

THE JOURNAL REPORT: SMALL BUSINESS

Stop That Thief

Losses from theft and fraud can sink a small business. Technology offers welcome relief.

By RAYMUND FLANDEZ

For small businesses, preventing theft and fraud by employees can be an uphill struggle.

Unlike their big counterparts, small companies usually can't afford a large security staff or big-ticket monitoring technology to keep an eye on things. And they often don't generate enough sales volume to make up for the losses from pilfering.



WSJ's Raymund Flandez reports how grocery stores and retailers are waging a continuous battle against employee theft. He discusses "sweethearting," an unauthorized giving away of merchandise.

Now a new generation of security technology aims to give small businesses an inexpensive defense against unscrupulous employees. Some of these systems let business owners who are on the road check their security cameras over the Internet and get email alerts if something unusual happens, such as employees closing up shop early.

Restaurants, meanwhile, can use tableside credit-card readers to prevent cashiers from stealing customers' card numbers or inflating the tips written on bills. And grocery stores can use a combination of security cameras and software to automatically spot cashiers who try to slip free products to their friends and family.

These new products are arriving as stores face mounting losses from theft. According to the latest National Retail Security Survey, losses from "shrinkage" -- which includes theft, fraud and error -- reached a new high of about \$40.5 billion in 2006. About half of that -- \$19 billion -- came from employee theft. Shoplifting, in contrast, accounted for about a third. (The study, conducted by the University of Florida and the National Retail Federation, was funded in part by grants from makers of security systems.)

Here's a look at some of the most innovative new security systems out there.

TROUBLE IN STORE

- **The Situation:** Theft can mean disaster for a small business, wrecking its profit margins and hurting its reputation.
- **The Trouble:** Small businesses often can't afford the big-ticket security solutions big companies favor.
- **The Way Out:** A host of new technologies are filling the void, giving small operators a way to protect their businesses on the cheap.

WATCHING FROM AFAR

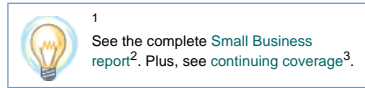
For a small-business owner worried about employee theft, leaving the shop in someone else's hands can be nerve-wracking. Now a host of security providers let bosses check in on things from the road.

For instance, Alarm.com Inc., of McLean, Va., sells a system that allows owners to travel to a Web portal and get remote feeds from security cameras, change entry codes and trigger sensors that monitor systems such as lighting and climate control. If a problem arises with those systems -- such as a power outage -- you can get an alert via a text message or email.

Recently, Kevin Donahue, owner of a Planet Beach Franchising Corp. location in McLean, was in Amsterdam on business when he received a text message from Alarm.com: The spa's alarm system had been

armed at 3 p.m., before the usual closing time. He checked the security cameras online and saw the facility was dark.

So he called his manager and got the explanation: The spa had closed early because of a snowstorm.



"The greatest thing is that it gives me the ability to travel and do the things that I do," says the 34-year-old Mr. Donahue, who's also a

full-time salesperson for a tech company and often travels outside the country on sales trips. "It gives me the ability to manage my staff remotely. I can call and say, 'What's going on?'"

Mr. Donahue bought the system for under \$100 and pays a monthly fee of \$39. Alarm.com says the base price for the system is usually \$500, with a monthly fee of \$29 to \$50, although those numbers can vary by reseller and area, as well as the features customers choose.

SAFEGUARDING CARDS

Another new technology helps small businesses -- particularly restaurants -- protect against "skimming." In this scam, cashiers steal customers' credit-card information for use in identity theft.

About 70% of credit-card-fraud cases involve skimming, according to Trustwave Holdings Inc., a data-security and compliance-management company based in Chicago. In many cases, business owners are ultimately held responsible for their cashiers' crimes -- costing them money and damaging their reputation.

For some businesses, the solution is to let customers become their own cashiers. At Southeast Grille House in Brewster, N.Y., servers bring a wireless gadget called On the Spot to their customers' tables. Patrons can swipe their credit cards on the device -- which is about the size of a brick -- punch in the tip amount and print out a receipt to sign, all from their seat.

Since the customer enters all the information, cashiers can't inflate the tip -- and the receipts don't contain much personal data that could be stolen and used for identity theft.

The device, from **VeriFone Holdings** Inc. of San Jose, Calif., runs about \$1,000. Southeast Grille House owner Domenic Chiera says it was worth the investment. "It's fast, and the receipt has little information, so no names or numbers," says the 57-year-old restaurateur. "I like the system. It works well for us."

CHECKING OUT FRAUD

At grocery stores, thieving employees are almost as much of a problem as shoplifters. About 40% of grocery-store thefts were attributed to employees in 2006, according to the Food Marketing Institute's Supermarket Security and Loss Prevention 2007 report. One of the biggest problems is "sweethearting," in which cashiers give friends and family freebies by pretending to scan items at the register.

Many stores use closed-circuit television to watch checkout lines. But the stores often don't have the time or manpower to review the tapes, so the cameras aren't a strong deterrent. StopLift Inc. of Bedford, Mass., has devised a system that combines cameras with advanced software to spot sweethearting automatically. The technology can recognize when cashiers make unusual movements when handling items -- such as placing a hand over a bar code -- and determine whether the items were properly scanned.

When the system identifies sweethearting, it places blinking squares over the video to show exactly where the theft occurred. Then it gathers the incriminating clips together for owners to review.

Stores "have the cameras but they don't have the manpower to watch



Courtesy of the company
"Sweethearting" theft in progress as seen in a StopLift video

it," says Malay Kundu, chief executive of StopLift. "What we've done is sort of automate that."

Three Big Y Foods Inc. stores in Massachusetts and Connecticut have been testing StopLift's Checkout Vision Systems for the past five weeks. Mark Gaudette, director of loss prevention at the Springfield, Mass., grocery-store chain, suspects that employee theft accounts for about 38% to 40% of its total losses.

"We've got pretty much a zero-tolerance policy for any folks that steal," Mr. Gaudette says. "What we're hoping is that all these technologies will help us in loss prevention and educate all of our staff."

The stores had already been using closed-circuit television and software that scrutinizes sales data for abnormal behavior or inconsistencies at the cash register, such as excessive voids or refunds. But those measures weren't enough to stem the losses.

StopLift's system works with those tools to ferret out sweethearting. For instance, if the sales-data software shows that somebody rang up too many coupons on one order, the StopLift system can analyze video from the exact moment this happened.



Big Y is still analyzing the results. So far, Mr. Gaudette says, he has spotted some sweethearting incidents, but he has seen far more cashier errors, such as giving up on hard-to-scan items instead of calling the manager for help.

Pricing for the technology is done on a case-by-case basis, says StopLift's Mr. Kundu. He says that for a typical medium-volume store, monthly subscriptions currently run about \$2,000.

Of course, buying these systems isn't the only option available for small stores. Experts suggest that stores could hire fewer part-timers -- who have less attachment to the business and are more inclined to steal -- and conduct more-rigorous pre-employment screenings to weed out potential thieves.

Employers must also hammer home a code of conduct, experts advise. For instance, give new hires talks on integrity and loss prevention and offer anonymous hotlines where employees can notify managers about fellow workers who may be stealing.

The bottom line is that employees must recognize they have a part to play in stopping theft, says Joseph LaRocca, vice president of loss prevention for the National Retail Federation. "Loss prevention is really everybody's responsibility," he says.

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