It's 10 p.m. Do You Know Where Your Package Is?

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If you grew up in the 1970s, you may remember this popular public-service announcement for parents that asked, "It's 10 p.m. Do you know where your child is?" The statement seems almost nonsensical, but shared an important message for parents to ensure that they always make a conscious effort to know the whereabouts of their children.

Similarly, how is it that loss prevention practitioners can so often be ignorant as to the whereabouts of online consumer orders as they move through the supply chain?

The evolution of e-commerce in retail has been accelerating exponentially over the last five years. With the ability for consumers to order anything from anywhere using a smartphone, Americans are now spending over $200 billion annually online. This is challenging retailers to keep up with the demand, and without their own transportation fleets, they must rely on third-party entities to get merchandise to their customers.

What does that mean for retail loss prevention? If you don't have a clear understanding of how a package moves through the supply chain, your ability to investigate in-transit losses will be virtually impossible.

A General Lack of Involvement

In today's environment I have found that most retail loss prevention professionals have a very limited knowledge of their supply chain. In most companies this is something that is typically managed by the transportation or operations department. Contracts are negotiated with multiple freight carriers, and loss prevention rarely has any involvement with those negotiations or contract review. Furthermore, if freight is lost or stolen, claims are often filed unbeknown to LP and, in most instances, settled without the benefit of an investigation being conducted at all.

This way of doing business is standard. When you consider the immensity of the global supply chain, it becomes very clear why it's so difficult to obtain actual loss rates for freight that has been stolen in-transit. This standard reflects the notion that whoever handles the freight last is ultimately responsible for paying a loss claim. If multiple carriers are involved, those claims will continue to be filed and paid until ultimately a company at the end of the transportation line will be stuck incurring the loss. This basically equates to kicking the can down the road, and retailers are not typically concerned about the problem as long as they are made whole on the loss.

Eroding the Customer Experience

But what is the real cost here? The customer never received their original order, forcing them to contact the retailer and complain. The retailer then has to initiate another order in the system, which results in additional labor costs when the merchandise has to be re-picked and shipped once again. And more importantly, the customer experience has been eroded because they did not receive their order in the first place.

We have all ordered products online and know exactly what it feels like not to receive the order on time. We understand the frustration that mounts when we have to contact the retailer and complain. Now imagine if that customer's order was stolen, perhaps with similar thefts occurring with other customer orders in the same geographical area. If all your company is doing is filing a claim for the lost packages and not involving loss prevention to investigate the matter, how are the thefts going to be stopped? They won't ... and therein lies the problem. This is why it is so crucial that retail loss prevention becomes an active participant in the supply chain aspect of the business.

The Transportation Process

The first step is to gain an understanding of the process. As mentioned earlier the majority of retailers that do business online do not have their own transportation infrastructure. This means they have to contract out transportation companies to move freight. One of the most costly services in business is transportation. Therefore, most companies will look for the most cost-effective way to move that box from the warehouse to the client.

This cost will vary greatly depending on several factors, which would include the time it takes to deliver the package, the distance the package has to travel, and the method of delivery. Typically, the more convenient the process is for the customer, the higher the transportation cost will be for the retailer. As a result most companies will look for a balanced approach that will satisfy both the customer expectation and the costs associated with transporting the order.

This is where the choice of a transportation provider will come into play. Some providers have a large, global network with their own state-of-the-art warehouses and a comprehensive global fleet comprised of both trucks and airplanes. Furthermore, these companies often have comprehensive loss prevention programs that include both personnel who can investigate loss and physical security that meets industry standards. Because this method can accommodate the convenience of all shipping requirements, costs are normally higher.

In addition the ability to negotiate claim payment if the package is lost or stolen can also become more difficult. In essence you're placing a lot of trust that the package will transit through the network without a problem. If it is lost or stolen, there is little recourse for the retailer because such contracts are often worded in such a manner that payment will not be pursued on claims unless a predetermined loss percentage threshold is met.

Because of the claim payment restrictions, the retailer may then consider contracting with a third-party (3PL) transportation provider as an alternative method to collect the merchandise from the warehouse, consolidate with other freight throughout the client's network, and complete the delivery process. These carriers are generally regionalized using an independent contractor model for their driver base. This means that the drivers are not the transportation company's own employees, and in turn, they contract the route out to a provider that works for them. That route owner, or "Independent

Contract," then may have several contracted drivers working for them, covering multiple routes within the 3PL.

Taking it even a step further, the company might subcontract all the routes to a fourth-party transportation company with a similar model, totally unbeknown to the retailer. These companies are designed to move freight at the parcel level and specialize in last-mile delivery to the customer. The problem these carriers face is their operations rarely have any loss prevention personnel on the payroll. They lack basic security standards, such as CCTV, burglar alarm systems, key control, or criminal background checks completed on their contractors. They also lack basic inventory-control practices to monitor the retailer's freight within their network or when it's turned over to the driver.

This is a recipe for disaster when it comes to theft, and you will often find high-percentage losses when dealing with these carriers. While they are very willing to pay loss claims to retailers, they rarely have methods to determine the root-cause of the losses. Furthermore, the loss issue is only resolved after thousands of dollars of losses have occurred, and the carrier is threatened with losing the retailers' business. This is why it is so crucial for retail loss prevention to be involved in the transportation process from the beginning.

Building a Proactive Plan

Following are some key steps that should be taken to build a proactive plan.

- Have a strong relationship with your transportation department and be part of the carrier approval process.
- Develop a comprehensive security protocol that the carriers must adhere to and ensure that protocol is added in the contract with the transportation provider.
- Visit some of the locations and conduct an audit of their operations. This should include evaluating their security and, more importantly, the operational controls in handling your freight.
- Develop loss analytics that can identify loss trends before you start receiving customer complaints about loss. These analytics should identify trends by carrier and driver route.
- Be proactive in meeting with the carrier's facility management so they understand your expectations, loss trending analytics, and method of investigation. You will be surprised how receptive they will be for your help to identify problems before they get out of hand.
- While visiting provider locations, see what other clients' freight they are moving. If losses are occurring with your freight, they are probably occurring with other retailers' freight as well. This allows a perfect opportunity to work a joint investigation with other loss prevention peers.

The supply chain can be a very confusing entity and one that many retail loss prevention professionals avoid. But the more we learn, the easier the process is to manage. Rather than assuming that a package is safe once it leaves the confines of your four walls, get engaged in the process. You may be surprised to find that with a little effort and some planning, your ability to identify these losses and work with the carriers that handle your freight is a relatively easy process.


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