

# THE HAYES REPORT

ON LOSS PREVENTION

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## Are You Ready For 2022?



It's the beginning of a new year and unfortunately the problem of retail theft is not getting any better, in fact many believe it is getting worse. Shoplifting is constantly in the news and legislators, courts, and some local police departments have not been the kindest to retailers over the past few years. We seem to be fighting an uphill battle year after year, but I have faith in the many LP Professionals who give it their all to keep shrink under control within their respective companies.

Have you decided how you will attack your shrink issues in 2022? I suggest you have a targeted approach based on a shrink study/review, your current shrink losses, and past/current loss experiences within your locations. Do not use a shotgun approach hoping for better results. Have a safe, secure and successful 2022!

\$

*Limiting Opportunities - - -*

## Reducing Employee Theft by Limiting Multiple Tasks

By Mark R. Doyle

In the book "Business Fraud – From Trust to Betrayal", by Jack L. Hayes, he states "Multiple-tasking, thoughtlessly applied, may allow one employee to control every stage of a particular work process. Whenever one employee is in such a position, he or she is provided opportunity to conceal dishonesty." In addition, Jack also states in the book, "Anytime a trusted employee – whether that person is a bookkeeper, accountant, clerk, manager or senior executive – is carrying out two or more high risk functions that involve vendor authorizations, product receipts, payables, receivables, deposits,

payroll, or other vulnerable fiduciary responsibilities, the organization is at a significant risk of internal fraud."

If you read the newspaper or online news content on a regular basis you will find multiple accounts of a "trusted" employee committing theft/fraud. We have documented many of these incidents here in The Hayes Report newsletter. No company (retailer, school, little league, girl scouts, church, non-profit, manufacturer, distributor, doctor office, etc.) is immune to losses when you have an employee performing "multiple tasks" without close supervision.

*Continued on Page 5*

## Did You Know

- Common challenges to worker safety training include:
  - Keeping workers engaged/focused
  - Lack of support from leadership
  - Time and budget constraints
  - Training a multigenerational and multilingual workforce

*Safety & Health Training Survey*
- Who commits the crime of employee theft?
  - Men commit 59% of the employee theft cases.
  - The average age of an employee theft perpetrator is 48 years old.
  - Losses caused by men are 75% larger than losses caused by women.
  - Only 4% of the employee theft perpetrators had a prior fraud conviction.

*Total Security Advisor*
- Some of the benefits to cycle counting include:
  - Inventory issues can be identified and addressed more quickly
  - More accurate on-hand inventory levels.
  - Higher order fulfillment rates.
  - Better customer service levels.
  - Less inventory write-offs and obsolescent inventory.

*Oracle: A Practical Guide to Physical Inventory Counting and Cycle Counting*
- During a man's guilty plea he stated over the course of 2 years he fraudulently obtained in excess of 1,500 new in-box cellular devices and resold them on the illicit market. As part of the plea deal, the man agreed to forfeit a Lamborghini Urus; \$619,000 in cash and 60 pieces of gold and diamond jewelry.

*US Attorney's office Western District of PA*

## Workplace Integrity Project - - -

# New Approach to Employee Dishonesty

By Mark R. Doyle

Employee theft continues to be a major drain on companies' bottom-line profits. According to the 2021 National Retail Security Survey the average dishonest employee case value in 2020 was \$1,552 up 36% from 2019's average case value (\$1,139). Something needs to change on how we address the issue of employee theft/dishonesty.

I came across this new approach to employee dishonesty by the National Association for Shoplifting Prevention (NASP). I found it very interesting and informative, so I thought I would share it with you. I think the timing is right considering the current worker shortage. With the cost to recruit, hire and train a new employee being \$2-4k per employee, retailers cannot afford to lose an otherwise good employee due to a minor policy violation or infraction.

## The Workshop Integrity Project

Built on the success of the NASP education programs, used by businesses and criminal justice agencies across the country to educate and rehabilitate dishonest consumer shoplifters, this new series shifts the focus from external theft to internal theft and employee dishonesty. This program focuses on the employee and navigating the path to success in the workplace. There are three choices discussed in this program: Good Choices; Everyday Choices; and Better Choices.

## Good Choices:

New Hire Program: A quick-hit, targeted message promoting a culture of integrity and honesty at your new job.

## Everyday Choices:

Honest Associate Refresher: Checking in on employees to thank them for maintaining honesty and reminding them of their options to encourage the 'see something/say something' culture and the use of the hotline services.

## Better Choices:

Dishonest Associate Retention / Transition: One course with a dual-purpose: to help refocus employees who have demonstrated poor judgement but who have otherwise earned the opportunity for a second chance; to support those that must be released but who demonstrate a willingness to take responsibility for their actions.

The course offers benefits to the employee and employer.

Employee: Learn from their mistakes; make better choices in the future; and demonstrate their commitment to being held accountable.

Employer: Demonstrates social responsibility; commitment to empathy and compassion; and promotes culture of honesty and integrity. \$

*(Editor's Note: Much of this information is from the NASP's The Workplace Integrity Project materials. For more information: <https://www.shopliftingprevention.org/>)*

*Time to Address this Issue - - -*

## Under-Reporting by Franchisees

By Michael Mershimer

Many changes have impacted franchisors over the years, including those driven by a host of factors – wage and hour laws, real estate markets, the rise of the third-party delivery service & ghost kitchens. Those changes have been critical; however, they pale in comparison to the technological explosion of the last twenty-five years. Consider this – as recently as 1998 many franchises were still using electronic cash registers (ECR's) and franchisees were manually self-reporting their sales to the franchisor!

Certainly, at the time, these devices represented a step up from a dented cash box with its key fastened to the handle; yet, although a technological upgrade, ECRs inadvertently helped enable willful and wanton under-reporting of sales to both taxing authorities and franchisors. Today, while there are still a handful of brands using ECR's, most have moved on to more sophisticated, networked, auto-polled POS systems, along with ACH (Automated Clearing House) drafting of royalties. Yet like the cash box or ECR of old, even these systems are far from “bullet-proof,” and under-reporting of sales remains a risk.

### **To Mitigate This Risk**

1. Brands need to consistently review POS reporting to identify, investigate and resolve “high-risk” transactions, including refunds, voids, and discounts.
2. Brands need someone with the expertise to deal with the issues uncovered. Investigations are both

complex and sensitive; by their nature they demand that they are handled fairly, independently, professionally and with adequate discretion.

3. Brands need to acknowledge that even with “bullet-proof” POS systems there is no guarantee that all sales are being entered.

To start, ensure that internal purchasing, yield/usage, and food cost reports identify outliers who are buying too much product for the sales they are reporting. While on the surface this may appear obvious, there have been countless discussions at countless franchise industry meetings where high-ranking executives initially scoff at the idea that this could be occurring in their system. This bravado cools when one of their peers quietly shares anecdotes of how “it even happened to them.”

Numerous franchisees are found to be in default each year simply because they were purchasing raw materials through wholesale clubs, local suppliers or at public markets. Not only do these unauthorized items have the potential to compromise food quality standards, they also run the risk of exposing a corporation to civil liabilities. In a particular case in point, an established franchisee was found to be purchasing frequently used mixes outside of corporate supply channels to hide under-reported sales; however, the mixes being used contained allergens not identified on corporate provided menu boards or nutrition guides displayed in their stores, thus exposing unknowing consumers to a potential allergic reaction. \$

### **Testing For Success**



#### **Is Your Shrink Program Ready for 2022?**

2021 has come and gone and your shrink program was hopefully a success! Whether it was, or not, now is a great time to review your shrink program preparation for the new year. Take our short test below to gauge your shrink readiness for 2022.

1. Do you have a formal written LP/Shrinkage Control program for your store and DC locations and has it been updated for 2022?

**Yes No**

*(Note: If you answered 'No', go directly to the bottom of this column).*

2. Are your 2022 Shrink Program requirements focused on specific shrink causing issues within your company, and not a program simply copied from another retailer?

**Yes No**

3. Are location specific Shrink Action Plans and LP Training, Awareness & Reward programs part of your 2022 Program?

**Yes No**

4. Does your Program have Senior Management's full support and backing?

**Yes No**

5. Is a formal “third party” audit process in place to measure program compliance and help ensure program success?

**Yes No**

**Less than Five** ‘Yes’ answers means some work is needed if you are to have shrink success in 2022.

*(Note: If #1 was answered 'No', all I can say is “good luck” on meeting your 2022 shrink goal, you'll need it!) \$*





## Believe It or Not

### Man Strips Naked Trying to Avoid Police

A known shoplifter entered a grocery store and was soon observed stuffing steaks into his pants. The man was approached by the store manager and detained with the help of a citizen. While the police were being called, the man wiggled out of his clothes with several steaks falling out of his pants, and he took off running. The arriving officer saw a naked man sprinting for the door and instructed him to stop. When he did not stop, the officer shot him with a taser. The man was arrested for resisting an officer, resisting a store employee while committing a theft, and first-degree petty theft. Before taking the thief to the police station, the officers drove him to the hospital when they discovered a Taser prong had struck him in the genitals.

### Thief Steals Over \$50k While Wearing Fake Badge

Police finally caught up with what they called a "prolific retail theft suspect". Video surveillance of the thief showed he wore a badge hung on a lanyard around his neck and a law enforcement uniform while committing several of his thefts. The man was arrested at his apartment on charges of felony retail theft and falsely impersonating a law enforcement officer during the commission of a felony. Police suspect the man stole over \$50,000 of merchandise over a three-month period from several local retailers.

*33rd Annual Retail Theft Survey - - -*

## Company Shrink Stats & Trends

By Mark R. Doyle

In the Summer 2021 (Vol. 36 No. 3) issue of The Hayes Report newsletter we provided statistics on our 33<sup>rd</sup> Annual Retail Theft Survey which reported on over 180,000 apprehensions taking place in just 22 large U.S. retail companies in 2020\*. These companies represented 18,594 stores with combined 2020 annual sales of over \$500 billion.

(\*2020 results impacted by store closures during Covid-19 pandemic.)

Below are some additional company total statistics from that survey.

### Shrink Trend 2020:

- ▶ 41.0% (09 of 22 retailers) had an increase in company shrink.
- ▶ 54.5% (12 of 22 retailers) had a decrease in company shrink.
- ▶ 04.5% (01 of 22 retailers) had no change in company shrink.

### Shoplifting Apprehensions 2020:

- ▶ 18.2% (04 of 21 retailers) had an increase in apprehensions.
- ▶ 63.6% (14 of 21 retailers) had a decrease in apprehensions.
- ▶ 18.2% (04 of 21 retailers) had no change in apprehensions.

### Shoplifting Apprehension Recovery Dollars 2020:

- ▶ 18.2% (04 of 21 retailers) had an increase in SL recovery dollars.
- ▶ 63.6% (14 of 21 retailers) had a decrease in SL recovery dollars.
- ▶ 18.2% (04 of 21 retailers) had no change in SL recovery dollars.

### Shoplifting Recoveries Without an Apprehension 2020:

- ▶ 53.3% (08 of 15 retailers) had an increase in recovery dollars.
- ▶ 46.7% (07 of 15 retailers) had a decrease in recovery dollars.

(Note: Only 15 participants reported shoplifting recoveries without an apprehension in 2020.)

### Dishonest Employee Apprehensions 2020:

- ▶ 13.6% (03 of 22 retailers) had an increase in apprehensions.
- ▶ 86.4% (19 of 22 retailers) had a decrease in apprehensions.

### Dishonest Employee Apprehension Recovery Dollars 2020:

- ▶ 18.2% (04 of 22 retailers) had an increase in DE recovery dollars.
- ▶ 81.8% (18 of 22 retailers) had a decrease in DE recovery dollars.

### Essential Retailers

- ▶ 67% had an increase in company shrink.
- ▶ 50% had an increase in shoplifter apprehensions.
- ▶ 50% had an increase in employee theft apprehensions.
- ▶ 50% had an increase in shoplifting recover dollars.
- ▶ 33% had an increase in DE recovery dollars.

(Note: Statistics for our 33<sup>rd</sup> Annual Retail Theft Survey can be found on our website at:

<http://hayesinternational.com/news/annual-retail-theft-survey/>

There is also a downloadable and printable PDF version of the survey which contains some thoughts behind the numbers.) \$

Continued from Page 1

## Reducing Employee Theft by Limiting Multiple Tasks

Within the retail environment, during our consulting work we have found many thefts/frauds perpetrated due to a single associate performing multiple tasks. Some of the more common thefts we have encountered include:

- **POS Transactions:** Refunds, voids and price overrides are frequently both issued and approved by the same employee. There is no management or 'second person' approval/verification. *(Dishonest employee (DE) rings fraudulent refund or post void - no customer present - and pockets the money. DE price overrides products to much lower price for friends/relatives.)*
- **Trash Removal:** The employee who collects the trash throughout the location, is also the employee who disposes of the trash. There is no management or 'second employee' conducting a thorough review of the trash before it is removed from the store. *(DE conceals good product in the trash and removes it once outside the store, or at a later time.)*
- **Hand Transfers:** The same employee who pulls the product from stock, also packages it, and then delivers the product with no 'second employee' check/verification of the items being transferred. *(DE packs 'extra' items in transfer and removes them prior to delivery to receiving store.)*
- **UPS/FedEx Shipments:** Same employee who pulls product from stock also prepares, packs and labels carton for shipment. No check/verification by

second person that correct items were pulled/packed for shipment or address label is authorized. *(DE fraudulently ships merchandise to friends/family or even own home.)*

A few recommendations when addressing "multiple tasks" within your store/location:

- The control over multiple tasks should have nothing to do with the individual employee performing the tasks. You should look at the position, not the person, when evaluating multiple tasks. You must concentrate on the position by depersonalizing the process.
- In those locations with limited staffing which prevents the 'second person'/verification process from taking place on a consistent basis, unannounced audits or process checks should be implemented. The use of remote CCTV viewing can be very beneficial in these circumstances.
- Never exclude management from your "multiple task" controls. In the event a manager is the one having to perform the refund, prepare the deposit, remove the trash, hand-carry a transfer, prepare items for shipment, etc. a second person should verify the accuracy of the task. No double standards – controls that are good for associates are also good for managers.

**The bottom-line is this: If you remove the opportunity, you can prevent the theft! \$**

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Internationally recognized expert on Asset Protection who has consulted for some of the finest retail companies world-wide over his 50 years in the industry.

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Professor of Organizational Leadership and Strategy at BYU; certified SPHR, and recognized authority on employee dishonesty and white-collar crime.

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## The Bulletin Board



### Highlights From 2021 Retail Security Survey

2020 overall shrink percent remained steady at 1.6% (same as 2019).

The average dollar loss per shoplifting incident was \$461.86, up significantly from \$270.06 in 2019.

The average dollar loss per dishonest employee case was \$1,551.66 compared to \$1,139.32 in 2019.

The average dollar loss per robbery incident was \$7,594.48.

The Top 5 cities affected by ORC were: Los Angeles, San Francisco/Oakland, Chicago, New York and Miami.

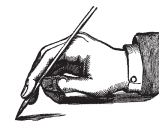
The following threats became more of a priority in 2020: Mall or store violence/shooting incidents; Cyber-related incidents; ORC, Internal Theft.

\* \* \* \* \*

Share your favorite 'Bulletin Board' items. Submissions for "The Bulletin Board" should be addressed to:

The Hayes Report  
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or emailed to: [operations@hayesinternational.com](mailto:operations@hayesinternational.com)



### Man Buys Island and Then Gets Caught for Shoplifting!

A man rich enough to buy a private island in the Florida Keys for about \$8 million was arrested for stealing about \$300 worth of products from a local store. He bought several items, replaced the contents inside the boxes with much cheaper used items, and then tried to return the boxes for a full refund. The man stated he did not change out any of the items prior to returning them. The police did not buy his story and now the man will get his day in court. \$