The Six Principles of Loss Prevention
For better part of this decade, U.S. retailers as an industry have reported an average annual loss of approximately $35 billion due to theft and errors. Whether it be from external sources, such as shoplifting, or through internal employee theft, a retailer without an adequate loss prevention function will incur greater loss than a retailer who practices a well structured approach to attacking loss.

A well structured loss prevention function should include a program designed around six key principles. These six individual, but symbiotic, principles provide an approach that will focus on the prevention, identification and resolution of loss.

Embracing these principles within a loss prevention function(both structure and program) will provide any retailer the best opportunity to promote an environment of profitability and prevention.

---

- - - The Six Principles of Loss Prevention - - -
These six principles as shown in the diagram include;

- Prevention
- Awareness
- Compliance
- Detection
- Investigation
- Resolution

Formed as a circle moving clockwise, each principle has a relationship with the next. The process starts with and circles back to the primary principle and objective of any loss prevention program — **Prevention**. The overall goal is to include all of these principles within your function’s initiatives, resources and technologies.

As a philosophy, these principles should work in conjunction with a holistic approach to loss prevention. Thinking beyond theft and error, a strong loss prevention function should also focus on margin erosion, supply chain management and other areas that can cause profit loss.
It’s obvious that the objective of any loss prevention program should be the prevention of loss, which is why it is the first and most important of the six principles.

*From the very beginning, a program’s design should focus on prevention; processes, implementations, technologies and the use of resources.*

Additionally, prevention should play a role within each of the remaining principles. As you will read, the elements of a solid LP program should include a means of measuring, analyzing and formulating strategies to prevent future loss.

*Even when dealing with the principles of detection and investigation, a good program has some form of regression analysis to determine or identify how the losses occurred and the methods of resolution so that measures can be assessed, developed or re-structured to prevent future losses.*
There are two core elements found in well structured loss prevention programs.

- **Dedicated Loss Prevention Resources**
  Having dedicated resources (internal or outsourced) to develop, implement and maintain the overall program and its elements provides a retailer with a focused means of preventing loss, reducing shrink and increasing overall profitability. This dedication goes beyond “assigning” or “tasking” someone with the loss prevention responsibility, but actually dedicating resources to the development and execution of a program.

- **Creation and Implementation of Controls**
  Developing controls that focus on areas of the business that incur loss (point of sale, inventory control, cash control, safety, shoplifting, employee theft, etc.) will help establish proper policy and procedures to prevent loss.
Loss caused by theft, error or margin erosion affect bottom line profitability. Retailers who begin with the core elements of an LP program and incorporate these principles into their initiatives establish a solid foundation for making loss prevention a *driver of profitability*.

Dedicating resources, whether internally resourced, *co-sourced* or *outsourced*, brings the skill, knowledge and attention to the concepts of loss prevention and the continued progression of a loss prevention function. The creation of policies, procedures and processes geared toward *the holistic approach* to loss prevention provides the greatest long-term opportunities to prevent loss and increase company profitability.

As this eBook continues to introduce the other principles of loss prevention, always keep in mind the primary principle of prevention.

*Prevention is the driving force behind the other principles of loss prevention.*
Moving clockwise around the circle, “Awareness” is the next principle, closest to prevention. As a retailer develops preventative measures through policy, procedures and controls, the education of the workforce and the development of awareness will begin to spawn the concepts of loss prevention across the business.

The key to awareness is to make certain that it focuses on all levels of associates; field management, store management and all associates. It must also be viewed as part of the overall business and not seen as something separate or only utilized by store personnel.

It must also not be assumed that any or all associates are familiar with the concepts of loss prevention. Many industry studies, along with our own experience, has shown disconnects between management (corporate, field) and store personnel (managers and associates) on what they believe are the causes of loss in their locations. This disconnect is often there because the training, education and awareness toward loss prevention is not consistent, communicated or measured properly.

To successfully generate awareness to a workforce, retailers should ensure certain elements to an effective loss prevention awareness program exist.

- Develop a program with a variety of mediums through consistent and repetitive messaging
- Materials should be written for all levels of the workforce not only for management or specific roles within the business
- Have a strategy that increases education and awareness of loss prevention concepts
Having an awareness program does not mean simply providing materials to generate awareness. An awareness program must have the means to gauge an understanding and measure retention. This can be obtained through various means including; store audits, meetings, store discussions, contests or other learning principles. Having some form of measuring the retention level helps to understand what works and what needs to be re-defined to generate the greatest level of awareness.

When it comes to generating awareness and educating staff, retailers should not shy away from discussing the concept of employee theft. Although it can be a difficult topic for some, retailers have found that talking to their staff about employee theft (how it is done, how it is detected, the responsibility of all associates to prevent it, etc.) provides a higher level of awareness and offers more of a deterrence than not discussing it with their associates.

Without employee awareness you cannot expect your staff to know how to prevent loss or what to do when a situation arises.
Awareness through various programs and initiatives builds education, which leads to the aspects of deterrence, compliance (or known non-compliance thereof) and of course the primary principle; prevention.

Some examples of common tools used to educate associates and increase the prevention of loss through awareness include;

- The development of an awareness program with materials easily accessible and located within each retail location. Materials can include; posters, newsletters, brochures, etc.

- The creation of an associate guidebook on loss prevention, detailing key policies, procedures, responsibilities and steps to deter theft and reduce shrink and loss. Such a book can be utilized for new hire on-boarding or individual training for specific roles and responsibilities.

- In-store loss prevention presence, whether it’s a scheduled or unscheduled visits by an auditor, investigator or other LP resource. Store visits show store associates that someone involved in loss prevention can visit at anytime. LP knowledge and the resolution of issues at store level helps to create a culture of awareness and can be a deterrent to future issues. Store visits also allow an opportunity for staff to ask questions to an LP professional on topics or areas of uncertainty.

- Developing and maintaining an audit program for retail locations can assist in preventing future losses by highlighting compliance or procedural concerns as well as commend positive behavior and compliance. Having a structured and consistent audit program will ensure that policies and procedures are followed and the opportunities for loss are reduced.
After Awareness comes the principle of Compliance. All businesses establish some form of policies, procedures and protocols designed to follow best practices. These practices assist in the sales, operations and merchandising of the retail location. They must also be developed to support the prevention of loss.

Many retailers have established policies and procedures to support the prevention of loss. Why is it then that they still experience loss due to theft or error? The answer is simple; most often when loss occurs, it is found that there was failure to comply with a specific policy or procedure.

Stressing compliance toward established policies and procedures, and holding those accountable are important parts of a loss prevention program. Any associate’s ability (management included) to not follow or alter procedures will only open the door for a potential loss.

Maintaining compliance within retail locations is always best served through auditing the various operating procedures and policies. These audits do not always require a large scale visit or an audit that creates a detriment to the daily routines of store associates. Audits can come in all sizes and by a number of different names; audits, visits, checklists, etc.

A true loss prevention audit must focus on the factors associated with the prevention of loss rather than become diluted with other areas of the business.

An audit that includes store maintenance items or operations unrelated to loss will do very little to promote loss prevention. It is best to have separate audits, one for the various areas of the business and one for loss prevention.

Using separate audits emphasizes the importance of loss prevention and the approach to preventing an opportunity for loss through non-compliance.
Stressing compliance within your loss prevention and operational programs brings a continued level of awareness to your associates. Through awareness, they learn how losses occur and how loss affects profitability.

Through an understanding of policies, procedures and compliance checks, they learn that deviation from established company guidelines can result in loss.

Maintaining a program designed to review and report compliance helps to promote a certain culture. Many speak of “a culture of honesty” that focuses on the awareness to do the right thing. Developing “a culture of compliance” will work toward a better store and prevent the opportunities for loss to occur in the first place.

**Additional Reading**

- Operational Audits versus Shrink Audits: Which one is best for you?
- Check & Double Check: The benefits of a non-bias audit
Not all losses can be prevented. Theft will continue to happen and errors will occur. Therefore, if a loss cannot be prevented, then it must be detected and resolved quickly to reduce any lost profits.

Today’s retail industry has many available technologies to help detect possible losses involving thefts and errors. These technologies provide the “visibility” to help quickly uncover issues. The use of technology, coupled with generating awareness about the technology, a retailer can create a level of deterrence against future thefts. Technology alone however is not a complete solution.

Detection still requires human intelligence and interaction. Tools such as exception-based reporting still require skilled individuals to analyze the data and develop potential cases. Programs that include audits and store visits can detect failures and non-compliance which lead to lost profitability. There are many areas where detection can assist the overall business even outside of theft.

**EXAMPLE:**
Poor customer service can lead to INCREASED EXTERNAL THEFT AND LOST SALES

**SOLUTION:**
Establish a mystery shopping program to detect poor customer service and change the behavior

As loss prevention initiatives are developed, they must contain tasks, procedures and programs that can detect loss. Whether utilizing technology or human resources, the ability to quickly detect an actual or potential loss will allow for the efficient investigation and effective resolution of such issues. An undetected loss can easily compound and destroy the profitability of a single retail location within a short amount of time.
As loss prevention initiatives are developed, they must contain tasks, procedures and programs that can detect loss. Whether utilizing technology or human resources, the ability to quickly detect an actual or potential loss will allow for the efficient investigation and effective resolution of such issues. An undetected loss can easily compound and destroy the profitability of a single retail location within a short amount of time.

Detection breeds a reactive response, as the loss may have already occurred. However, having established processes in place to easily detect losses will most certainly help to reduce any future occurrences of loss.

Here are some common detection tools in a retail environment:

- Loss Prevention Audits
- Point of Sale / Exception Reporting Software
- Target or High Loss Reviews
- Mystery or Integrity Shops
- General Loss Interviews or Investigations
- CCTV systems and Video Analytics

Today’s detection...

... begins tomorrow’s prevention.
5th Principle

Halfway around our circle is the principle of Investigation. Often this principle is more reactive than proactive; however, it is no less important than the other principles of loss prevention.

Most retailers see “investigation” as involving the collection of evidence, interviewing of associates, or the overall process to find someone involved in theft. Although the term investigation is often used in this sense, it is not entirely accurate. An auditor conducting an operational audit is in fact conducting an investigation to determine compliance or adherence to policies and procedures. A customer service shop is an investigation into the service and support provided to customers by salespersons.

Taking the term holistically, an investigation can be defined as an inquiry or examination through a systematic process. This means that the investigative process can be many parts of a loss prevention program, including an audit, mystery shop or theft investigation.

Although it is often the process of determining a loss or business concern, the principle itself should have a significant role within a loss prevention program.
When it comes to addressing potential theft or loss, many retailers focus less than adequate resources on the investigation of issues and find that they continue to have losses without proper resolution. Having specific resources to conduct investigations not only increases the ability to discover or identify uncovered issues, but also reduce liabilities involving incidents of theft or personnel issues. Having qualified and skilled individuals conducting investigations also ensures that a non-bias, structured process of investigation will be performed.

Some areas of investigation within a loss prevention program include:

- Store Theft Investigations (internal and external theft)
- Organized Retail Crime Incidents
- High Shrinkage or Target Store Markets
- Point of Sale Data Analysis (data investigations)
- Sexual Harassment or Human Resource Concerns
- Policy & Procedure Compliance (through an Audit Program)
- Customer Service or Comp Sales Analysis
- Regulatory Compliance (Age Verification or Government Compliance Audits)
Like detection, the principle of investigation does not directly provide prevention.

Indirectly, conducting investigations into store issues does provide a sense of awareness. It also establishes a corporate culture that theft and loss is neither acceptable nor welcome in your business environment.

Failure to properly investigate issues can create a culture of acceptance and within this environment, internal theft and poor morale are more prevalent within the associate base.

Additional Reading:

- **Real Prevention requires real help:** [Creating a culture of honesty](#)
- **Criminal versus Control:** [Employee Theft in retail](#)
Following the detection and investigation of any loss, every program should include a process for Resolution. As the last principle and closest to the first principle of prevention, resolution is where the reactive aspect of a loss prevention program starts to become proactive once again. Establishing a process for resolution will help to answer the questions of how to prevent future losses.

Resolution comes in many different forms depending on the type of loss and the overall investigation of such loss.

For those investigations involving theft, the resolution can be the identification of culprits involved, admissions of theft and the establishment of restitution and civil recovery processes.

For losses identified as training or compliance, resolution can be the review and alterations of existing policies and procedures, and/or the establishment of new policies.

A retailer’s ability to resolve issues is co-dependent on their ability to properly investigate the issues. Those who are not focused on establishing good investigative solutions (whether they include audits, reviews or theft interviews,) will see decreased results in their overall resolution of loss. Taking an investigation to the point where it is completely resolved is the best way to uncover the root cause of the issue and how it has affected your business and created a loss.
Although prevention is not a direct benefit of resolving issues, establishing processes that include closure and complete review of issues will help to finalize existing concerns and prevent future losses.

Some common forms of resolution can include:

- A restitution and civil recovery program to retrieve losses due to theft.
- A policy review program to enhance programs where failures are found.
- Training & Awareness Programs to educate associates on known losses and to prevent future opportunities of loss.
- Development of new reports or queries of an exception-based reporting tool to more quickly identify potential loss.

It is surprising to see how many retailers will go through the investigative process and believe that it is completed at the point the admission is obtained without pursuing restitution or a review of how the theft occurred in the first place.

Only through an established review and resolution process can a retailer continue to develop, enhance, and modify their programs, systems, policies and other aspects of their business.

*Remember; the goal of resolution is to remove opportunities for future loss.*
Reviewing the six principles of Loss Prevention, it has become evident how each of them plays great importance in building and maintaining a solid loss prevention program. As individual principles, they each provide elements toward reducing shrinkage, margin loss and costs. Collectively working in tandem, they provide the key principles of a loss prevention program and a solid foundation against loss.

More information about loss prevention

- Talking to your employees about employee theft
- The correlation between employee theft and employee morale
A seasoned veteran of the retail industry and loss prevention profession, David Johnston is currently responsible for developing new business relationships and generating new revenue opportunities at LP Innovations. Serving the loss prevention industry for over two decades, he has held various positions as a practitioner, industry consultant and solution provider.

David's experience in the industry has afforded him well rounded knowledge of LP programs in various retail, grocery and food service environments across North America, Europe and Latin America. His loss prevention knowledge and expertise has focused primarily on data analysis, technologies and loss prevention program development and he has worked with more than one hundred and fifty retailers across the globe in bettering their loss prevention programs and initiatives.

David often speaks at industry sponsored conferences, contributes and writes articles on various loss prevention topics and works with several groups and associations within the loss prevention profession and the retail industry.
To learn more or to discuss specific areas of concern:

**Email:** Solutions@lpinnovations.com  
**Call:** 877-574-6682  
**Website:** www.lpinnovations.com

Subscribe to our email list

We strive to improve our eBook content and your opinion is what matters to us the most.

Please help us to better understand your needs.

Feedback  
Request a Discussion

---

**Find Us!**