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Are You Shrinking Your Profits?

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Author's Note: Due to retailer sensitivities, their comments and discussions of personnel matters are anonymous. Some examples are from the author's retail management experience.

It's painful to learn a formerly trusted co-worker has been stealing from the company, from fellow employees, from customers—or from all three. Broken trust is hard, if not impossible, to rebuild.

More gut wrenching is that, in every case investigated, the crimes didn't involve weapons or force. Never were the perpetrators' families hungry or destitute. In every case, management had become complacent, avoided company policy or just failed to use common sense. Creating an environment where theft looks risky and has severe negative consequences is an effective motivator that keeps already honest employees staying honest.

Should the employer prosecute? There are those who feel the time and/or effort in pursuing prosecution is excessive. Others feel avoiding prosecution says, "You'll be paid \$XX per hour, plus all you can steal, until we catch you."

The most common policies and their rationale to help honest employees stay honest include:

1. All employee purchases must be written up by a third party and approved by the store manager.
 - If the manager isn't available, a third party can complete the sale, but it's routed daily through the manager for approval.
 - If the store's policy doesn't allow resale or discounts to employees' friends or family, the manager should make certain the purchases aren't excessive for the employee's personal needs.
 - Some retailers prefer employee purchases to be on a house charge account and/or credit card. This leaves an easy audit trail to answer later questions about whether something was properly purchased.
2. Prohibit under-ringing or unauthorized discounts to friends/family.
 - Your point-of-sale (POS) should alert management when products are rung up below the authorized price.



Management should review/approve all pricing variants.

- Asking employees about specific under-rings reminds everyone unauthorized discounting isn't tolerated.

3. Unprotected cash is an impulsive temptation.

- All cash handling must be done securely, with deposits taken to the bank daily without exception.
- Keep cash under lock/key at all times.

4. All credits, especially cash and credit cards, must be approved by the manager. The card credited must be the original card used or paid by check.

- Different technologies create new awareness. Miscreant employees have taken a real customer's receipt and applied a bogus credit, pocketing the cash or applying it to a different credit card.
- More insidious are the insiders who "batch" the daily credit card sales, closing it off for the day before opening a new session. Then after issuing credits to their own cards, they close the session, removing it from the next day's report. It's only discovered when the credit card bank account is below expectations. Daily bank confirmations won't prevent this, but will promptly alert you to any improper account variances. Most credit card machines run sequential batch numbers. Monitor these batch numbers to identify and investigate potential problems.
- To affect a refund, your POS should record the returned item when it's returned to stock. If your verification inventory count shows product is missing, run a report of all returns of that product. If you see the same employee (or group of employees) involved in returning a product not in inventory, it requires investigation.
- Careless checkout, where customers aren't accurately charged, may be careless, but not theft, although the garden center's economic loss is the same.
- Confirm and test you have accurate check-out processes, especially during hectic or busy times. During non-busy times, management should review videos that were monitoring the cash/POS areas to identify employees for training or reassignment.

Truth is Stranger Than Fiction

These true incidents alert astute retailers of what to watch for:

Story 1: A multi-store chain had a warehouse worker suspected of pilfering hardgoods. The manager had numerous police friends. When video clearly showed the worker stashing product into his backpack and walking out with it, the police were notified. Soon, four squad cars came into the parking lot. After handcuffing the suspect, the police "got lost" in the sprawling retail space and were "unable to find the door." The resulting "perp walk" to the car took six minutes. Every employee witnessed it. Instantly, the rumor mill alerted all employees, which the owner believed was a significant impediment for dishonest behavior by others.

Story 2: A warehouse employee shipped items from the gift department to his mother. He intended to write up a charge slip, but forgot. Mom was so excited with her gift, the employee declared a monthly bonus for his mom, shipping monthly gifts that went undetected for more than a year. Now all shipments must be logged with corresponding paperwork referenced.

Story 3: A part-time high school employee needed significant cash for his prom date. He felt if he came in on his day off and volunteered to take the recent bank deposits to the bank, he wouldn't be suspected because he wasn't on the day's work schedule. The store videotapes were reviewed with obvious results. It was a tragic ending for that young person.

Story 4: A store manager sought a private meeting with the owner. The manager accused the VP of Sales of taking cash and merchandise from the store. The accused was a 20-year company veteran, well paid and highly respected. Regrettably, the owner investigated superficially, believing it was a misunderstanding. Later, it was found the trusted VP had pilfered cash and products from half the stores. The affected store managers knew about the thefts. They heard from the complaining manager that the owner was informed, but didn't seem to care. When apprehended, the VP's unpaid vacation time covered the thefts and the investigative costs. The economic loss was zero, but the impact on the work force was significant. The owner is embarrassed by his blindness to what a "trusted, long-term employee" was doing.

Story 5: A trusted bookkeeper was given a company credit card to handle purchases of supplies as needed. By mistake, she charged a personal item to the company card. She immediately told the owner about it and wrote her own check to the credit card company. Later she started using the card for her personal hardware store purchases, gasoline and then travel. When the owner realized they couldn't pay the bills, the investigation by a CPA uncovered proof she had improperly charged more than \$125,000. When the owner prosecuted, the judge asked, "Do you have her signing a policy where personal charges must be paid immediately? If not, her stated intention was to repay you, that's not theft. Case dismissed." As a result, the insurance company refused payment—no theft. The store closed that year. The owner recognizes both his lack of diligence in reviewing company records and the lack of a written policy outlining what he thought was common sense were contributors to his company's downfall.

Story 6: It's not a good sign when you return from lunch to find the FBI waiting for you. Nine years and 10 months ago, the company let go an employee "ineligible for rehire". The agent's assignment was a background check on a former employee going back 10 years. He hadn't listed the firm on his résumé, but apparently the FBI accessed his income taxes, saw the employment and inquired routinely. They saw the "ineligible for rehire" notation. The former employee was applying to be an FBI agent and this notation was the only block. Would the owner resubmit the form saying, "Eligible for rehire?" The owner said he'd be happy to lie to the FBI in writing if he got a personally signed FBI letter, granting him immunity. The agent left without another word. Actions have consequences, many unseen at the time.

Management diligence to consistent policies keeping honest people honest creates a more inviting workplace with a more unified team. **GP**

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