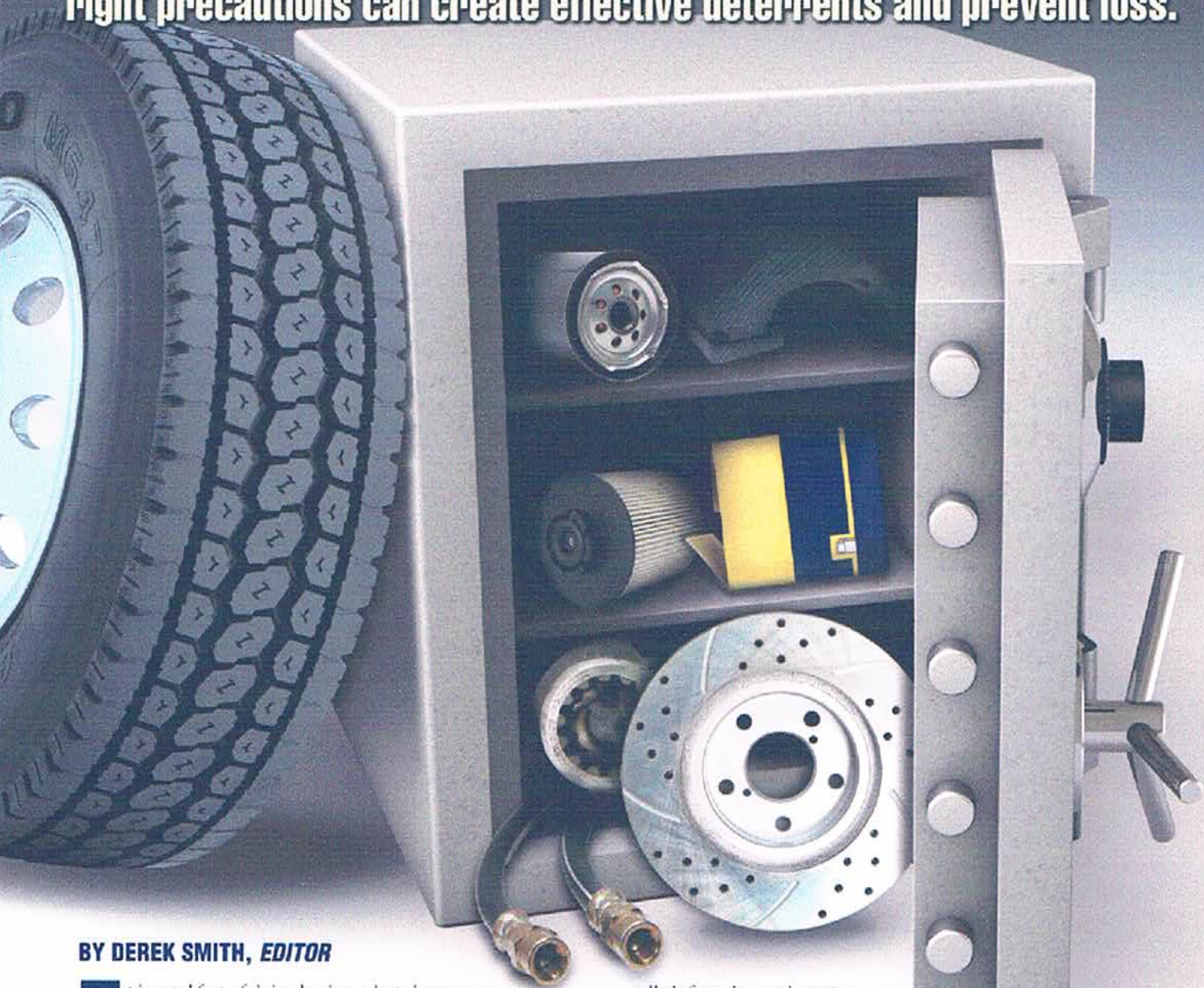


SAFE & SECURE

For distributors, theft is a reality of doing business, but taking the right precautions can create effective deterrents and prevent loss.



BY DEREK SMITH, *EDITOR*

It is a sad fact of doing business, but chances are someone has stolen from your company. It may have been an isolated instance, it may be widespread and ongoing, but statistically, it has happened.

The cost can be steep, and in instances of white-collar crimes such as embezzlement, devastating. The way you protect yourself from loss and deter theft from happening can be essential to remaining profitable, if not staying in business altogether.

In the parts distribution business, the main threat of theft typi-

cally is from internal sources, either one or more employees committing the crime or working with an outside source to facilitate a crime. Distributors have fallen victim to both white and blue collar theft. Some have been embezzled for tens of thousands of dollars or more, others are just a few seals or bearings short at the end of the month.

The incidences range from sophisticated, well-planned thefts of high dollar items, to an employee slipping out with a part hidden

on them for the thrill of it, to a technician who breaks a part during installation and takes a replacement to cover up the accident.

Or it may not be a physical loss at all. It may be someone in accounting paying personal bills from the company till, a trusted CFO skimming profits or someone doing business with a vendor because it benefits him personally rather than the company.

If all of that sounds like paranoia, experts say it is more common than you think.

Most every company, especially retail businesses, account for inventory shrinkage as part of their normal operations. The amount of product a business will lose through theft usually is built right into the bottom line.

"It is quite broad and pervasive," says Lee Schwartz, principal of the Schwartz Profitability Group, a Los Angeles-based management consulting practice. "You have two different situations happening. You have the people in the warehouse who are one area of concern, and you also have the people up in the front offices and what they do is different, but it still ends up being theft. Sometimes it's the most trusted people in the organization who are the most inclined to be involved because of that trust."

Security and retail experts refer to the 10-80-10 rule.

"The 10-80-10 rule basically says that 10 percent of your employees will never steal from you due to religious conviction, moral character, that sort of thing," says Daryl Allegree, risk engineering regional manager for Zurich North America Commercial. "Ten percent of your employees always are going to steal from you, for the same exact reasons, I guess. And there's the 80 percent in the middle who will steal from you given the right opportunity, motivation or justification."

One thing all theft has in common is it takes place because it can.

There are four main areas in which distributors can improve their chances of pre-

venting theft: technology, warehouse layout, hiring procedures and management practices.

While none of these are foolproof, security experts say business owners should pay attention to each area to ensure they create deterrents to theft and the proper recourse should it occur. "All four of these areas have to be working in unison to prevent loss," says Patty Kotze, president of Diversified Risk Management Inc., a private investigation firm.

SECURITY TECHNOLOGIES

Not a great deal has changed in the basic ways theft is deterred or investigated. You can monitor personnel and procedures and you can control access to things of value.

For high-value products, keep them in a more secure location, such as a separate caged area that can only be accessed by authorized employees. The cage can be secured with a simple lock and key, or through more high-tech means such as a scanner that reads barcodes on an employee's ID badge or a coded keypad. The advantage of these more high-tech systems is they typically keep a log of who accesses the secure point and when, information that can be valuable when investigating a loss.

"You might have some high-dollar items that are relatively moderate movers, so they are picked with reasonable or even high regularity, and we would put those in something like vertical or horizontal carousels, and those might even be in a security cage," says Chris Doyle, director of Marketing and Business Development for Cisco-Eagle, a Dallas-based materials and distribution logistics consulting company.

Doyle also recommends a technological approach to the fulfillment process that can help prevent loss. As products are picked and scanned, they are logged and the weight and size associated with the items are recorded. Before reaching the dock to ship, the order's size and weight is verified.

"The order goes by a product verification station where the tote has an ID on

CRIMINAL MOTIVATION AND METHODS

An act of stealing can range from subtle manipulation of the books to a brazen and sophisticated heist of merchandise.

The crimes vary as widely as the motivation behind the person or persons committing them.

"Sometimes the motivation is to help themselves pay off bills," says Daryl Allegree, risk engineering regional manager for Zurich North America Commercial. "At first they intend to pay it back, but later it just keeps snowballing. It's kind of like gambling, you can get in deeper and deeper and then it's hard to pay it back, it's hard to get back on top."

Other criminals aren't stealing to help out on monthly bills, they make a career out of it. In either scenario, though, the economic conditions at large play a role. Crime is more prevalent during economic downturns.

"People do get more desperate. I think the economy has a lot to do with it," says Allegree. "That's where your external theft is going to increase as well."

While many examples of actual theft from distributors and dealers were communicated during the researching of this article, following are a few anecdotes that help show the variety and scope. No attribution is provided with these examples as most sources requested anonymity.

- Entire loaded trailers will be stolen. Thieves will pull in, hook up to a trailer and drive off.
- A trucking/automotive supplier suffered about a half-million-dollar loss. It was discovered an employee set up a virtual storefront on eBay or Craigslist and was selling the company's property. Regarding selling stolen goods via the Internet, "You'd be surprised. They even take pictures of it, complete with identifying information about the company, and they'll put the pictures on the virtual store and create a whole warehouse online."
- A dealership had the aluminum wheels stolen off 10 trucks parked in its lot. Thieves came in, jacked up the vehicles and stole the wheels and tires, leaving the jack stands behind.
- An employee selected and did business with a certain vendor because the employee received free merchandise for doing so. When it was discovered, the employee was fired but demanded to keep the merchandise obtained through the vendor relationship.
- The driver and passenger doors on a Class 4 delivery truck went missing. "Somebody needed doors, I guess." □

it and we've associated with that ID what should be in that container," says Doyle. "At the product verification station it looks at the weight of that container and the size of the container, and it's looked up in a table and calculates that with packing material it

should weigh this much and be this big, and if it's not, it will flag it.

"If something took place between the pick point to the ship point in that distribution center, then this helps us pick up those variations."

Another area to consider fencing is the shipping and receiving doors. Richard Beatty, Cisco-Eagle's market manager, says folding-style security fences over bay doors allows light in and air to circulate while still keeping the area secure.

Even trash and salvage areas should be made secure through fencing. Employees may put products in with the trash so they can be fished out of dumpsters after hours.

Scrap areas also are prone to theft as thieves will seek to turn the material over for salvage before you have a chance to do so. Lyle Bass, owner of Power Train Service, says dumpster divers are an ongoing problem, but it was even greater when scrap prices were very high last year.

"Now we have all of our scrap bins fenced in with barbed wire," says Bass. "Where we've had a continual problem we have added a video camera." Additionally, he says, the more valuable scrap, such as aluminum and brass, are locked in the facility until it is ready for pickup.

Facilities also should be equipped with monitored security systems, preferably with cellular back up in case the telephone line is cut.

Security cameras, both outside the facility and inside the warehouse, are a fairly common technology used in distribution operations. Sometimes the cameras are functional, other times they are dummy cameras that employees think are functional but act as a deterrent only.

"[Video surveillance] is the best technology right now," says Allegree. "Having those in the warehouse, entrances and exits, and areas where there are high value parts is a good idea."

Functional video surveillance systems have a wide range of features and corresponding price tags. Some things to consider is the storage capacity needed for the video, how will the footage be monitored and can it be accessed remotely. You're not going to assign or hire an employee to sit and watch video surveillance all day, but

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stored video can be recalled later for viewing if you know an approximate timeframe during which the crime occurred.

Camera placement is also very important.

"There's a balance between the cost and the coverage, and that's why you layout the warehouse such that the items that are most likely to be lifted or have the highest value are in a more secure area," says Kotze.

WAREHOUSE LAYOUT

Most distributors take great care to arrange racking and place inventory to make order fulfillment as efficient as possible and optimize overall logistics. Security also should be a factor.

High-value, easily concealed products should be stored in areas that are the most visible. They should be in clear view of other employees and the warehouse manager.

"If you have high-value items in areas that have high racking where you can't see what is going on and there are no security cameras around, that's just a recipe for problems," Schwartz says. "There's a lot that can be done in the way the warehouse is laid out."

Distributors also need to be aware of where valuable inventory is stored. "You don't want to put high-dollar, liquid parts near your shipping and receiving doors, near your bathrooms or near your lunchroom," says Beatty.

It also is a recommended practice to have a single point of entry and exit for employees. Bass says all warehouse employees come and go through a single door, as that limits the points where product can escape.

HIRING PROCEDURES

Of course, the best way to prevent an employee from stealing is to not have hired that employee in the first place. However, it is pretty difficult for a company to know and recruit from that 10 percent who will never steal.

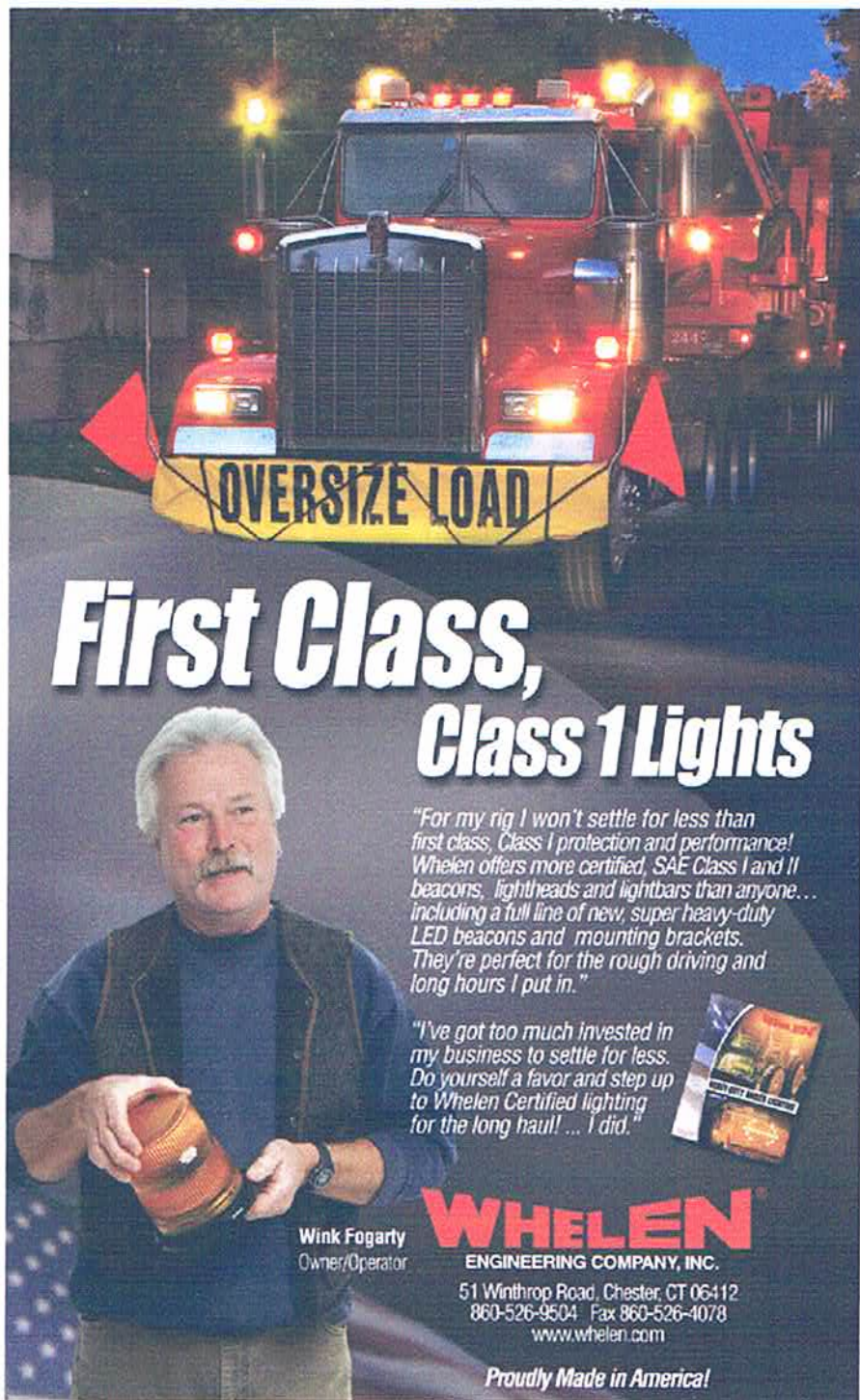
More practical is to perform due diligence throughout the hiring process, and

then to have the right policies in place after someone is hired.

"During the hiring process, do background investigations on employees, especially anybody who handles money," says Allegree. "Even for the warehouse employ-

ees, you should do some sort of criminal background check. It's just a good idea."

Additionally, most experts recommend pre-employment drug screening and credit checks, particularly for employees who will be handling company finances.



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Kotze recommends using outside companies that specialize in screening potential employees. Laws differ from state to state regarding what background information is available about a person and how that information can be used when making a

hiring decision. She also recommends using a company that performs background checks by physically going to the appropriate court-houses and checking records, rather than companies that use online databases that may be six months behind in their records.

Bass says his company uses an outside agency to run criminal, drug and credit checks. Additionally, they do drug testing on an employee if he or she is involved in a workplace accident. Why? It could indicate a propensity for stealing. "If someone is using an illegal substance, depending on what it is, it may be a habit they need to finance," he says.

Bass says they also are very deliberate when interviewing potential employees. They run through ethical scenarios and hypotheticals, they watch body movement and they look for eye contact.

"It's not foolproof, it's just something we try," he says. "Also, what we have done for the past four or five years is go through a temporary agency so when we hire them, we hire them through the agency, even if we found that employee ourselves. So the first 90 days are on their [the agency's] payroll and we can spot any problems in that time."

And once the employees are hired, treating them well is an effective deterrent. An employee who feels appreciated, respected and fairly compensated will be less inclined to victimize his employer.

"But there's always temptation," says Kotze. "I hate to say, but there's always temptation, there's always theft of opportunity, and it's really up to the individual what's going to drive them to the point they're going to steal. But if they're happy and if there's good communication in the organization, if management is doing their job and they're getting along and things are being done according to policy, the happier employee is not only less likely to steal, but also to resign and go work for a competitor."

Taking a healthy, professional interest in employee's lives outside work is, in general, a good way to show appreciation and build loyalty between employees and managers. It also plays a part in the security strategy by providing an indication of who may be more likely to commit theft.

"One also needs to consider the outside

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forces that are pulling on employees," says Schwartz. "Understand what their home situation is, what their financial situation is. Otherwise, if you have somebody working for you who is relying on income from a spouse and that disappears, that may change their approach to things because now they're struggling to make ends meet."

"There's all these external influences that at least need to be considered when determining who might be the person involved in the thefts."

MANAGEMENT PRACTICES

Solid inventory management practices make good business sense in general, and they also play an essential role in curbing theft.

Inventory counts should be current and ongoing. Having a random inventory audit once or twice a year that employees do not know of in advance is another recommended theft prevention policy.

Bass says they do daily cycle counts at all nine of Power Train Service's facilities. Cycle counting is doing an inventory count of a subset of the entire inventory on an ongoing basis.

"Everyone knows we cycle count and when we come up short on something, we make it known," says Bass. "We investigate the

reason for the shortage; we don't just correct the books."

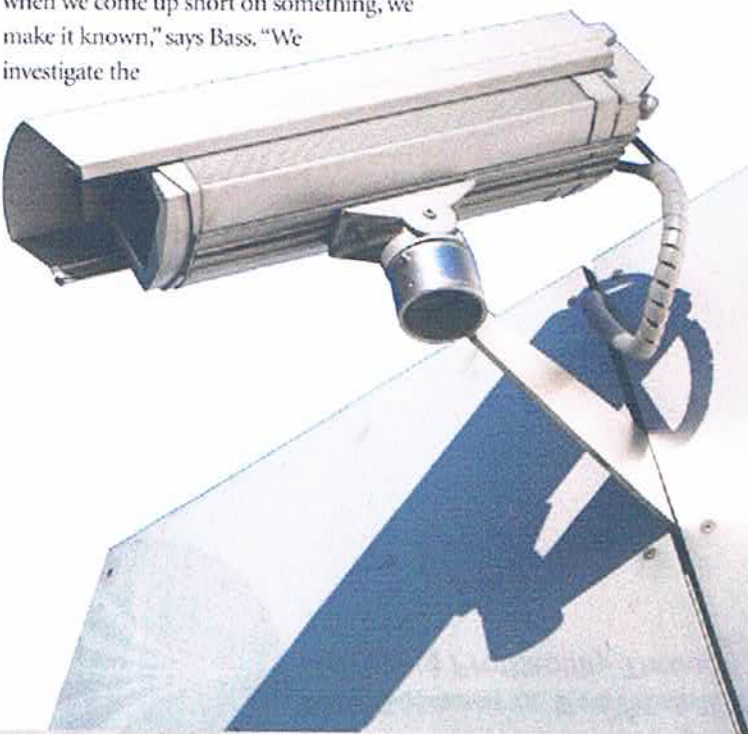
They also make it known throughout the company that they are aware of a problem, whether it's a discrepancy with inventory or actual fraud is discovered.

"We try and make an example out of it," says Bass. "We bring in the police and everything else. We have to indicate that we aren't taking this lightly. Any theft, no matter what it is, we make sure that our people know. Everyone has to understand that their job is in jeopardy if we go out of business or people continue to steal from us. It's part of our culture."

Having the proper checks and balances are essential to deter and catch theft. However, as with most small businesses, distributors often take too much for granted when it comes to security and employee oversight.

"Small businesses are more prone to embezzlement and internal theft than large businesses," says Allegree.

One of the reasons, he says, is small businesses have fewer checks and balances in place. Individual employees have more responsibility and authority, where it is spread



SECURING THE OUTSIDE

Protecting the business on the outside helps keep it secure on the inside, as well as deter theft and vandalism of customer and vendor vehicles or other property. Following are security tips from Zurich North America's "Economic Downturn Fuels Thefts in Aftermarket." For this and other security information, visit Zurich's loss prevention library at <https://secure.zurichna.com/zdu>.

VEHICLE SECURITY

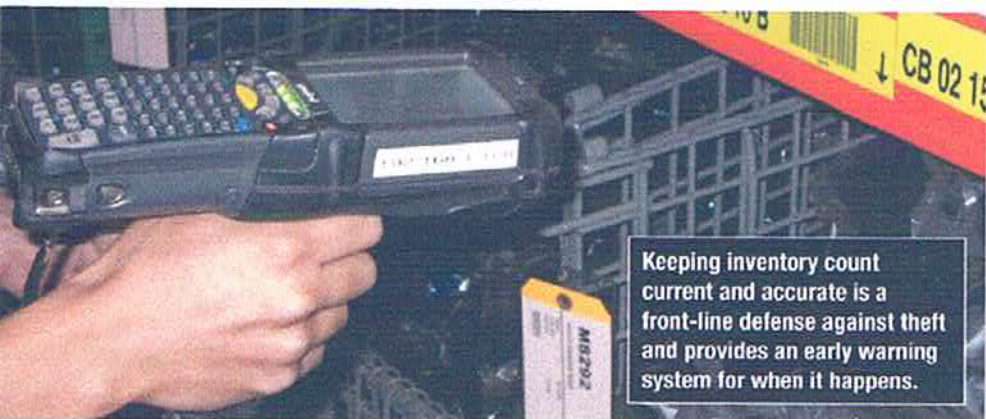
- When possible, avoid keeping vehicles overnight.
- As space permits, park all customer vehicles inside the service area.
- If space is scarce, park "target" vehicles inside or in the most secure area available.
- At night, secure all vehicle keys by locking them in a safe, file cabinet or in a technician's toolbox.
- If you provide a "night owl" key drop box, ensure that keys/envelopes cannot be fished out of the slot or pulled under the door.
- Park vehicles closely together and bumper to bumper.
- Remove keys from all unattended vehicles.
- It is a good idea to post signs reminding customers that your business will not be held responsible for personal articles left inside their vehicles.

LOT SECURITY

- Install 6-foot, chain-link fence topped by three strands of barbed wire to enclose property.
- Gates should be reinforced steel equipped with heavy-duty padlocks.
- Install 3- to 6-inch diameter posts 4 to 10 feet apart with chain or cable between posts.
- If aesthetics are a concern, use landscaping and natural terrain – ditches and embankments – to protect your business.
- During daylight hours, close all but one entrance to channel traffic through a single point.
- Consider installing intrusion detection and alarm systems on fences and gates.
- Exterior lighting should illuminate all areas, leaving no shadows or dark areas.
- Contract with a security service to patrol the facilities during non-working hours.
- Ask the local police department to increase patrols of the premises.
- Consider installing closed circuit surveillance cameras.
- Instruct employees to stop and question any person who enters restricted areas.

BUILDING SECURITY

- Illuminate all exterior areas of the building.
- Equip exterior doors with double-cylinder deadbolt locks.
- Ensure that pins on exterior doors are welded or otherwise secured to prevent removal.
- Install heavy metal doors and door frames.
- Protect exterior windows with wire or "burglar bars."
- Protect skylights and other roof openings against forcible entry.
- Post signs stating that the property is protected by burglar alarms, surveillance cameras, etc.
- Consider installation of burglar alarm systems, monitored by a central station monitoring service, in all buildings.
- Use Underwriters Laboratories approved central station monitoring services.
- Use cellular back-up for all burglar alarm systems. □



Keeping inventory count current and accurate is a front-line defense against theft and provides an early warning system for when it happens.

across more employees or a department at larger companies.

For instance, "you shouldn't have the same person in the accounting department who is receiving the money and also distributing the money," says Schwartz. "So you have an accounts payable department and you have an accounts receivable department and the two should be functioning independently and not be controlled by the same person because that's where you lose your checks and balances."

Consulting a labor attorney to review and implement theft prevention policies is another recommended practice.

"We want to make sure all of our clients

are working with a labor attorney and have what we refer to as an employee search policy so that they can search their backpacks or ask to search vehicles to see if there is reasonable cause, whether in fact they do have product on them or on company property in their vehicle," says Kotze.

Policies also should be in place for when theft is discovered.

"If it's something that's happening at that moment, call the police," says Kotze. "But if it came in as a tip or it's in the numbers, depending on the company policy, I would contact a labor attorney and get his recommendation on how to proceed with an investigation. If the person lies and says

he didn't do it, then what are you going to do? You need to have a plan in place on how you are going to reply to that."

Adds Schwartz, "Plus, you don't know the extent of it all. You might just have discovered the tip of the iceberg."

The first and most effective step in theft prevention is acknowledging that it can, and probably has, happened to your business.

"Management has to have a mindset that it is possible for this to happen," Schwartz advises. "I've been around where you start to see the first signs of it but because you believe in your employees so much, you'd like to believe it's not happening so you let it go and let it slip by. Then another episode comes up, and another episode comes up, and all of a sudden a lot has gone out the door when the first signs were there but management didn't want to react to it because they didn't want to believe that their employees could be stealing from them." ■

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