

Operation Loss Prevention

Proactive strategy drives new initiatives to stem rising incidence of employee theft.

Employee theft is big business. Government studies estimate its financial impact between \$30- and \$60-billion per year. The bottom line is that companies victimized by theft-related losses have a much higher likelihood of having to lay off employees, freeze wages and reduce overtime, in addition to facing closure.

"The consequences of internal loss, whether from embezzlement, fraud, or inventory theft, is significant because of the time, resources and financial impact that it has on the company," maintains Barry Brandman, president, Danbee Investigations, Midland Park, N.J. "Every dollar the company loses comes right out of its profits."

Emphasis on loss prevention

There is a definite trend towards companies becoming more concerned about preventing security problems rather than simply reacting to them after-the-fact. New approaches need to be put in place as the traditional security control measures (guards, alarms, and videos) have not been effective at halting the escalating pace of employee theft.

"Prevention is the key and loss prevention programs must be introduced that deter, detect or defend the loss of company assets," says J. Patrick (Pat) Murphy, president, LPT Security Consulting, Houston, Tex.

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Checking Cards

The Employee Free Choice Act stands to shake things up in your DC.

If you're much over the age of 21, it's probably been a while since you've been "carded," or asked for an ID to prove your age. While you probably don't mind handing over your license to show proof of age anymore, a new type of card checking might have you out of sorts if it makes its way through Congress.

Known as the Employee Free Choice Act (EFCA), the so-called "card check" law is raising plenty of concerns among employers who fear its ramifications. The legislation, if enacted, would require an employer to recognize a union for its employees if a majority of employees sign a "card" stating that they want a union at their place of employment. If more than half sign this type of card, the employees could form a union.

According to Ken Sparks, a shareholder at Vedder Price P.C., Chicago, if such a law was to pass, it would amount completely gut existing law. "Right now an employer can insist that its employees have the right to a secret ballot election run by the National Labor Relations Board," he explains. "Even if employers are willing to accept a card-check recognition procedure, employees can petition the NLRB for that independent, secret ballot vote."

Should it pass, however, EFCA would effectively abolish the secret ballot election, which Sparks calls "one of the

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"A key deterrent of prevention is the increased likelihood of being detected."

The concept of loss prevention defines a proactive approach. Instead of waiting for your company to sustain a loss and then investigate the circumstances and determine the cause, as in the typical security program, loss prevention means identifying those areas where your company is at risk based on your operating logistics, the value and volume of the commodities being manufactured, warehoused and transported, and the strengths of your safeguards currently in place. "Identify those areas where your company is vulnerable, where there's a high risk of sustaining loss, and then turn those weaknesses into strengths," advises Brandman.

"A key deterrent of prevention is the increased likelihood of being detected."

J. Patrick Murphy

"A proactive approach requires the culture of a company to be of that mindset," advises Murphy. "That tone must be set by senior management and it won't happen overnight because it is complex and requires patience. But consistency is the key."

Security measures have a role, but ...

"There is a place for video, guard services, and electronic alarm systems," assures Brandman. "However, you need to understand how to properly utilize those traditional security controls and where not to use them."

He explains:

- **Alarms.** It's absolutely necessary that any company with inventory that has market value to have a well-designed state-of-the-art electronic alarm system. However, alarm systems will not protect the company from internal theft because those alarm systems are turned off "when dishonest activity takes place."
- **Video systems.** When properly designed, using the right equipment, correctly programmed, and strategically positioned, video systems can be beneficial. However, it is not the driving force in a loss prevention program because (a) most executives don't have the time or patience to sit and watch video for extended periods of time, and (b) most of the theft activity recorded in a logistics environment looks exactly like normal, routine work tasks and isn't detected.
- **Guards.** "Guards can be used for certain functions, but there's a difference in having them effectively control yard traffic and relying on them to prevent or detect employee, vendor or contractor dishonesty," he explains. "They're not trained to do that, and they are often on the outskirts of where the theft actually occurs."

Essence of loss prevention

One recurring problem is that a majority of companies have the same security program in place that was initially installed in their facilities many years ago. They are not aware of the significant changes in practices, technologies and safeguards that have been introduced by the security industry. Companies often are not aware of the new ways they can reduce their budgets yet enhance their asset protection programs.

"When it comes to prevention of employee theft, awareness is the best ongoing tool," says Murphy. "Awareness is simply reminding employees that the company monitors for this type of activity because it is a profit drain." There are many ways to address awareness. He cites the use of posters as being the most common, and also recommends holding periodic meetings with inventory control, shrink and operating statements as being "good platforms to openly discuss the results of internal theft."

Brandman emphasizes that loss prevention can contribute to bottom line profitability rather than it being an expense item on an income statement. "Strategically, if your loss prevention program has clear objectives that benefit the company financially and operationally, it's not at all difficult to get senior executive buy-in and

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support,” he explains. “Put the emphasis on asset protection, loss prevention, risk mitigation, and have it driven by financial objectives that need to be met as well as increased operational efficiencies to be achieved, you now become a vital function of the company.”

Support can be garnered from the remaining areas of the organization, says Brandman, “if it is positioned in a way that a successful loss prevention program will not only make the company more profitable by eliminating unnecessary losses and expenses, but it also will help to secure the jobs of the individuals that are now working in the organization.”

Components of loss prevention

In moving a product from point A to point B through its supply chain, whether it's by road, air or water, certain processes always take place: transportation, consolidation, warehousing and distribution. And each of these is a potential weak point along the supply chain and provides a potential target for illegal activity to occur.

“If you look at the methods of theft, whether by individual, collusion or fraud, there are only about three dozen ways that theft can take place in the warehousing, transportation and manufacturing industries,” according to Brandman. “The only thing that varies is the commodity that's being stolen.” By focusing on these methods, he maintains, several techniques have been repeatedly shown to be effective at both uncovering theft activity as well as preventing it.

Undercover operatives. One of the more effective initiatives, and increasing in use, is the on-site placement of an undercover operative. “A well-trained operative in the right cover position will provide more intelligence and have more value than ten guards,” says Brandman. “The undercover investigator is in the ‘eye-of-the-storm,’ while the guard usually works at the perimeter, often out of range of the action.”

“It's rare when thieves slip-up and get caught carrying merchandise out of a warehouse, and even rarer when people get stopped in the middle of a drug transaction at work,” says Kent Perkins, managing partner and senior executive investigator, Diversified Risk Management, Inc., Downey, Calif. “An operative, working daily inside the company alongside other employees is in a position to develop information regarding alcohol abuse, illegal drugs, cargo theft, dangerous weapons, sexual misconduct or any other problems encountered during the operative's performance of his or her normal work

duties,” he writes in the white paper, “Undercover Investigations: The Best Weapon Against Crimes at Work.”

Perkins advises, to ensure the cover, that the operative be able to drive and operate a forklift or other cargo-moving device and be certified and a trained operator of such equipment. Meanwhile, Brandman notes that operatives should not be limited to the hourly workforce activities, such as forklift operators or maintenance people. Qualified undercover operatives also have been assigned to various professional duties (IT, inventory control) and supervisory and managerial roles as well.

“Insist on the most-qualified, highly-skilled, well-trained and supervised undercover investigator working through a licensed, legal investigation agency for such a challenging assignment,” Perkins emphasizes. “Cautiously narrow your search when reviewing potential investigative contractors and trust only firms specializing in workplace investigations.”

Surprise audits. The surprise audit is an effective tool because the company identifies the problem, responds to it, and acts in a clear, decisive manner. “We have found, for example, that when employees know there will be unannounced loss prevention audits conducted of key functions such as shipping, customer pick-ups and receiving, they go through a metamorphosis where they ‘suddenly’ are able to do a much more accurate job,” says Brandman. “With those employees who had been previously caught and formally reprimanded for overages, shortages and mis-selects, we find on subsequent audits they tend to have a very low error ratio.”

“Audits should be expected,” according to Murphy. “That is the deterrent factor. It's also the way we judge, through a snapshot, how our business is being run, and then get the deficiencies corrected in a timely manner.”

Besides the typical “warehouse floor” audits, Brandman recommends others, such as penetration testing into a company's IT system. “We have specialists that (with the client's consent) attempt to hack into a company's network and test their firewalls, spyware, physical controls and other components,” he explains. “Logistics runs on IT today, and a lot of our clients are paperless

“A well-trained operative in the right cover position will provide more intelligence and have more value than ten guards.”

Barry Brandman.

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pillars of labor democracy and our larger political system.” Instead, he says, “Employees could be solicited to sign cards and would have to tell union organizers and co-workers whether they were signing a card. The lack of a secret ballot opens the procedures to all kind of abuses.”

Potential problems

Sparks is among those who criticize the process because of the potential for employee intimidation. “Employees would be asked to sign before they could get the facts,” he says. “Union promises and misstatements are for the most part not improper or objectionable even under current law. The NLRB has always allowed free debate from an open campaign followed by the secret ballot election to take care of that. No longer.”

Other issues, say Sparks, include the potential for peer pressure, vote buying, repeated home visits, and subtle and not-so-subtle misrepresentations occurring, all due to the fact that card signing won’t take place under the watch of a neutral party.

“The lack of a secret ballot opens the procedures to all kind of abuses.”

AGAINST

Not only is there widespread Republican opposition to the bill, but groups like the National Association of Manufacturers and the U.S. Chamber of Congress have taken a stance against it as well.

Polling also shows that the public is mostly against the idea of EFCA. The Coalition for the Democratic Workplace (CDW) has taken polls that show 71 percent of voters and 72 percent of union households believe binding arbitration, as proposed by EFCA, is unwise and risky. In addition, the polls revealed that 82 percent of voters and 85 percent of union households favor federally supervised union elections.

Ann Christopher, vice president and general counsel for Kenco Logistics Services, says that many employees are apprehensive about the potential for the card check to become law. “When there is pressure to join unions, it can be tough for employees to stand their ground,” she says. “Employees need to realize that their employers may not be able to sustain operations long term if their workforce unionizes.”



FOR

The bill has organized proponents as well. Such grassroots organizations as American Rights at Work, the Center for American Progress, the National Organization of Women and the AFL-CIO are all lobbying heavily to gain its passage. The organized labor group has been working diligently for more than a decade to get legislation like the EFCA passed.

Currently, the AFL-CIO is heavily dedicating resources to assist in the passage of the EFCA. Among its efforts are:

- Contributions of \$2.50 per member to counter what it calls “the corporate onslaught” against the legislation
 - A nationwide grassroots effort to coordinate with supporters of the bill
 - A commitment to activate one percent of membership each month in priority states to make calls and write letters to members of Congress to garner support for EFCA.
 - Outreach efforts to employers to garner support for EFCA.
-

Sparks admits that the bill may hold some appeal to certain employees. “Some employees may be pleased that it will be easier for them to gain union representation,” he says. “Having arbitration available to impose contracts may also appeal to some who feel that the negotiation process takes too long. For employees that have been subjected to more significant or willful violations of the law, there are also civil penalties that may tend to deter the worst sorts of abuses.”

For the warehousing and distribution industry, the EFCA is poised to potentially have big impact. It’s key to learn about the legislation, follow its progress, and prepare for its potential ramifications.

Preparation

Should the EFCA pass, Sparks sees many disadvantages to employers and their employees. “Employees will be deprived of robust and open campaigning by all sides such that they can get all the facts before deciding,” he says. “EFCA also makes it harder to get out of a union for employees who change their mind, since employees may not get a chance to vote a contract down and vote their union out due to the availability of binding arbitration to impose contracts on employers, unions and employees alike.”

While the question of whether or not the bill will pass still remains, some companies are beginning to

take steps to prepare for its passage. Sparks says that employers should consider several measures.

“Most importantly, they need to have the kind of working environment where their employees do not need to turn to an outsider,” he says. “That means providing competitive wages and benefits appropriate to the market. More importantly, it means providing the sort of training and mentoring needed to have the best possible supervisors—fair, consistent, straightforward men and women who their employees see as positive leaders in the workplace.”

CHECKS AND BALANCES Sparks also sees value in having a system of checks and balances in the workplace. “Listening to employees and responding to their questions and concerns is something that more senior leadership must be involved in too,” he explains. “That may mean periodic meetings with employees or employee focus groups. It may mean a strong open-door policy. It may simply mean mid-level and senior managers and HR professionals being routinely accessible to all employees, regardless of shift or job classification.”

Christopher agrees. “Now is the time to educate your employees about the pros and cons of unions,” she says. “Have a good HR department that can communicate effectively with your staff. Have a good process in place for grievances.”

EVERYDAY VALUES Sparks points out that it is critical to not wait until an organizing drive occurs to make changes. “It may also be illegal at that point—these need to be everyday values,” he points out.

Some companies are preparing by hiring consultants that specialize in unionization issues. The consultants are trained to manage communications between employers and employees about the issues.

NOW’S THE TIME Sparks points out the importance of educating supervisors on what a stealth card signing campaign looks like, as well as what the NLRA allows and forbids them from doing. “They must be ready to respond swiftly and lawfully to union organizing campaigns,” he says. “In a post-EFCA world, they may only have a few days to get the facts out, rather than weeks as they have now.”

If there is an upside to the potential card check law,

It’s key to learn about the legislation, follow its progress, and prepare for its potential ramifications.

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Riding Out the Storm

The 20th annual “State of Logistics Report” paints a grim picture.

The fact that the economy was in the dumps throughout 2008 comes as no surprise to anyone. That fact was given further credence when Rosalyn Wilson presented the 20th annual “State of Logistics Report,” sponsored by the Council of Supply Chain Management Professionals (CSCMP).

Wilson reported that the recession has hit the logistics industry particularly hard. “Purchasing and ordering decreased, inventory levels rose and volumes shipped plummeted,” she said. “Abundant capacity, particularly in trucking and ocean shipping, pushed rates down, often below costs. Many companies have not survived the prolonged downturn, and many more will not survive the upcoming months.”

To prove her point, Wilson released a steady stream of numbers reflecting the logistics industry’s overall decline.

While the cost of the U.S. business logistics system declined 3.5 percent in 2008, the first drop in six years, it was still the second highest on record, at a cost of \$1.3 trillion. Logistics costs decreased from 10.1 percent to 9.4 percent of the nominal Gross Domestic Product (GDP) in 2008. The primary cause for the drop in costs, according to Wilson, was the fact that inventory carrying costs fell 13 percent, reflective of the fact that businesses had to liquidate inventories to adjust for receding demand.

“The economy has continued to sink in 2009 and by most measures has not yet bottomed out,” reported Wilson. “It will be a longer and more difficult journey for the logistics industry as we ride out this recession.”

Tough times

Another indicator that revealed how tough things were in 2008 is the inventory-to-sales ratio. After several years of relatively level performance, the ratio has been going up. “The inventory-to-sales ratio skyrocketed in the end of 2008,” said Wilson. “The rise in 2008, from a low in June of 1.25 to 1.46 by December, was the swiftest since 1982.”

Wilson said the increase in inventory-to-sales ratio occurred across the entire distribution chain—wholesale, manufacturing, and retail levels. “Retailers and manufacturers are finding it difficult to draw down their

inventories to match sales and that trend will be a persistent problem well into 2009,” she said.

The cost of warehousing was another negative statistic reported by Wilson, as it increased by 9.5 percent in 2008. “To increase revenue generation, there has been an increase in the number of value-added services provided by warehouses, such as label printing, kitting, assembly, and shrink-wrapping,” she said. “They are also trimming operational costs by installing efficient material handling systems, investing in new technology and adopting optimization techniques.”


Real estate within the industry also took a hit—new construction of warehouses greatly declined in 2008. “Leasing tumbled as credit tightened and demand fell,” Wilson said. “Several of the major players have opted to keep their debt levels down and have cut back on new development.”

Trucking demand also declined over the past year. “Truckload industry capacity is dropping at unprecedented rates, but unfortunately, freight volumes are declining faster than capacity, so there is no incentive to keep the fleets,” said Wilson. “During 2008, more than 3,000 companies went belly-up, seven percent of the nation’s capacity removed.”

The future

As for the future, Wilson said that it appears the economy is reaching a period of stabilization, rather than recovery. “By the end of the year, I expect to see the beginnings of a very gradual recovery,” she said. “We will not return to pre-recession levels until probably late 2010.”

As such, Wilson advised the industry to be proactive, not reactive. “Analyze your supply chains, re-examine your supply chain partners and the risks associated with them, increase productivity, and add new technology,” she said. “Prepare your company for recovery—are your suppliers or carriers still in business? Lock in capacity with guarantees before it becomes scarce. Re-evaluate your relationships with your supply chain partners and strengthen them.”

“The future is good for the companies that emerge from this economic crisis,” Wilson said. “The best in class will evaluate their strategies and plan now for increased business and come out stronger.” 

It will be a longer and more difficult journey for the logistics industry as we ride out this recession.



At WERC

Here are some things to keep you up-to-date on what's happening at WERC

WERC Publications of Interest

Security Best Practices: Protecting Your DC

(CD-ROM only) Outlines the security risks and challenges associated with warehousing and distribution operations. Spells out viable solutions from simple to complex, from common sense and low key to high tech. Barry Brandman, the author, is one of the nation's foremost business security experts. What you read will raise your awareness level and offer proven techniques for avoiding or deterring security risks.

Member Price: \$30.00

The Multi-Generational Workforce (PDF)

Today, for what may be the first time ever, four distinct generations are in the workplace. This multi-generational make-up of the workforce could be a major plus for the organization in terms of offering flexibility, establishing a variety of experience and skill sets, and providing new avenues for problem-solving.

However, many companies are challenged by having a multi-generation workforce. In these instances, there's concern over the growing tension among the generations because of their different experiences, values, expectations, work habits and communication styles.

This WERCwatch looks at the issues with a warehousing perspective. Go to www.werc.org to download this FREE report or email rcoleman@werc.org to request the PDF.

Mikitka Named CEO

The Board of Directors has named interim executive director Michael J. Mikitka, CMP, CAE, as Chief Executive Officer of the organization.

Mark Cleveland, Board past president, says, "Mikitka came on board as the Director of Conference and has been the principal architect of WERC's world class conference experience for the past eight years. He stepped up to the plate as interim leader of the association and has provided exceptional leadership during a time of transition. He brings association experience, experience with WERC and new ideas and energy. We're looking forward to innovation while continuing to meet member needs."


Before joining WERC, Mikitka was the meeting manager for the Property Loss Research Bureau (PLRB), a trade association of property and casualty insurance companies. He graduated from Illinois State University with a B.A. in Industrial/Organizational Psychology and holds the prestigious Certified Association Executive (CAE) and Certified Meeting Professional (CMP) designations.



Delaware Valley/Philadelphia WERCouncil Visits the Home of the World Series Champion Philadelphia Phillies

It just doesn't get any better than to sit in the dugout of the World Series champion Philadelphia Phillies. This is exactly what the Delaware Valley/Philadelphia WERCouncil did on July 16th, having an extensive behind-the-scenes tour of Citizens Bank Park, home of the Philadelphia Phillies.

The first part of the tour was the warehouses where Aramark Services makes sure that all the concession stands are full of product, the soda and beer are flowing and the fans are happy. This requires flexibility and scalability to adapt to double headers and dollar dog days. It was impressive to understand the logistics of product in and out of the stadium.

The tour covered every area of the stadium including the broadcast booth, the batting cages, press room, Hall of Fame Club, Diamond Club, and some of the best kept secrets in the park. We even had our picture taken with the World Series Championship Trophy. The event was memorable for all. Special Thanks goes to Joe DeMarco from Citizens Bank who made this event possible. 

Upcoming WERCouncil Events

ATLANTA	September 14 <i>Golf Tournament</i>
TENNESSEE	September 16 <i>Tour – Starbucks DC</i>
ORLANDO	September 17 <i>Facility Tour & Presentation</i>
NORTH TEXAS	October 14 <i>7th Annual Golf Tournament</i>
	October 15 <i>8th Annual WERCouncil Convention</i>

Christopher sees it as the chance for employers to open up communications with their employees. "Employers are forced to be open and effectively communicate with their staff," she says. "Employees need to be perceived as valu-

Now is the time for companies to learn the ropes of the bill and prepare for its potential outcome on your particular company.

able and this is a great chance for employers to demonstrate that."

DC management needs to work closely with HR now to stay on top of the EFCA developments.

"Employers must decide whether to educate their workforces before an organizing campaign starts," says Sparks. "That may mean an employee meeting to explain what card signing could mean. It also can take the form of

off-the-shelf or custom on-boarding programs that educate newly-hired employees."

What to expect

The jury is still out as to whether or not the EFCA will pass in its current form. The Bill's sponsors say they are confident of its passage in the House. The Senate, however, will be trickier. Several key senators, including Arlen Specter (D-Pa), are working to hammer out a compromise bill. Changes might include a postcard that employees can use to vote through the mail, keeping the voting process private.


"Organized labor and the bill's sponsors are trying to line up votes and put the bill, or more likely a compromise, up for a vote," says Sparks. "Part of their calculus is deter-

mining when the timing is right to get the most they can in the final legislation. Thus far, the magic formula has not emerged."

Sparks counts himself among those who are skeptical the bill will pass in its current form. "I think secret ballots will survive," he says. "However, the time from filing to election is likely to be significantly reduced from five or six weeks as is common now. That will significantly undermine the ability of those who oppose a union to educate employees and counteract union propaganda before a vote."

He also holds out hope that the provision for binding arbitration to impose contracts will not make it into the final bill. "More likely is some sort of mandatory arbitration and perhaps an extension on the one-year period during which employees are not allowed to file for decertification of the union."

So for now, the EFCA's future remains a big question mark. Regardless, it does have ample support to pass Congress in some form or another. Now is the time for companies to learn the ropes of the bill and prepare for its potential outcome on your particular company. "There's no one-size-fits all approach in my view," says Sparks. "It depends on your workforce and supervisors and the degree of risk you face."

Christopher adds that employers must be proactive. "Once the union is in the door, it's tough to go back and educate your staff, so you need to act now." 

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Ken Sparks, Vedder Price P.C., www.vendorprice.com
NLRB, www.nlr.gov*

LATEST DEVELOPMENTS

As reported at www.bloomberg.com and www.thehill.com, on August 14, 2009, Senator Arlen Specter (D-Pa) has reversed his position and said he will support efforts to bring the so-called card-check legislation to a vote.

Specter, who switched parties earlier this year, told the "Netroots Nation" that he would support a cloture vote to bypass a filibuster for a modified version of the card-check bill (the Employee Free Choice Act).

Senator Tom Harkin (D-IA) is leading the compromise talks and has said he expects the card-check provision to be dropped when the bill comes to the floor. Still remaining in the legislation would be a provision that would require "binding arbitration" for union contracts. A compromise version of the bill may also mandate shorter unionization campaigns, faster elections, and stiffer penalties on businesses that violate labor laws.

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and completely dependent on their systems for their day-to-day operations. Companies need to know before they are victimized where their weaknesses are and if their safeguards are adequate and protecting them. If their networks are compromised and go down, the results can be devastating operationally and financially," he declares.

"Data security should be included in an extensive assessment," says Murphy. "Data theft, sabotage, and lost data can devastate a company exponentially to theft or fraud."


Confidential hotline. The key word is: confidential. While public companies, under Sarbanes-Oxley, are required to have a hotline in place, many private companies are also users of this program, as it is one of the most effective in-house programs. According to Brandman, the calls that come in are almost always right on the money, and company executives often did not suspect a problem until alerted by the phone call.

"There are employees on the inside that either know pieces of information or the full story, but are not going to put themselves or their families at risk by speaking to someone in management or HR," explains Brandman. Therefore, to be effective, a hotline should be outsourced (The person at the other end of the phone is not going to recognize a caller's voice, speech patterns or accent, and will never meet the caller in person); answered by a professional (a trained security professional answers all phone calls, and one who can put the caller at ease and ask the right questions to obtain the necessary information); and is completely anonymous ("We assign the caller a code number; that's the only way we need to identify them," he explains. "We even have a system worked out where we can give them their reward without knowing their identity.")

Employee background checks. "Background checks should be conducted as a normal course of business for all new hires and should be conducted at least once a year on all current employees," advises Murphy. "Companies need to ensure their applications ask for all convictions, including deferred adjudication/suspended sentences, for all crimes, not just felonies. The time frame varies, but seven to ten years is common."

Brandman insists that a thorough background check be made, not a less expensive, online, abbreviated check. He recommends a background report include, as a minimum: criminal history convictions that encompass all the areas that the individual has resided in for the past seven years; motor vehicle history (driving experience, points, DWI, etc.) especially if a candidate is going to operate a

forklift or company vehicle; verification of social security number and that it matches the name of the candidate; and within Federal law guidelines, credit checks, including checking for tax liens and bankruptcies. As an example, if a candidate shows a tax lien you may not want to place him/her in a high-value product security cage, or have that individual negotiate with a vendor.

"Having a security program that is superficial and cosmetic is just as dangerous and in some cases even worse than doing nothing because it results in a false sense of security," advises Brandman. "Therefore companies need to conduct an objective, critical analysis of their existing program to flush out its weaknesses before others have the opportunity to exploit them to the detriment of the organization." 

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Barry Brandman, Danbee Investigations
J. Patrick (Pat) Murphy, LPT Security Consulting
Kent Perkins, Diversified Risk Management, Inc.*

...there are only about three dozen ways that theft can take place in the warehousing, transportation and manufacturing industries."

Barry Brandman



WERC Seminar

OCTOBER 14-16, 2009

Long Beach, CA

Achieving Warehouse Success: A Guide to Managing an Effective Operation

If you're in a supervisory or managerial position in a warehouse setting, here's a perfect opportunity to build or refresh your knowledge. This three-day seminar will help you understand ways to make the most of all three of your basic resources — space, equipment and labor.

For more information, go to www.werc.org



The Importance of Returns

Take a good look at your reverse logistics process.

For many companies, returns processing has typically taken a back seat. In fact, a new survey of top retail and manufacturing-related companies, conducted by the Supply Chain Consortium, reveals that some 40 percent of companies do not track reverse logistics metrics at all. Bruce Tompkins, executive director of the Supply Chain Consortium, says that this is a missed opportunity, especially while the economy is slow.

With a metrics program, people can measure, monitor and understand their reverse logistics process."

Bruce Tompkins

Tompkins says that as the economy begins to improve, sales will increase and consequently, so will returns. Preparing now for that onslaught is the best way to ensure that you're keeping customers satisfied. "Not only do companies need to worry about customer satisfaction at the front end of the sales process, they also need to take care of the customer at the back

end with a solid returns process," he says about the importance of returns in "Distribution Center Operations Report."

To do that, companies need to give the returns process more attention. A solid metrics program to track returns is a good way to do that. "With a metrics program, people can measure, monitor and understand their reverse logistics process," says Tompkins. "When the returns process is optimized, you save money and improve customer satisfaction."

Missed opportunity

With the potential benefits of a solid returns process, why is it that so few companies have one in place? "The reverse side is still the smaller side of the business, hopefully by quite a bit," says Tompkins. "So it's not viewed with as much importance as the front end of the business."

That can add up to a missed opportunity. "The returns process isn't as costly, but it is customer critical," says Tompkins.

Another reason the returns process typically gets so little attention is that it is often not well defined. "Returns can be pretty split up among a number of departments," explains Tompkins. "Almost everyone has a role in the reverse process, so it's tougher to measure."

There's also the issue of systems support. Often companies don't have a good data collection system, which makes tracking returns difficult.

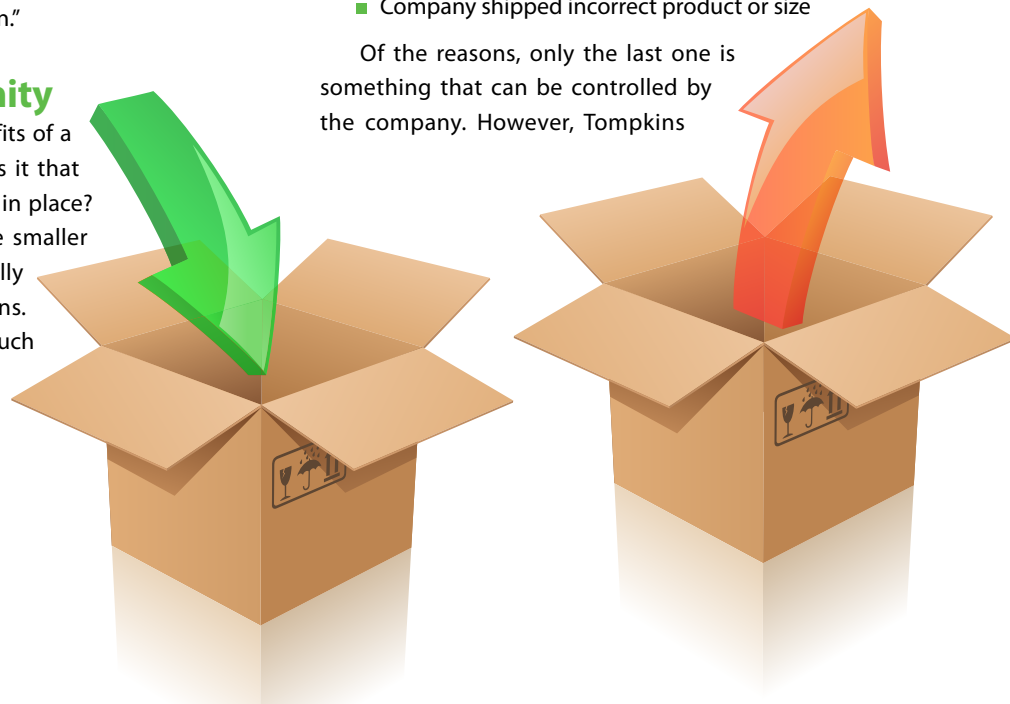
And impressive benefits

In spite of the obstacles, however, Tompkins sees real value in implementing a reverse logistics metrics program. For one, you'll achieve overall cost reduction and cost avoidance. You can also improve your labor utilization.

Perhaps the biggest benefit that stands to be made from a reverse logistics metrics system is customer satisfaction improvements. The report lists the top six reasons for returning product:

- Customer ordered incorrect product or size
- Customer decided product not needed or wanted
- Customer returned with no reason given
- Product did not fit description on website or in catalog
- Product did not fit customer's expectations
- Company shipped incorrect product or size

Of the reasons, only the last one is something that can be controlled by the company. However, Tompkins



points out, from the customer's viewpoint, it doesn't matter who caused the product return. "The customer wants to return the product with as few difficulties as possible, and the company wants to retain their customer and keep costs down."

Tompkins points out that, as a customer, people are much more satisfied with their overall experience if the returns process is handled efficiently. "If the returns process is handled well, the customer may think a lot more of the company and that will make the customers want to continue with you," he points out. "This is especially true when times are tough—this is not a time to alienate the customer."

An efficient returns process is also a good way to improve your green efforts. "Look for ways to reuse, refurbish or recycle your returns," says Tompkins. "There can be a lot of value in returns and it can also improve your environmental efforts."

Making improvements

With so many good reasons to implement a returns process metrics system, it's worth investing the time. "If you can develop a process that provides you with the right information, you can improve the overall product and service you are providing," says Tompkins.

He points out that a good returns process takes the big picture into account. "The returns process starts before the product even goes out the door," he says.

A good metrics program can take into account a variety of factors, among them cost, quality, and delivery. "Decide what you want to measure and then decide what metrics need to be put in place to do that," he says.

For instance, if you want to measure cost, put a system in place to measure the cost of the return, the cost of the product's transportation back to the DC and the cost of the product's disposition. If you are


measuring delivery, take into account the lead time for getting the product back to the customer. "All of these factors can be used to define performance," says Tompkins. "This will vary considerably from one industry to the next and from one company to the next."

For some companies, the task of measuring the returns process is more than they want to handle. In these cases, says Tompkins, it's worth considering outsourcing the process.

Not a costly fix

Putting an effective returns process and metrics system into place doesn't have to be costly. "You may have a lot of waste in your process, so you can look at ways to address the waste in your system," Tompkins explains. "You don't need to spend a lot to address the issues."

In the end, he says, effectively measuring and addressing the returns process is more about process improvement. "This all goes back to lean operations," he says. "This is the perfect time to focus on the issue because you don't need to spend much but most companies need to drastically improve their processes."

Take advantage of the slower rate of business right now to focus on your returns process. It will pay off in the end, says Tompkins. "When people return to spending, you'll want to be ready," he says. 

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Bruce Tompkins, Supply Chain Consortium,
www.supplychainconsortium.com*

**...as a customer,
people are much more
satisfied with their
overall experience if
the returns process is
handled efficiently.**

Check out this WERC publication: **Products Returns/Reverse Logistics in Warehousing**

This report discusses product returns activities—receipt, sort and stage, process return, analyze return, support operations—and includes sample process maps and a number of exhibits. The "make vs. buy" decision is examined, strategies and tactics are discussed, a number of metrics are suggested and equipment and personnel requirements are outlined.

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