategic Store Closing

Poor sales performance is not the only criterion used by management to identify under-performing stores and decide which will be closed. The low contribution of a store may also be attributable to high real estate costs, the high cost of labor, higher-than-normal labor turnover, chronic inventory shortages, and the high cost associated with loss prevention.

Whatever the criteria, once management announces that a store will be closed, the store’s entire operating dynamic undergoes an immediate and profound change. Associate attitudes, if left unchecked, typically go from neutral or generally supportive of management to measurably negative, if not openly hostile. Morale begins a precipitous decline and with it comes a general erosion of operational standards,

particularly as they affect loss prevention. Fitting room standards fail. Key control becomes virtually non-existent. Employee theft increases. The workforce becomes populated with people largely untrained in loss prevention as temporary personnel take over for full-time people who leave for other job opportunities.

Only in the rarest of cases will store associates be told in advance of the store closing. In all probability, associates will acquire store closing information through non-company sources, such as vendors, real estate agents, or mall managers. The rumor mill may have been processing the store closing possibility for some time before an actual announcement. This usually leads to distrust among associates for the company and its officials, which, in turn, leads to adverse if not illegal behavior.

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There is no doubt that the loss of a job and uncertainty of one's economic future causes increased anxiety among associates. In many cases, this anxiety becomes the justification for taking a negligent attitude toward daily responsibilities, stealing from the company, or even filing false allegations against the employer. Managing a near-mutinuous workforce can be near impossible. After all, how does one deal with associates who fail to carry out responsibilities or assignments and, when confronted, respond with a statement such as, "What are you going to do fire me?"

As associate behavior and performance

spiral downward, the perfect storm gains added energy from what may be the single dumbest store-closing decision management can make—to expedite the consolidation of loss prevention resources and equipment into go-forward locations; diminish the use of control systems, including exception reporting, EAS, CCTV, and burglar alarms; and, reduce or eliminate store visits, audits, and other operational inspections. The disappearance of observable loss prevention infrastructure is tantamount to a license to steal for associates and customers alike.

As deteriorating associate attitudes and loss of LP infrastructure converge, the radar begins to detect a third powerful storm center—changing customer behavior. Customers observe the deterioration of store operating standards. They notice that merchandise, once tightly controlled with a variety of article surveillance devices, is now left unprotected. Customers realize quickly that fitting rooms are no longer attended. There is a subtle message in the air that the retailer will not bear the expense of protecting merchandise because they are leaving this location. There is also an assumption made by customers that associates, who will soon be losing their jobs, may be more prone to exploitation, either to obtain reduced prices or even receive merchandise at no cost.

It is axiomatic—given an opportunity to take advantage of a retailer, the consumer will do so. This is not to suggest that all consumers are prone to larceny, but that virtually all consumers are inclined to want the most for the least and when presented with an opportunity will almost always seize it. To that end, why wouldn't a customer jump at the chance to take home a flat screen TV at 50 percent off retail or purchase two cashmere sweaters for the price of one based on an unauthorized offer from a disgruntled sales clerk finishing his or her last shift?

Any one of these three factors can, on its own, increase the risk of losses in a store-closing environment. However, when all three conditions exist simultaneously, the economic

consequences can be devastating. Consider the following actual occurrences.

- During a recent store closing, information was developed based on a hotline tip that resulted in the termination of seven associates from one location. All seven stated they stole merchandise because they heard they were going to lose all their accrued vacation and personal time. Shortage in this location was an astounding 48 percent of the booked inventory.
- A shoplifter was apprehended by local police with twenty-eight pairs of athletic shoes in a garbage bag. He told police that a sales clerk in the store, which had been scheduled for closing, had not only observed the shoplifter in the act, but had told the shoplifter, "Take all you want. I'm not going to stop you."

Strategies to Dissipate the Perfect Storm

The perfect storm only weakens when the eye of the storm breaks down and the storm's structure becomes disorganized. Associates and customers are at the metaphorical eye and how they are managed is central to the success or failure of any shortage control effort in the closing store. Associates in particular must be prevented from adopting a negative attitude in which they blame the company for the store closing and embrace the "I'm taking what's owed to me" philosophy.

Loss prevention executives can minimize the risk of losses during strategic store closings by better understanding associate and customer behavior in this stressful and chaotic environment. Implementing a variety of initiatives will, from an asset protection standpoint, result in a successful paradigm change.

Manage Personal and Professional Change. Effectively managing associates through personal and professional change will result in a reduction of exposure to inventory losses and dishonest transactions.

All organizational change can be charted on an "S-shaped" adoption curve

(see chart at right). The change curve reflects the percentage of associates adopting a particular change and the amount of time required for the change to take effect.

To initiate any store-closing paradigm change, loss prevention must gauge associate resistance level, consider change tactics, and leverage informal networks. The paradigm change strategy can be made most efficient when appropriate target associates are utilized to shepherd the change process to the “tipping point” according to *The Tipping Point: How Little Things Can Make a Big Difference* by Malcolm Gladwell. Once the tipping point is achieved, the change process is self-adopting and requires little added management influence.

Key players in the positive change process are the “mavens” (innovators) and “brokers” (networkers). Mavens are easily identified by their amount of, and willingness to share accumulated knowledge. Influencing the mavens is a very important first step in the process of adopting organizational change, such as in a store closing. Tactics should include person-to-person meetings, memos, and emails.

Brokers utilize the mavens to “test the waters” and rely on their research to navigate a changing environment. Once brokers are committed to the change, the informal network heats up. Brokers leverage their many contacts and connections to spread word of the change.

The next group to adopt the store-closing change is the “early majority.” As the early majority adopts, the change is fast approaching the tipping point. Once the tipping point is reached the store-closing change self-adopts.

As the store-closing change self-adopts, loss prevention must identify and focus efforts on associates who are resisting. “Resistors” take great pride in bucking the trend and enjoy the title “devil’s advocate.” Though resistors may not actually be committing theft, their delay in following the paradigm shift, and their negative portrayal of the store-closing environment will result in erosion of attitude and inventory. Concentrating loss

prevention deterrence and investigation efforts on the resistors will positively influence inventory shrinkage.

Manage Communications Effectively. Above all, a successful loss prevention program commences with great...not merely good...communications with both associates and the community. The message must convey the organization’s sincerest concern for the associates’ plight and an uncertain employment future.

First and foremost, the store-closing announcement must be carefully framed. This is critical to obtaining associate buy-in. Punctuate the closing announcement with written and supportive documentation that demonstrates it is both necessary and customary to close under-performing locations in the current retail environment. Empirical data gives credibility to the decision. Credible decisions translate into associate buy-in and support. Associate support is directly connected to a controlled inventory environment. Although the decision may negatively affect associates, if they believe the decision is a reasonable one, it will garner support, albeit begrudging support.

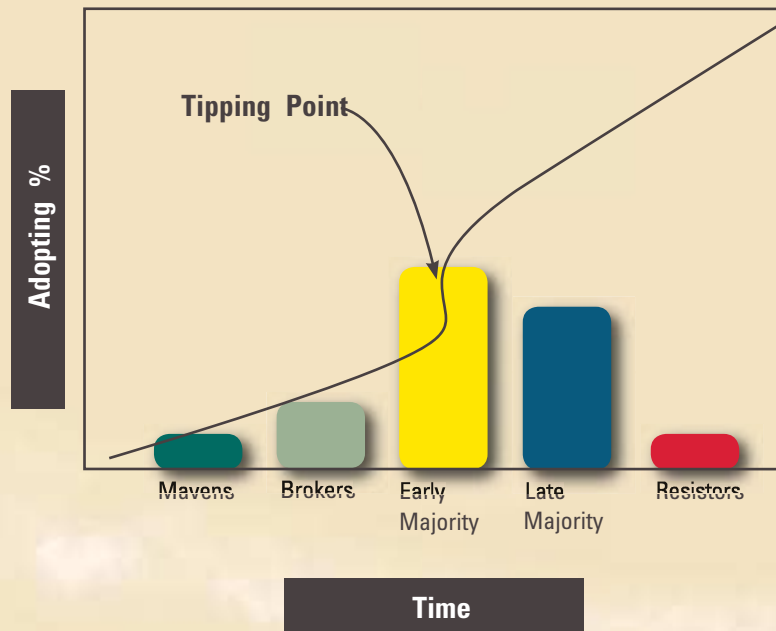
Human resources and/or senior management should take pains to announce store-closing decisions as quickly as possible, thereby circumventing rumor mills and preempting the word to associates coming from third parties. In a calm and impartial manner, management should explain the sensitive nature of the decision and what criteria were used to select the closing location. It should be stressed that the decision was of a business nature and not in any way a poor reflection on the associates being affected.

Specific topics to be covered with associates should include the following:

- How the closing will affect the associates,
- Employment assistance programs the company will offer associates to transition into new jobs either within or outside the company,
- Incentive programs,
- Stay bonuses,
- Shrinkage bonuses,
- Severance packages, and
- Normal course standards, programs, and expectations.

Associates should be informed in detail about the store-closing process and schedule. They should also be aware

S-Shape Adoption Curve





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that all loss prevention systems and procedures will remain in place during the closing process, and that associates will be expected to continue performing assigned loss prevention responsibilities.

That said, management should also listen carefully to the associates' concerns and provide genuine social and professional support during their transition. Associates who will lose their jobs should be counseled that there are many jobs out there, but they only have one reputation that must be protected at all cost. Associates must be convinced they should not do anything they will regret.

The community should be told about the store closing, albeit after informing associates. Communications with the community must be in a forthright, full-disclosure manner.

Budget Store Closings. Loss prevention personnel and systems must be kept in place and fully functional throughout the store-closing process. A closing budget for loss prevention expenses should be prepared. It should include funding for on-going repair and maintenance of security and control systems, and continuation of various LP audits, checklists, and inspections.

All loss prevention equipment should remain in the closing location until after the inventory has been sold or transferred. Resisting the urge to remove and place LP equipment in viable go-forward locations sends an important message to the associates and community that the retailer will protect its assets at all cost.

Deter External Theft. Enhance shoplifting deterrence with security officers and door greeters. As merchandise

discounts are accelerated, eliminate refunds. Maintain or even enhance those merchandise exposure standards and programs designed to control external theft. Convey the subtle message, "We care about controlling our merchandise." Continuing a zero-tolerance-to-theft standard is a must.

The strategic closing of a store location should enhance the viability of a retailer, not erode profitability and subject the organization to added stress. Strategic store closings are becoming an inevitable occurrence in today's retail climate. As such, a concerted effort should be made to avoid unrestrained internal and external losses during a store closing. Surviving the retail equivalent of the "perfect storm" takes great anticipation, planning, commitment, and agility on the part of loss prevention personnel. ■



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