[special technology section]

Cash Commitments

Retailers continue to sweat mishandled money, theft and counterfeit bills

By Erik J. Martin

They say a fool and his money are soon parted. Yet even the smartest of convenience-store owners can suffer significant cash loss without the right systems, procedures and precautions in place to guard against continual threats such as mishandled money, theft, counterfeiting and lack of cash forecasting information.

These and other cash-management challenges remain among the top worries shared by c-store retailers, evident in the recent results of *CSP*'s third-annual cash management study, which garnered responses from 191 convenience retail operators.

"Like any other part of the convenience-store business, [proper cash management] takes some effort," says Dan O'Neill, president/CEO of North Platte, Neb.-based Kwik Stop Convenience Stores, which runs 21 locations. "It all begins with cash handling—one of the basics. This is not a very romantic subject but one that has to be controlled."

Ask Glenn Mason, vice president of strategic partners for Tidel Engineering, a Carrollton, Texas-based cash-management solutions provider, and he'll tell you that when the top cash problems aren't well managed, exposure can increase rapidly.

"[Having proper procedures in place] typically keeps honest people honest," he says. "Dishonest people will try to find a way around them, so the more barriers you put up and the closer you manage them, the more likely they are to comply or move on."

For the third consecutive year, Posen, Ill.-based Corporate Safe Specialists/FireKing Security Group commissioned the *CSP* 2013 cash-management study, which was conducted in February. A majority of respondents were single-store operators (51%), followed by those with two to nine stores (23%); 12% operated 10 to 49 outlets, and 14% ran 50 or more locations. (Respondents to the 2013 survey may differ from those who participated in the past two surveys.)

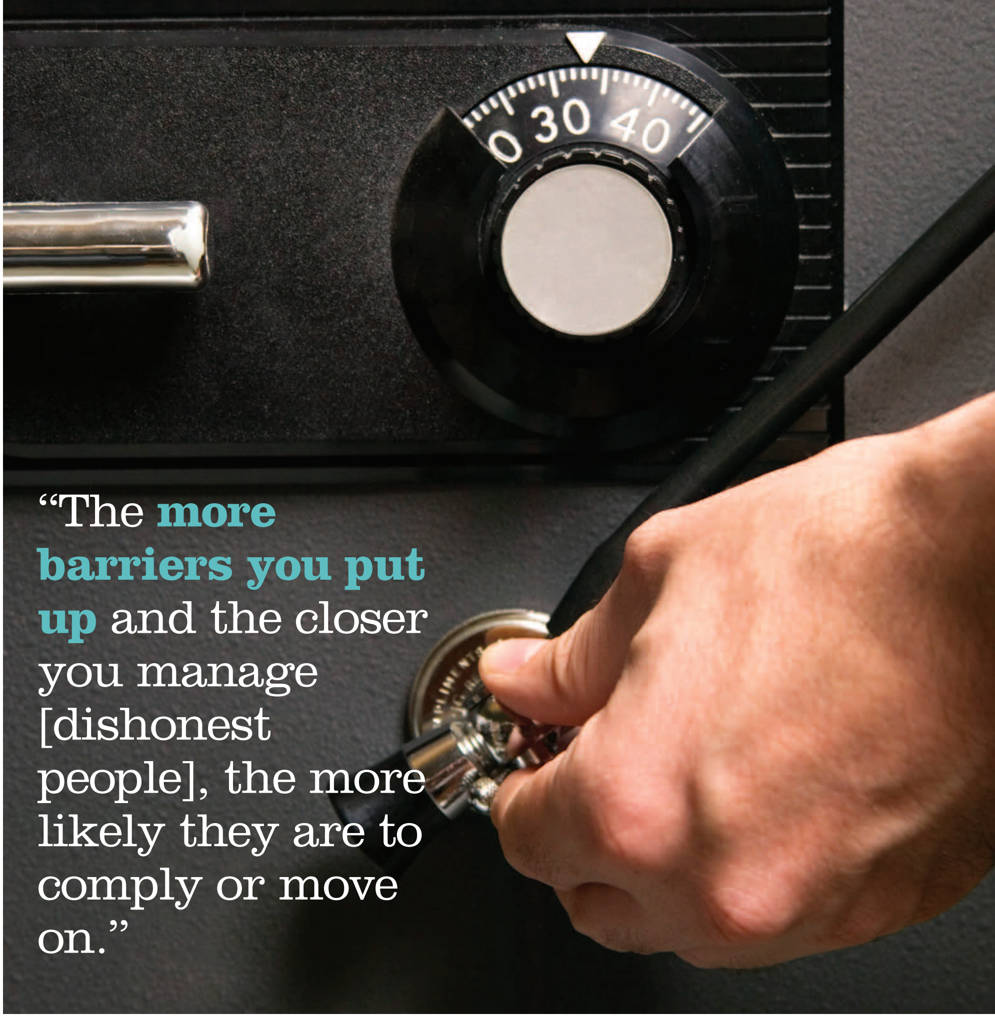
Results of this year's study reveal several key findings:

► Operators can't shake shrinkage and cash-handling issues. For the third year straight, the two most serious cash handling/management problems facing c-stores are inefficient cash handling (e.g., counting, recounting, reconciling discrepancies, making bank deposits) , at 62%; and cash shrinkage from internal theft (57%). However, the good news is that both have registered 7-percentage-point decreases from 2011 to 2013.

► Non-employee theft is the No. 3 most serious concern. More than one in four ranked robberies/burglaries third on the list, up from No. 4 in 2012.

► Fears of funny money may be shrinking. Counterfeit currency was ranked by 26% as the fourth most serious issue, down from 31% in 2012 and 30% in 2011.

► Some niggling worries have spiked



"The **more barriers you put up** and the closer you manage [dishonest people], the more likely they are to comply or move on."

in seriousness. The three areas that have seen the highest increase as among the most serious cash handling/management problems over the past three years are lack of information for cash forecasting (25%, up 9 points since 2011); inability to track cash flow between POS and safe (21%, up 8 points since 2011); and safe not linked to bank allowing for provisional credit (12%, up 7 points since 2011).

► One-store operators feel the heat. More single-unit operators rank inefficient cash handling as a more serious issue (62%, up from 58% in the past two years) than multi-unit operators (59%, down 17 points over the past two years). Single-store operators also voted cash forecasting (21%) as a more serious cash management issue than their multi-store counterparts (11%).

► No change in the top tools. The top four cash-management devices/tools/processes that c-store have in place remain, for the third consecutive year: low cash in registers (86%); secure business-rated safes (81%); manual drop safes (75%); and separate coin/bill storage and access (62%).

Perennial Problems

Handling money inefficiently and cash shrinkage continue to concern c-store owners in 2013, and for good reason: There are multiple touch points for cash in a store.

"Without really strong procedures and policies that are documented, trained and managed, and without holding people accountable for these issues, you end up with these two problems," says Jim Poteet, senior vice president of product strategy and innovation for Brink's Inc., Dallas. "And as soon as you have one—inefficient cash handling—that introduces the opportunity for cash shrinkage. They both go hand in hand."

Jonathan Ketchum, senior vice president of retail for Dallas-based Alon Brands Retail, the largest U.S. licensee of 7-Eleven stores, says cash shrinkage is the top concern at his locations, where managers are responsible for bringing money to the bank and manually counting deposits.

"We've seen a rise in (internal) cash and deposit thefts in the past 12 months. They are especially prevalent on the weekend, when an employee can go to the bank and night-drop one deposit instead of two. That way, they are captured on tape at the bank and can claim that the bank 'lost' the other deposit," says Ketchum, whose stores collectively average five to six deposit losses per year, totaling $100,000 in deposit losses annually.

In many instances, the old way of doing things—such as counting cash by hand and having employees make bank runs—can be risky and outdated but are preferred over expensive alternatives.

"We estimate this takes one to two hours of non-productivity a day. However, we do not believe that the [return on investment] is justifiable to move to automation or armored car. We believe that there is no labor savings, as we are paying the store manager regardless," says Ketchum. "The cost of upgrades is higher than the annual loss." (His stores average approximately $10,000 in total cash losses per month, or $1.11 daily per store in 2013.)

To help curb cash-management inefficiencies and cash shrinkage, O'Neill's stores conduct random audits, issue warnings and, when necessary, fire employees.

Holdups and Break-Ins

External theft persists as a problematic matter for c-store operations, underscored by a rise in burglaries and/or robberies, making it the third most serious issue, up from fourth last year. Particularly worried about this are single-store operators, and more of them chose this as one of their most serious issues in 2013 than in 2012 (28% vs. 22%, respectively).

"In most parts of the country, the economy and the job market haven't recovered yet, so there's still a considerable amount of desperation out there," says Poteet. "This problem also speaks to the fact that single stores and smaller operations either have no alarm system whatsoever or are using an inexpensive alternative like a residential alarm system in a commercial environment, which doesn't really work."

Aside from a quality alarm system, robbery and burglary deterrents that work include window/door decals and signage indicating that the manager cannot open the safe and the store carries bills no greater than $20; video surveillance cameras with Web/smartphone viewing and recording capabilities; strobe lights; and panic alarm buttons.

Three-Headed Monster

The three areas that have seen the highest increase as among the most serious cash handling/management issues since 2011 are lack of information for cash forecasting; inability to track cash flow between POS and safe; and safe not linked to bank allowing for provisional credit.

The high negative ranking of No. 1 is curious to Bruce Kayal, vice president and co-head of sales for Garda Cash Logistics, Boca Raton, Fla.

"It surprises me that [c-stores] are not able to have a better handle on what the forecasting is going to look like," he says. "But because they may not be deploying any type of accounting system that helps them understand what their daily cash is, it makes sense. And that dovetails into the fact that they're not able to properly track it between the point of sale and the safe."

To that, POS integration can work effectively when the safe becomes an extension of the cash drawer, which can be reinforced as store policy, says John Rhoads, senior vice president of product and channel development for Corporate Safe Specialists/FireKing Security Group.

"Say my policy is I can never have more than $300 in the till drawer at any one time," says Rhoads. "I can create a system where, if I have more than $300, I can require staff to move some of that cash over to the safe and not allow me to take additional transactions until I've secured that money in the safe."

As for the provisional-credit problem, Mason says it's probably increasing in seriousness simply because knowledge of the capability is increasing and older safes may not be upgradeable to link to the lender providing provisional credit.

Business Intelligence Issues

This year's survey introduced a new question that asked operators about areas in which they plan to create or enhance cash-handling business intelligence capabilities over the next 12 months. Forty-one percent indicated proactive alerting of out-of-compliance cash-handling behavior; 15% selected trend analysis capabilities to prioritize business rule improvements; 12% chose expanded leverage of centralized information across operations, finance, LP and HR; 10% indicated cloud-based central repository of cash-handling information; and 48% don't intend to improve in any of these areas.

Most Serious Cash-Handling and Management Issues

	Total Responding	1 store	Two or More Stores
Inefficient cash handling (employee productivity loss—counting, recounting, reconciling discrepancies, making bank deposits)	62%	65%	59%
Cash shrinkage (internal theft)	57%	52%	63%
Robberies and/or burglaries	27%	28%	26%
Counterfeit currency	26%	23%	29%
Lack of information for cash forecasting	25%	27%	23%
Inability to track cash flow between POS and safe	21%	22%	20%
Bank deposit discrepancies (fees, time and effort resolving)	20%	18%	22%
Cash exposure (cash not held in a business rated safe	16%	21%	11%
Inability to transfer data between safe and back-office systems	14%	14%	13%
Safe not linked to bank allowing for provisional credit	12%	7%	17%
Lack of detailed safe transaction data to resolve cash discrepancies	9%	9%	9%

Source: CSP, Corporate Safe Specialists/FireKing Security Group 2013 study on cash management

Even though nearly half the respondents are not considering improvements, Rhoads remains encouraged that more than four of 10 retailers said they aimed to focus on proactive alerting of out-of-compliance cash-handling behavior.

"Proactive alerting enables me to get an alert that says, for example, 'Nobody at store No. 1433 has done a cash drop in the safe in four hours," says Rhoads. "It gives me the ability as an operator to pick up the phone, call that store and ask if there's a problem, thus ensuring operational compliance. And if somebody with bad intentions is trying to test the limits of the system, this gives them the opportunity to know that their activities are being monitored."

Glass Half Full

Only 49% of survey respondents use networked cash management, consistent with the 2012 and 2011 studies (47% and 49%, respectively). Among those who do, most employ an Ethernet connection (63%) or wireless connection (26%), with dial-up being the least used (11%).

Cash-Management Devices, Tools, Processes/Currently Have in Place

Low cash in registers	86%
Secure business-rated safe	81%
Drop safes: manual	75%
Separate coin/bill storage and access	62%
Time delays—time lockouts	53%
Detailed transaction reporting of deposits, drops, door openings and pickups	47%
Remote visibility/monitoring of safe activity	42%
Remote visibility/monitoring of cash positions	40%
Central repository of cash handling information	33%
Automated alerts—door open, safe withdrawals	29%
Consolidated cash reporting across multiple locations	24%
Smart safes: automated bill acceptors	22%
Provisional credit—recognize cash in safe as deposit	18%
POS integrated with safes	16%
Automated coin ordering	11%

Cash-Handling Business Intelligence Area Improvements/Plan to Improve in Next 12 Months

	(One Store vs. Two or More Stores)
Proactive alerting of out-of-compliance cash handling behavior	34% vs. 49%
Trend analysis capabilities to prioritize business rule improvements	13% vs. 17%
Expanded leverage of centralized information across operations, finance, LP and HR	4% vs. 21%
Cloud-based central repository of cash handling information	6% vs. 15%
Do not plan to focus on improvement in any of these areas	57% vs. 37%

Source: CSP, Corporate Safe Specialists/FireKing Security Group 2013 study on cash management

Of those who don't have networked cash management, three out of four have no plans to add it in the next 12 months.

Kayal believes that networked cash management simply isn't on many operators' radar. "They're comfortable with the operating model they have today and haven't experienced a need to make an investment upgrade," he says.

Also, unlike multi-store operators, single-store retailers might simply have a cash register and lack the IT infrastructure to network any of their equipment—including smart safes, if they have them—to a bank or POS system, says Poteet.

Top Cash-Management Tools

Convenience retailers continue to name as their top four cash management devices/tools/processes in place low cash in registers, secure business rated safes, manual drop safes, and separate coin/bill storage and access.

"I'm not surprised by these rankings," Kayal says. "Even larger stores that aren't deploying any type of cash-management systems are probably deploying at least these four mechanisms as ways to increase the efficiencies of their operations. These are four processes you can put in place that reduce and mitigate your risks as an operator."

Case in point: O'Neill of Kwik Stop says his stores use drop safes and don't allow more than $200 in any register at any time. Ketchum's Alon stores also abide by a low-cash policy, and many are equipped with state-of-the-art timed access cash controller/dispensing safes.

Chains vs. Single Stores

The survey results reveal several key differences between multi- and single-store operators. For instance, 59% of multi-site operators vs. 65% of one-store businesses list inefficient cash handling as a more serious issue. Meanwhile, 11% of chains compared to 21% of single-store owners cited cash exposure (cash not held in a business-rated safe) as a more serious cash management issue. And safe not linked to bank allowing for provisional credit is a more serious concern among multi-store operators (17%) than single sites (7%).

"Single-store operators wear so many hats—including treasurer—and they're having to manage 30 different things, including inventory, cash relationships and banking," says Rhoads of Corporate Safe. "Large operators have a treasurer, loss-prevention department and greater structure and hierarchy. They have somebody whose defined job it is to manage risk-mitigation processes."

Mason of Tidel agrees, pointing out that multi-store operations can leverage costs and benefits of cash-management resources across their chain. In a single-store environment, the owner typically has his or her own hands on the cash and is intimately

Bogus Bucks Wane

Eighty-five percent of respondents to the survey indicated that concerns in the past year over counterfeit bills have increased or stayed the same, although the issue dropped from the No. 4 to No. 3 most serious issue on the list since 2012. Many credit that drop to improved technology being used by operators, including MEI validators used in smart safes and counterfeit detection pens with UV lights.

"There's also so much more sophistication in the cash supply chain these days, and the counterfeit technology built within the notes themselves is allowing us to catch [counterfeit bills]," says Jim Poteet, senior vice president of product strategy and innovation for Brink's Inc., Dallas. "Single-store operators in particular are seeing less of them."

Interestingly, in 2013, more multi-unit operators (29%) consider counterfeit cash as a serious cash-management issue than single-store operators (23%) compared to last year, when more single-store retailers (35%) than multi-store operators (26%) viewed it as a more serious issue.

familiar with the procedures in place.

Paths to Improvement

Despite many advances in the industry, the same cash-handling and management concerns persist. Their reasons are multiple and complex, experts say.

"The reality is that as long as there's cash in circulation, there's going to be theft on some level. And with non-theft issues, until we completely remove people from the process, there's always going to be failure points, even where processes, procedures and policies exist," Poteet says. "The best we can do ... is decrease the level of opportunities [for access to cash] that exist and increase the level of visibility and accountability to manage that."

Rhoads says the threat of cash loss will always be endemic to the convenience industry. Consequently, even when you believe you've reached a loss-prevention plateau, carefully review your policies and procedures to identify weak points.

Steve Bozeman, vice president of retail product strategy for Brink's Inc., says the industry has made progress in the form of effective technologies and processes introduced to help curb cash management/handling liabilities, but with a caveat.

"Look at utilizing smart safes with POS integration and real-time reporting, which is an incredible tool to minimize shrinkage because it provides greater visibility," says Bozeman. "But the penetration of solutions to these problems into the marketplace hasn't reached a tipping point where huge amounts of operators are moving toward these solutions."

To ensure wider adoption of more effective solutions across the industry, it's also important that operators feel compelled to take action, which requires greater education about and awareness of prevailing cash-management and handling problems, says Poteet.

"And there are some general best practices that even small operators can avail themselves of to improve in these areas," Poteet says. "Will they eliminate every issue? No, but you don't necessarily need to spend a lot of money to improve." ■