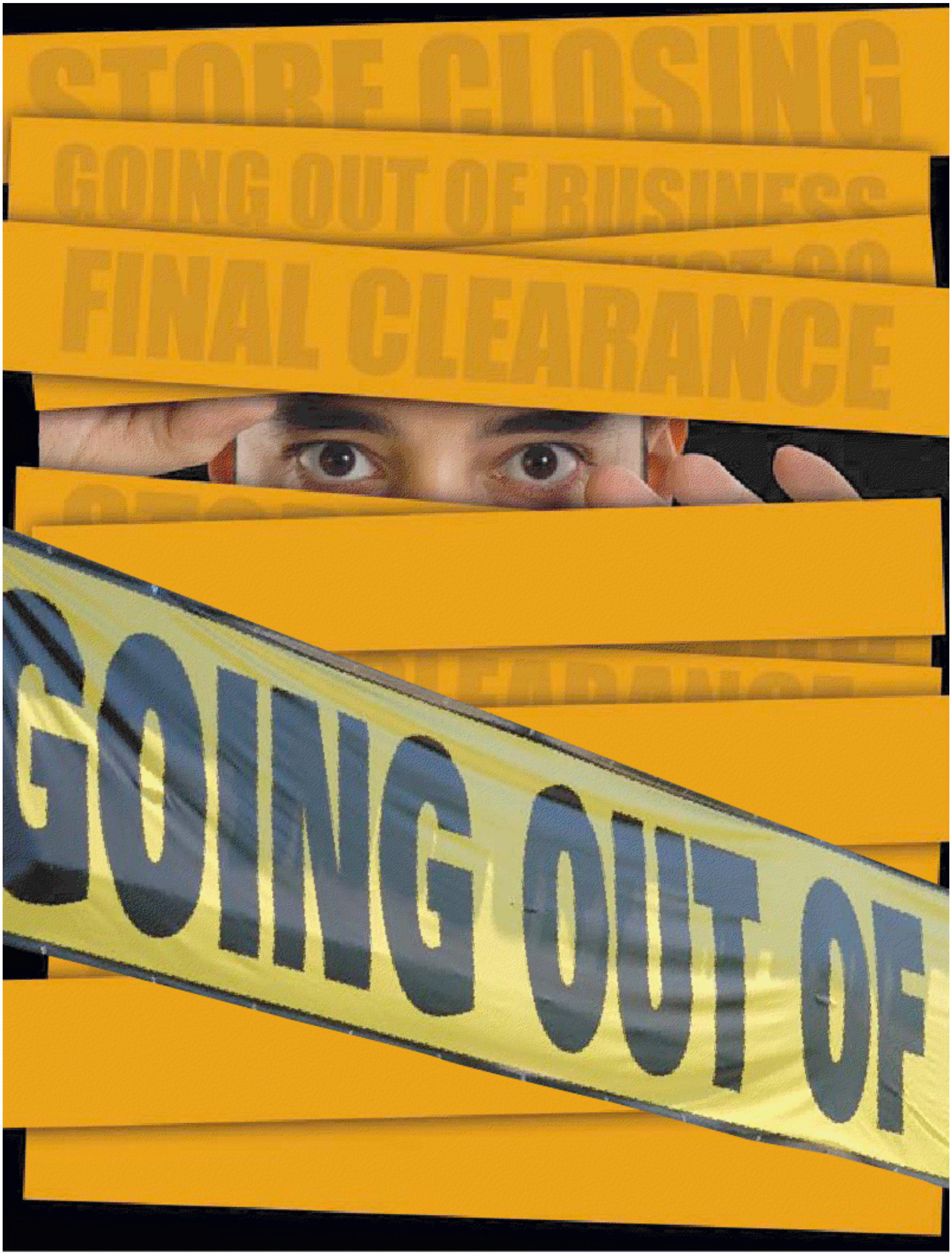
STORE CLOSING
GOING OUT OF BUSINESS
FINAL CLEARANCE
GOING OUT OF

What to Do When the Curtain Comes Down

By Donald J. Horan, CPP

Senior loss prevention executives throughout retail are coming to grips with a new entry into the field of promotional sale events—the all-too-frequent store-closing sale. In the past year alone, nearly 3,000 stores have been shuttered as dozens of established retail companies struggle to restructure under bankruptcy protection, with many closing their doors for good.

It is no longer a rarity that LP managers are called upon to design and implement shrink-control programs that protect inventories throughout a store-closing process. Often, a company's traditional inventory-control programs are ill-suited to the fast-paced, high-exposure components of a liquidation sale, where the store's landscape is altered, the customer base is changed, and employee attrition erodes standards and disciplines. Today's LP practitioner has to be among the first to recognize that "business as usual" is little more than a catchy tag line, and the business reality of closing a store is something entirely different.

> In most cases those companies that make it through a store-closing experience and emerge competitively healthier than before are the companies that planned for the event in detail, executed the sale to its best inventory recovery, and managed the aftermath competently.

When tasked with the prospect of closing a sizeable portion of a company's retail locations, leadership and communication become the cornerstones of a successful liquidation. In the best cases, senior management has articulated the reasons for this eventful step in a candid and straightforward manner, laying out a vision for recovery and setting unambiguous policies that demonstrate both sensitivity for employees and care toward customer retention. This foundation will enable loss prevention to take the moral high ground in reaffirming ethical boundaries and restating integrity standards. For many companies, shrink control in liquidation is no longer a road to profitability as much as it is a pathway to survival.

The successful store-closing sale comes about through the collective management of three key components:

- The home office dynamic,
- Store-level LP program modifications, and
- The aftermath—realities of a downsized operation.

Preplanning Store Closings

The home office dynamic is critical because it is the only element of the process that can be planned for in advance. Yet, retailers seldom include involuntary store closings as part of their crisis management structure. There is emergency planning in print for just about every other contingency…fire, flood, bomb threat, civil unrest, malicious product tampering, even executive kidnap and ransom…but inexplicably, few preplan for what has become a very commonplace, albeit distasteful, retail reality.

Once the specter of store closings is first raised as a possible avenue that a struggling company may have to consider in its attempts to shore up a troubled balance sheet, key executives, including the crisis management team, should convene to formulate policy decisions for such an eventuality.

Data Protection. The early considerations should involve protections of proprietary systems and data from sabotage, both internal and external, and establish how to best leverage "essential personnel" in the IT department to stand ready to "lock-out" coworkers and management and roll out new system restrictions. The determination of whether this can be done in advance without breaching confidentiality will be an indicator of whether a company can manage this aspect of the plan in-house or needs to engage an outside resource of IT professionals to step in as a surrogate department.

Human Resources. This is but one example of how preplanning for store closings ensures a professional transition from normal course retailing to special circumstance operations. The human resources department must also be ready at the opening bell, especially if home office layoffs are a component of the closing strategy. Thoughtful, scripted answers on an array of topics, such as severance policy, payment of accrued vacation and sick time, health benefits, and Worker Adjustment and Retraining Notification (WARN) Act eligibility must be presented compassionately, but in an unambiguous light. As tempting as it may be, the company cannot raise expectations or allay fears by enabling wishful thinking.

Public Relations. Mindful that "managing the message" extends beyond the walls of the home office, the company must further expect to contend with the media; and not just print and television. Blogs and Internet message boards, cloaked in anonymity and with loose standards for accuracy and fairness, can lead to a drumbeat of criticism and vehemence that can permanently sully a company's reputation, even one that enjoyed sustained community goodwill before the onset of its fiscal troubles.

For companies headquartered in smaller population centers and employing a significant number of local residents, the likelihood that TV crews will visit the corporate campus to film the Friday afternoon stream of newly displaced office workers, toting their Iron Mountain boxes of personal belongings to the parking lot is to be expected. And the message from the traumatized employee on live TV, with the family picture sticking up from the cardboard box, cannot be scripted or spun.

Instead, the company must empathize with its workers' hardships; explaining that the steps being taken are essential to the company's viability, as well as the survival of its many suppliers and vendors. Moving the discussion to the big picture, in view of the national economy, and with an eye toward future recovery can help mitigate the local public relations impact.

Workplace Violence. But another reality lurks as well. And that is whether there is a component of workplace violence to be considered in conjunction with home office layoffs. Ever since disaffected stockholders marched on the homes of AIG executives, accountability for a company's fortunes has reached a new level. It is commonplace to see chief executives who are deemed to have betrayed a trust or caused fiscal harm lampooned by name in the media and on the web. Most of it is short-lived and incident-free, although occasionally executives have been threatened and some have had to move their children to new schools.

Much of this exposure can be diffused in a preplanning session where the crisis management team can engage an expert to assess the risk and formulate a response plan. All of the moving parts to such a plan can be identified and sequenced so that resources…whether they are off-duty police, lobby guards, heightened access controls, and/or enhanced CCTV…can be mobilized and deployed in conjunction with decisions and announcements.

"Much of what I now know needs to be done was learned on the front lines at Steve and Barry's," says Brian Fuller, the former vice president of loss prevention for the specialty retailer that closed in January 2009. "It's not an experience I would like to relive, but it is an element of the business I will always incorporate in any comprehensive contingency planning I do in the future."

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Trying to provide leadership in this environment without formal preplanning; with no preapproved policy resolutions and anticipated strategic initiatives; absent well thought out, dispassionate judgments; and bereft of prearranged resources is tantamount to producing a Broadway show without rehearsal. The susceptibility to error is easily imagined in an atmosphere where policies are unilateral and arbitrary, rumor equals communication, and management is huddled behind closed doors.

With the industry shuttering thousands of storefronts in organized downsizing, not having a thoughtful store-closing plan as a chapter in the crisis management manual is not only operationally negligent, it's missing an opportunity for the first step back to solvency. To go into a store-closing sale unprepared is to leave money on the table; without advance modifications to the store-level LP program, store shrink will consume a disproportionate share of anticipated revenue.

Modifying the LP Program

Because a traditional LP program can be overmatched by the onslaught of new exposures inherent in a store-closing sale, modifications to the existing LP program are urged at store level. To advantageously leverage this environment for asset protection, the LP executive needs to garner full support and compliance for an array of initiatives that begin with physical security.

Access Control. As a demonstration of what can only be termed "sweeping reforms" in access control, LP should mandate that key holders be vetted, alarm codes be purged and reissued, perimeter keys changed, and safe combinations reconfigured. This will result in a clean slate from which the inevitable management turnover at store level that compromises access control can be managed.

Various forms of "lockdown" should be implemented, ranging from a nobody-in, nobody-out policy between the hours of 11:00 p.m. and 7:00 a.m., which may involve moving to "supervised"

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open and close times with the alarm provider, to using door seals on fire exits, overhead receiving doors, and trash removal areas. Granted, many of these areas are under "manager's key" for restricted access, which does prevent rank-and-file associates from undetected egress. But today's associate is tomorrow's key holder, and as trusted staff gets whittled down, LP needs a second verification beyond the Detex crash bar.

An adhesive, numbered door seal is a low-tech, low-cost way to ensure that merchandise is not flooding out the back door at the hands of unscrupulous key holders. After-hour alarm response lists require constant updating, and LP representatives need to be in the notification loop instantly, not next day or through weekly/monthly activity reports.

Employee Incentives. Even in a secured facility, however, it is people who matter most, which is why a generous incentive package needs to be in place for store personnel who enforce LP standards and perform their supervisory duties to the fullest.

"Trying to keep our associates engaged during the closing process has been one of the most challenging events I had to deal with as a loss prevention professional," says Bob Serenson, former vice president of loss prevention at the now-closed Linens 'n Things chain. "We found that even an overload of communication is beneficial, and one of the keys to our success in closing stores."

The employee award program should be "juiced" for staff personnel, and paid out creatively on-the-spot to make a lasting impression. Management has to share in the financial rewards of low shrink and a successful sale with a stipulated bonus plan that places a premium on both performance and integrity. A manager must realize that a dishonest employee is taking money out of the manager's own pocket in order for an incentive plan to be effective.

Cash Management. Cash control will be as challenging as ever in this environment. It is a wise policy to forego accepting personal checks as tender in a store-closing sale, but expect a spike in cash receipts as a result. Business velocity that delivers two- and three-time multipliers over last year's sales will often saddle stores unaccustomed to handling more than, for example, $4,000 in cash with $20,000 deposits after a weekend. Many stores are not adept at managing that magnitude of cash and, setting aside what an enormous temptation that sum may be for a manager facing the prospect of imminent unemployment, counting and reconciliation errors are to be expected.

Increasing or introducing armored car service to more frequent pickups is a prudent expenditure, but the process of daily bank deposits has to be revisited, with management accountability emphasized. Even if a company had strong bank deposit verification and reconciliation systems in place to begin with, they will surely be tested during a store-closing exercise.

"What had been effective prevention in the past goes out the window when you initiate the store close down plan. Even with all the preventive measures in place and effective, you'll still be tested by employees who feel they just have to try," says former Circuit City vicepresident of asset protection, Mark Stinde. "Nothing provides a better impression of control, indicating your LP team is on top of it, like a large employee case, especially one that involves collusion, store management, and the authorities."

Return Policy. Some aspects of a store closing can be beneficial to reducing losses. In some cases stores are permitted to restate and limit their return policy. Nothing brings fraudulent refunding to a grinding halt faster than a "No Returns - All Sales Final" policy.

Other limitations on tender can also be useful in reducing fraud, such as the suspension of gift card sales, coupon discounting, and cash-back promotions. Figuring out ahead of time what the market will bear will help balance limitations on selling policies without alienating loyal customers.

Management's POS authorization codes should be changed frequently in this environment to prevent unauthorized use. Limiting select override authorizations to senior managers only is a practical safeguard as well, given that refunds and price change activity should be minimal. Any POS authorization levels that had been accorded to cashiers should suspended.

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Front-end Supervision. Front-end presence of management at the POS checkouts should be a fixed post, almost on par with the Las Vegas pit boss at the gaming tables. That kind of close supervision will keep lines moving and deter cashier malfeasance.

The liquidation of inventory is job one for every retailer. But in a liquidation sale, all other business continuity functions are dramatically scaled back. Shipping and receiving, hiring, training, housekeeping, and visual merchandising all become secondary considerations. The sole priority becomes moving merchandise out the door, preferably through the POS, while capturing the highest possible recovery for the inventory.

Uniformed security guards can potentially bring some impact to creating an atmosphere of theft deterrence during a store closing. They can help with crowd control and other custodial functions as well, but the associated cost can be significant. An alternative and less costly tactic with a high upside of effectiveness is the placement of door greeters who perform double-duty as receipt checkers. This position is becoming more commonplace, and is less of an affront to bargain-hunting customers than one may think when managed properly.

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Front-end presence, be it uniformed security or associate greeter, goes a long way to curtailing "push outs," cart loads of merchandise simply wheeled out the entrance area, as well as deterring cashier passouts and under-rings to some extent. A quality door greeter/receipt checker can "clean up" when motivated by a publicized employee award program that puts cash into the hands of associates proactively preventing theft.

However, Tom Riggio, president of Protective Alliance, LLC, points out that expectation for door greeters to act as a check-and-balance against cashier passouts should be limited. "To expect a coworker to perform a security function over fellow employees has a 'fox-guarding-the-henhouse' aspect to it that should be taken into consideration when weighing the benefits of a vetted guard service," Riggio says. "In a store closing, the reality is all employees face losing their jobs, and loyalties can be fleeting in that respect." LP Staffing. During a preliminary round of store closings in 2008, Circuit City's Mark Stinde sustained LP presence in closing markets with "conscripts" from the home office and from a trusted pool of non-selling employees in go-forward stores. "I was essentially able to draft people into the LP audit role," he explains, "and stick them in closing stores with clipboards and checklists to cycle-count inventory, eyeball POS exceptions, and keep a heightened presence of the LP function beyond that of my normal asset protection staff." Stinde was able to replicate that enhanced-audit program using an outside firm when his company entered its final phase of liquidation in 2009.

Most retailers would have difficulty sustaining the compliance, impact, and cost of the tactics detailed above to control shrink throughout a normal-course, twelve-month operation. But it is doable over the course of six weeks, the normal life span of a store-closing sale where quality merchandise remains available at a discount that still affords some recoverable margin, meaning merchandise well worth protecting.

The key for selling these short-term, "special event" LP initiatives within your organization is understanding the context in which they will be used. When a store-closing event is first introduced, associates, management, and department heads are generally information-starved and will look for direction and leadership. The prepared LP executive who can step forward and communicate an action plan of tasks and benefits will likely find cooperation and buy-in…meaning funding…for programs that, once proven in liquidation, can be tweaked for application in the remaining go-forward stores critical to the company's survival.

Managing the Aftermath

The store-closing job does not end for loss prevention with the final sale day. In its aftermath, LP must often manage the disposition of "dark" property—empty stores that remain alarm-activated and require regular mechanical and engineering maintenance. Controlled access for workers, real estate representatives, and even after-hour alarm responders has to be planned and managed.

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The recovery and retention effort for vital records, including HR files, LP case files, and sales audit media, is often spearheaded by the LP director. The maudlin process of fixture sales can commence concurrently with the merchandise sale or immediately afterward. Building access for sales and pickups, as well as arrangements for certified "wiping" of PC hard drives and POS systems designated for sale, can all fall under the purview of LP.

Further, there is the component of restoring vendor relations once the dust settles and a go-forward business plan is in place. LP solution providers can generally weather the hit of a chapter filing and the attendant loss of outstanding receivables provided the opportunity to recoup their losses with sustained contracts and future sales is on the table. But vendors who were "scorched" in a filing, left on the hook after repeated assurances of payment, only to be informed later that nothing can be done, will unlikely make a reliable long-term partner, especially if it was the retailer who broke the trust with empty promises. On the other hand, relations can easily be restored if the track record before a filing was one of candor and integrity, where disclosures and risks were mutually foreseen.

"Solution providers in the LP world are not going to remember Steve and Barry's per se," says Brian Fuller, who recently landed the LP director's job at Forman Mills Company. "They are going to remember me, and whether I was good to my word. It's a small community and word will get around as to whether or not you are a stand up guy. Losing your job is inconsequential compared with losing your reputation."

But much of that survivability question will be answered by how well the company functions in the aftermath of a store-closing event as a downsized operation. Loss prevention directors have to come to terms with the inevitable whittling of departmental overhead. This usually entails a reduction in head count and the unenviable task of laying off LP staff that oftentimes functions like extended family as much as coworkers. This is where real leadership skills are needed to help negotiate a favorable separation package, deliver the news with sensitivity, and actively mine the LP networks for job opportunities.Coaching people in transition…from resume writing to making introductions to honing interview skills…is a labor of love LP professionals seem to have embraced.

Linen 'n Things' Bob Serenson, who now works with Universal Surveillance Systems as a national account manager for the Northeast, described his job placement efforts on behalf of his staff as "an everyday exercise."

Serenson explains, "Each time we talked by phone, I'd ask 'What did you do today to find work? Who have you spoken to, today?' And I would push them to be mindful of the calendar."

He also added that he pitched the consortium of liquidator companies for incentive monies for his LP field investigators, who in turn delivered accelerated case production in the target–rich environment, such that the payouts were in fact self-funded. “It was a win-win for both,” Serenson says. “The liquidators stepped up with recognition of the effort and the professionalism, and the LP team responded with big cases and merchandise recoveries that surpassed any means test for bonus justification.”

The LP leadership test will be in rebuilding the department’s morale and effectiveness with fewer resources, especially in light of the unsettling realization that the company teetered. The LP executive must remain mindful that once the company recovers from the draining exercise of a store-closing experience, an organizational malaise sometimes sets in where cash flow concerns impede turn around, key executives depart voluntarily, and doubts about viability set in. Keeping your finger on the pulse of company morale will be one the leading indicators for determining whether a return to historical shrink performance norms can be anticipated.

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