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June 15, 2008

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DISHONESTY IN THE RETAIL STORE ENVIRONMENT-PART 1

Studies peg employee theft at 48-50% of all retail theft

All the retail store owners I have ever met have been good, honest people. They have a positive outlook and tend to not only be trustworthy but trusting. Maybe that is why they have such a hard time understanding and acknowledging that they may have an employee who is stealing from them. If you have not experienced an incident where an employee has stolen from you, it is not because they have not done it - it is just because you have not yet caught them.

One retailer, in particular, stands out in my mind. This menswear store owner had a bookkeeper who could not seem to ever get anything done on time. He told me he had not received any inventory or financial reports for over 6 months and the bookkeeper blamed the new computer system. She said even though she was posting transactions, they did not actually get posted into the system. She told me she was writing manual checks and preparing manual reports to show the store owner the invoices that had been paid. As I happened to be very knowledgeable about this particular software program I knew that what she was saying was not true. When I told him my suspicion that she was stealing from the company (due to lack of reports for management to check and writing of so many manual checks) he immediately dismissed this as not being true. Eight months later I saw him and he told me that he had accidentally stumbled upon evidence that she was writing checks to herself then showing on the check register that the payment had gone to a legitimate vendor. At the time he told me this, they had uncovered over \$70,000 in checks she had written to herself over a 16 month period. This is a store whose sales volume was a little over \$300,000 a year so you can imagine how devastating this was.

I had another retailer call me one time and ask me if he should be concerned because the lady who handled the company's payroll, among other things, and earned a modest salary drove a Jaguar. She also told management that if they took the payroll function away from her she would quit. When I told him this was a BIG red flag, he was more concerned with having the employee think he did not trust her than with getting to the bottom of the situation. This company had been having shrinkage in excess of 2 or 3% every year for a number of years. I do not know the final outcome of this situation but hope the retailer was correct that she would not steal. Although for a high end store such as his, 2-3% shrinkage every year is also a BIG red flag. If she was not stealing, I feel positive that others in the company were (and are).

Studies have been done about honesty in the general population. These studies have shown that of all people, 10% will always be honest, 5% will always be dishonest and the other 85% are basically honest (but can be tempted in the right circumstances, such as a severe need for cash, or a risk-free opportunity). You are hiring your employees out of this general population. What do you think the odds are of being able to hire only the people who will always be honest? You most likely have a lot of employees that are in the 85% category of being basically honest.

With this group it is up to you to make sure you have controls in place so they do not succumb to temptation. After all, the retail store is full of temptation in the form of merchandise and cash. And, your employees are in the store all day so who would know better how to steal than them? Now, I am not saying you should be looking at your employees suspiciously: however you do need to be aware of the possible ways in which they can steal so you can take steps to remove temptation.

A few of the common ways employees steal from their retail employer are:

1. Misuse the discount privilege by taking a higher discount than they are allowed
2. Take (steal) store merchandise
 - * mail out merchandise to themselves or an accomplice
 - * put on the store's merchandise during the day to 'model' it then just wear it home
 - * put the merchandise in the trash then retrieving it later
3. Falsify their time sheet so they are paid for more hours than worked
4. Transact personal business on company-paid time instead of on their break or lunch hour
5. At POS do not record the sale of an item and instead just give it to an accomplice
6. Take un-authorized markdowns at POS for their friends or an accomplice
7. Take money from the cash drawer, or if the customer gives the exact amount of cash for a sale, just pocket the money and void the sale
8. When turning in an expense report for travel expenses, enter larger amounts than actually spent
9. Deliberately damage merchandise so they can buy it at a discount
10. Process a fictitious cash refund then pocket the money.
11. Set up a fictitious vendor, write a check to that vendor, then endorse the check over to themselves
12. For a large company the payroll clerk could set up a fictitious employee and include this employee with the others when writing payroll checks

You can probably think of many more ways. There are as many ways for retail employees to steal from their employer as there are employees. The ways are limited only to their imagination and their access to either goods or other assets. As the store owner, it is YOUR RESPONSIBILITY to make sure controls are in place to prevent the above activities. Many things you can do are just common sense, such as being aware of the store's vendors and having the invoice or statement paper-clipped to the check that is presented to you for signing. And, then not signing the check unless you have confirmed for yourself that it is legitimate.

There are so many tasks done in a retail store, from receiving the merchandise to carrying it out to the customer's car and all the paperwork that goes with every transaction, that it can be difficult to know where to start to check your controls. If anyone would like a structured way to check their store, we have available, in workbook form, our Internal Control Manual which you can order and use to check all aspects of your store.

QUOTE OF THE MONTH

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"You have brains in your head. You have feet in your shoes.  
 You can steer yourself any direction you choose.  
 You're on your own, and you know what you know.  
 And you are the one who'll decide where you'll go."

Dr Seuss

## MAY SALES SURVEY

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THANK YOU to everyone who participated in our survey. Your participation makes the results meaningful.

To remind everyone, this survey concerns May sales.

| <u>Comparison of MAY 2008 Sales to 2007</u> |             |             |             |             |
|---------------------------------------------|-------------|-------------|-------------|-------------|
|                                             | MEN         | WOMEN       | SHOES       | GIFTS       |
| More than 15.0% below last year             | 17%         | 15%         | 22%         |             |
| More than 15% below last year               | 13%         | 15%         | 0           |             |
| 10.1% - 15.0% below last year               | 17%         | 7%          |             | 33%         |
| 5.1% - 10.0% below last year                | 3%          | 8%          | 11%         |             |
| 0.1% - 5.0%. below last year                | 3%          | 23%         | 22%         |             |
| <b>EVEN</b>                                 | 13%         | 0           | 11%         | 33%         |
| 0.1% - 5.0% above last year                 | 17%         | 8%          | 12%         | 17%         |
| 5.1% - 10.0% above last year                | 10%         | 23%         | 22%         | 17%         |
| 10.1% - 15.0% above last year               | 7%          |             |             |             |
| <b>More than 15% above last year</b>        | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

An insufficient number of sports goods, children/infant, western and dance retailers responded to provide an accurate representation. Also, only 9 shoe and 6 gift retailers responded this time.

As participation dwindles, so does meaningful results. If participation continues to be slow next month, we will discontinue this survey for gift and shoe retailers.

## TELE-SWAP GROUPS

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Join a Tele-SWAP Group to talk to other retailers like yourself! The questions and topics we have discussed in recent sessions are numerous. A few recent examples are:

- ▶ "How are you stimulating business now?"
- ▶ "What benefits do you offer full-time employees?"
- ▶ "Discussed HSA insurance plan one member started a year ago and savings generated."
- ▶ "What do you see as the direction for merchandising your store in the next few years?"
- ▶ "How do you find a good in-house tailor and at what pay scale?"
- ▶ "What has been your most successful line thus far this year? Most disappointing?"

Comments from just a few of retailers taking part in these teleconferences are:

"Retailing is tough for the little guy . . . bouncing ideas off the wall wondering what might work and who . . . or how to adjust a promotion to get it to bring people in. Our SWAP Group allows each of the participants to be open and willing to share ideas with each other. It has energized me." Scott Zahner, Zahner's, Vernon, CT

"I really like the teleconference opportunities to share and ask questions of other retailers. I always come away with at least one idea I want to implement immediately." Nan Napier, Tres Mariposas, El Paso, TX

"I was starting to think I was "alone in the world". I am busy and did not want to participate in something that was not going to help my business. I am thrilled with my participation in the SWAP. I discovered that I am definitely not alone and the other similar businesses have the same challenges and now we are helping find solutions to those challenges together. I strongly recommend trying the SWAP - it is definitely worth my time!" Katie Andrios, GWK Enterprises, Geneseo, IL

If you would like to discuss the types of issues listed above, and others, with retailers who are similar to you, but far enough away they are not competitors, give us a call at 1-877-206-1299 or on our web site at [http://www.the-retail-advisor.com/peer\\_groups\\_tele-swap.html](http://www.the-retail-advisor.com/peer_groups_tele-swap.html). Then you can complete an online application. Once I get your application I will contact you about joining a group to take part in a monthly one- hour teleconference call. The biggest commitment will be the one-hour a month for the call. The cost is minor at just \$180 for a 6 month commitment (just \$30 a month).

There are so many retailers around the country who are isolated because they are a small independent retailer. This service gives you an opportunity to talk with others in a similar situation without having to worry about giving away any information to your competition. Get the help and advice you need to be more successful without having to leave your store.

Click on the link above and join a group today!

## **KEEP YOUR EMPLOYEES HONEST & INCREASE YOUR BOTTOM LINE!**

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**Studies have shown that almost half of all your store's shrinkage  
 is due to employee dishonesty!**

If you can reduce shrinkage by 1% that is an additional 1% of profit for you. As the owner it is your job to provide the procedures, checks and balances to keep your employees honest. Also, consider that as our country plunges into this recession, normally honest people may become desperate. Financial need is one of the main reasons given for attempting theft from an employer. Make sure you are doing all you can to help avoid temptation before it strikes.

As a former controller for a 5-store chain of family apparel stores and with my experience working with retailers around the country as a retail management consultant I have developed a manual to help you with this. It is our "Internal Control Manual" that covers all aspects of a retail store's operations. It is set up in an easy question and answer format where a Yes answer means things are OK and a NO answer means you may have a problem that needs further checking.

To get a copy for your store, for just \$95 shipped Priority Mail, visit our website at [http://www.the-retail-advisor.com/internal\\_controls.html](http://www.the-retail-advisor.com/internal_controls.html).

Do not wait until you discover that a trusted employee has stolen \$70,000 from you (like a retailer I know had happen to him last year). Take steps now to make sure your merchandise and cash are as safe as you can make them.

## **RETAIL JOB DESCRIPTIONS**

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 Well thought out and developed job descriptions should be the documents you use as a basis for interviewing and hiring new employees. They are also excellent for making sure your employees are doing their job as it should be done. The development of good job descriptions can take a considerable amount of management's time so, to help with this project TRMA has developed very detailed job descriptions for almost all positions in a retail store. These are in WORD so you can easily copy them to your computer and personalize them to your unique situation. The job descriptions are available on CD for only \$25, including shipping. The set includes the following descriptions:

# THE RETAIL MANAGEMENT ADVISORS

1. Profile Of The Perfect Retail Employee
2. Basic Position Description For All Employees
3. Accountant
4. Accounts Payable Clerk
5. Advertising And Display Manager
6. Assistant Store Manager
7. Buyer
8. Cashier
9. Controller
10. Credit Sales Manager
11. Credit Controller & Collector
12. Department Manager
13. Display Manager
14. General Manager
15. Merchandise Manager
16. Office Manager - Bookkeeper
17. Store Operations Manager
18. President
19. Shipping & Receiving
20. Sales Manager
21. Sales Associate
22. Store Manager
23. Store Manager (for stores with a General Manager)
24. Tailor-Head
25. Tailor I
26. Tailor II Or Seamstress

Most job descriptions are 2-4 pages long. Your investment is just \$25 for the complete set, including shipping. To order, mail your check to the address below and we will mail the job descriptions to you:

Job Descriptions  
The Retail Management Advisors  
510 Red Oak Street  
Allen, TX 75002

## WHAT WE DO . . .

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- o [Monthly Open-To-Buy Service](#)
  - o Open-To-Buy Implementation on Your System (if available)
  - o Merchandise Performance Evaluation
  - o [Shrinkage Control](#)
  - o Development of Incentive Plans
  - o [Development of Job Descriptions](#)
  - o Seminars On Retail Subjects
  - o Financial Analysis
  - o Financial Budgeting and Cash Flow Projections
  - o Computer/POS System Evaluation, Selection, Usage
  - o Policy and Procedure Development
  - o [Lead Tele-SWAP Groups](#) (Share With A Peer)