CASHING IN ON SECURITY

FINDING NEW SOLUTIONS TO AN OLD PROBLEM

By Garett Seivold, Contributing Writer

It is possible for cash to be an afterthought. Shoppers are using it less, and it doesn't command attention like new mobile payment methods do. It's not disappearing, but it's not changing either. It's stable and consistent, but maybe a bit anachronistic. Threats to cash, too, aren't much different than they've been in the past. And while it may not seem to follow, that very constancy of cash can be problematic—if stability leads to overlooking opportunity.

Byron Smith

Byron Smith, corporate asset protection manager for 7-Eleven, suggests that even if cash and risks are unchanging, a retailer's processes and technology for managing cash must evolve. "I don't believe the risks have changed much. It's still cash handling, with the central risks being robbery and employee theft and the need to control that. But that does not mean that cash management is something that can be taken care of and be done with," he warned. "It needs to evolve."

For one reason, it remains an area of opportunity. "It is an important piece that loss prevention and asset protection should be looking at," said Gary Smith, LPC, senior director for asset protection at Walmart. "It's still an area where you can make a quantifiable difference in the expense piece."

7-Eleven and Walmart loss prevention have used store education and new technology in a two-prong attack on the risks to cash—and have done it with an eye on achievable and applicable business benefits that new cash management systems offer. It's perhaps a good model for LP executives as they try to navigate an issue that can be accompanied by a lot of noise—from predictions of the death of cash to heady promises from manufacturers.

Protecting cash is not a new challenge, and it's pretty straightforward, but there is a lot in it for LP to unpack. What can new technology do? What can you get from it? How do you know if it's worth the expense? What questions should LP be asking?

Cash Is Dead, Long Live Cash

The amount of cash that customers use directly impacts the utility and return on investment of different cash management devices. And maybe, if cash is falling out of favor, it makes little sense to spend more for a technology upgrade.

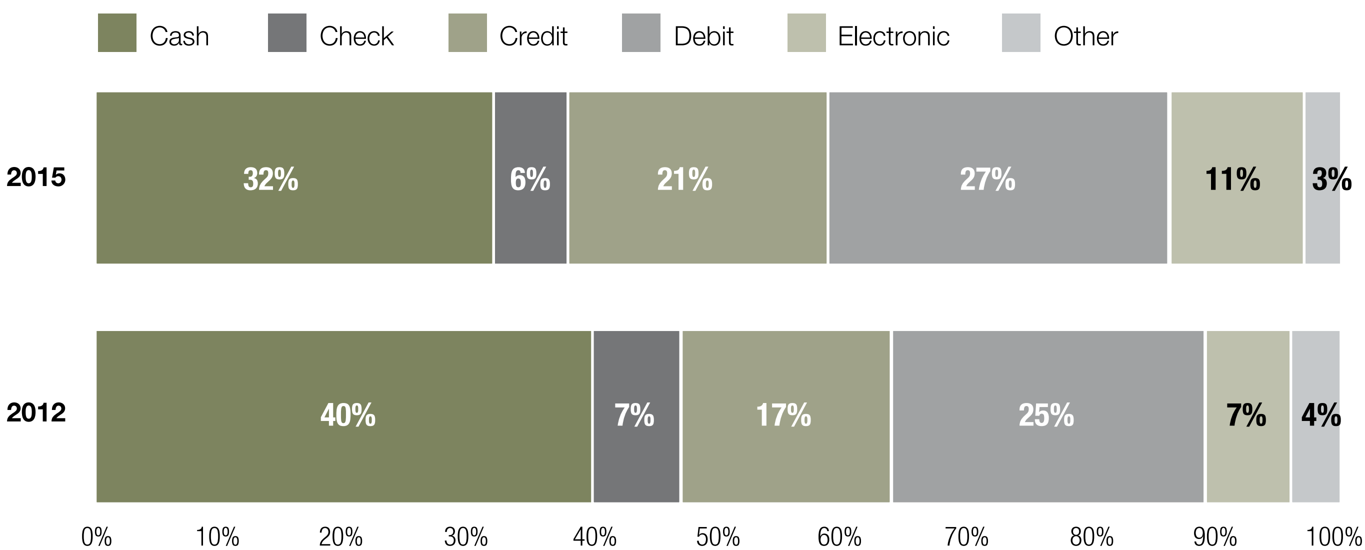
Many retailers report cash transactions are decreasing with a rise in debit and credit card use. Additionally, there is the prospect of a shift to mobile payment options like Google Wallet, Apple Pay, Venmo, and other novel cashless pay schemes. The result? When you read that some retailers in Denmark will be phasing out acceptance of cash this year, it's easy to think you're getting a glimpse of the future.

In self-reporting surveys, the American public says they use cash less often. Other surveys find they increasingly have a preference for debit cards and mobile payment apps. A 2016 Gallup survey found that 24 percent of people report making all or most of their purchases with cash, a fairly sizable drop from 36 percent five years earlier. And 62 percent of consumers say mobile payments make for a better buying experience, according to a study by Oxford Economics.

But preferences, attitudes, and actual behavior don't always move in lockstep. In one 2016 study, published in *Applied Economics*, researchers found that old habits die hard. "We show that changing payment patterns is a challenging task; even when consumers have fallen in love with a new payment instrument, they find it hard to divorce from their old payment instrument," the research concluded. "We find a discrepancy between how consumers prefer to pay and how they actually pay," with the "habit of paying cash [playing] a

Share of Transaction Number by Payment Instrument*

*Of all consumer retail transactions including bill payments



Source: Federal Reserve Bank of San Francisco, 2016 significant role explaining the presence of a gap."

And the same Oxford study that found consumers are enamored with mobile payment also found that 70 percent also worry about its security and the privacy of their personal details, with 55 percent perceiving mobile wallets as less secure than their physical counterparts. For now, these security concerns are keeping adoption of mobile payments in check.

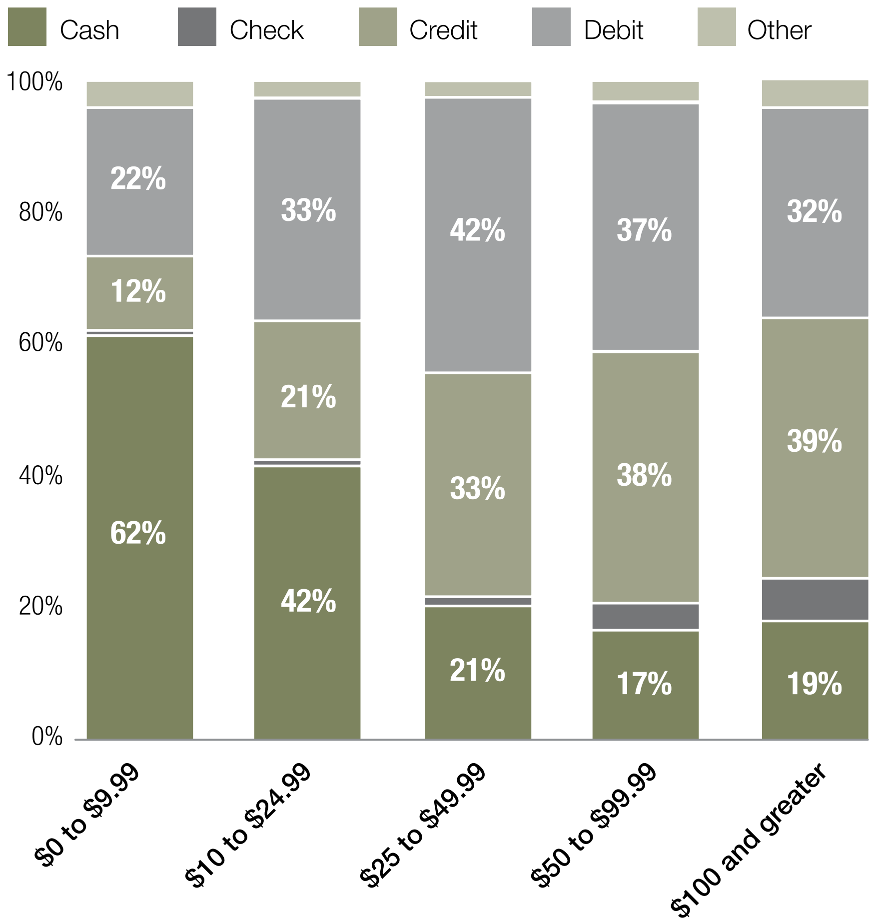
A "state of cash" study released in November 2016 by the Federal Reserve Bank of San Francisco demonstrates just how resilient cash is proving to be. The report acknowledges that cash has a declining share of total retail payments, but concludes that cash nonetheless continues to be the most frequently used consumer payment instrument, is widely used in a variety of circumstances, and dominates small-value transactions. Furthermore, the continuing growth of currency in circulation points to cash's significance, according to the study.

As more retailers expand their acceptance of different payment options, incentivize electronic payment, and transition to digital sales, one would expect to see further erosion in cash's dominance as a payment instrument. But those declines are likely to be both modest and gradual. Evidence includes the fact that the current level of dominance cash enjoys is not because store merchants refuse to accept card payments. "Consumers are using cash for small-value transactions out of convenience, not merchant-specific pressures," according to the Federal Reserve study.

And even if there is a decreasing trend in the preference for cash payments across groups of customers, a retailer experiencing an increase in its number of customers or an increase in the average value of cash transactions will see an increase in the cash volumes it handles. In such a scenario, a retailer that maintains an outdated cash handling system will see employee costs rise for processing cash and for administrative tasks related to tracking cash flow.

Convenient, anonymous, trusted, tangible, ubiquitous—it's easy to see why the habit of paying cash persists and why it may take generations for new payment options to supplant it. Retail cash payments as a percentage of purchases are falling and may continue to see a marginal decline, but cash is not going away anytime soon. While it's increasingly necessary for businesses to accept additional forms of payment, retailers will also need to effectively manage costs and risks associated with cash payments for decades to come.

Payment Instrument by Amount, In-Store 2015



Source: Federal Reserve Bank of San Francisco, 2016

Where Are We?

It's estimated that one-third of the 1.5 million retailers in the US aren't ripe for investing in new cash handling technology—they're simply too small or don't have the revenue to see any benefit from an investment. However, that leaves legions of retailers that can—should they be convinced of the value—upgrade their current cash management process.

The low end of this available market, which represents about another one-third of retailers, is fairly mature, with simple cash control devices penetrating about 75 to 80 percent of the workable market for such solutions, according to a 2017 study by the ATM Industry Association, *Retail Cash Management*.

But at retailers with some level of automation, which have the size, level of profitability, or mind-set to potentially automate aspects of cash management, there is significant room for growth. Penetration of the smart-safe workable market, which could be as much as 30 percent of the total retail space, is only at about 13 percent. And there are only 3,000 to 3,500 cash recyclers active in the US retail market space out of a serviceable market for recyclers of approximately 150,000 retailers, or just 10 to 12 percent penetration of the potential market for cash recyclers in retail.

The new research study concludes, "With the introduction and expansion of

continued on page 18

continued from page 17

smart safes in the mid to late 1990s, and with the growth of the market over time, as well as the expansion of cash management to the fully automated recycler products, the retail market is poised for an explosive growth in products, solutions, services, and support in automated cash management."

Potential for growth indicates opportunity—but also a complicated marketplace. Solutions range from entry-level systems to completely closed point-of-sale (POS) cash handling solutions in which cashiers have no access to cash at all to solutions that integrate back- and front-office solutions with those used by banks and cash-transit companies. There are traditional smart safes and newer cash recyclers, which include a bin for coin deposits in addition to a note recycler that provides retailers with access to in-store cash from which they can make withdrawals after it is validated and credited to their account. Associates can use recycler units to fill their registers, cashiers can trade large bills for smaller ones, and smaller bills are recycled back into operating cash inventory, reducing the need for change orders and providing an audit trail for each transaction.

It's a maze of options, and at the risk of being distracted by cat videos, YouTube provides useful tutorials on the range of choices and a chance to watch units in action. Retail case studies offered up by major vendors in the field offer additional insight into specific projects undertaken by retailers, quick-serve restaurants, and others.

Mike Keenan, CPP, CFI, LPC

Critically, it's important for LP to educate themselves about solutions while not looking for the "one right" answer. "A retail strategy is actually the first determinant of how you should manage your cash," advised Mike Keenan, CPP, CFI, LPC, an industry veteran who has led LP at Macy's, Ross, and Gap during his distinguished career. Risks, resources, cash intake, and a host of other factors are also determinants. "Different retailers will need different solutions," Keenan noted.

In Search of Value

Cash demand forecasting is an important part of a decision on investing in cash handling systems; so, too, is a complete accounting of current cash handling activities and their associated costs. While both areas may exceed the boundary of LP, executives should be aware of them—and the full scope of the financial and business impacts of cash management—to be a full partner in a retailer's drive for profitability—today's higher mandate for LP.

John Van Slingerland

"It's the direction of the industry, where we need to be expanding that value and changing what a project sponsor brings to the table," explained John Van Slingerland, vice president of business development at G4S Retail

> Retail cash payments as a percentage of purchases are falling and may continue to see a marginal decline, but cash is not going away anytime soon. While it's increasingly necessary for businesses to accept additional forms of payment, retailers will also need to effectively manage costs and risks associated with cash payments for decades to come

Solutions, a provider of end-to-end retail cash management solutions.

It's also why providers such as G4S have invested heavily in educating LP on cash management beyond the impact on risk. "In general, folks in LP and AP are being asked to do more. Moreover, they want to be asked to participate in the strategic part of the business," he said. "It's about supporting them as they go to their business partners with more benefits than just securing cash and a provisional credit at the end of the day. It's also about other benefits that put them in a position to help drive consistency in the business."

What are some of those other benefits? Broadly, a retailer that adopts a more efficient cash handling organization reduces the costs of cash management, may increase levels of customer service, and benefits from a more transparent monitoring of cash payment flows. To maximize the effectiveness of a cash handling solution, experts say a retailer should examine the whole cash cycle and effectively involve all stakeholders, including LP, operations, finance, store owners and managers, banks, and cash-in-transit companies.

On the business side, when a retailer can get a near real-time picture of its cash assets, it can make use of that working capital, make better business decisions, reduce bank fees and risk, and improve compliance. And as interest rates climb, the value to retailers of having nearly real-time access to cash deposits increases. And it's not just LP and finance that can make use of the data that today's solutions can generate. Marketing can use the intelligence to make a correlation between an advertising campaign or sale and cash intake, for example.

Different technologies and features yield different value. Cash counting machines, for example, reduce errors and cash drawer counting to under a minute. Utilizing a cash recycling machine also saves a retailer from

Walmart's Win-Win

Walmart undertook an overhaul of its cash handling in 2016, including rolling out Revolution cash recyclers chainwide after testing the technology at its Neighborhood Market store formats. That testing was critical to the retailer's project success, according to Walmart's Gary Smith—not just to assess the technology, but also to understand the business impact.

Gary Smith, LPC

"We did a lot of testing to see how the solutions would allow us to simplify, and we wanted to make sure we knew all the appropriate steps needed to align all the areas of the business with the technology as well as with the workings of the store," said Smith. The tests were successful, not only for confirming the benefits that they could expect but also for establishing roles, responsibilities, and controls for managing cash from cradle to grave. Smith said it's important to gain absolute clarity on "who owns what piece."

Asset protection played an important role in the project. To help it succeed, it was particularly beneficial to establish a team within AP strictly dedicated to driving the cash management initiative, according

depositing costs, automates the counting process, and makes it easier to track the reconciliation process. The benefits of smart-safe technology are broadly known—they sort cash and automatically credit accounts—but enhanced business intelligence from them is expanding their value.

Cutting costs associated with maintenance and service is one example. Connected cash systems can continually perform health checks, issue status reports, and permit remote troubleshooting. And updating permissions, such as adding or deleting authorized users, can be made at the central repository. Configuration changes can be pushed out to 1,000 stores at once. "For larger retailers there is significant administrative burden associated with profile management and having technicians go out and do local updates. Now that it's cloud-based, all of that can be done remotely," explained Jim Poteet, executive vice president at FireKing.

Jim Poteet

If a retailer is experiencing high cash shortages in its stores, advanced cash management technology can be particularly beneficial, according to Keenan. By improving accountability and control, the technology can reduce actual cash losses, enhancing the ROI equation.

Time saving has been a major driver of business value for 7-Eleven from its investments in automated cash handling technology. "It has allowed for agreements that we don't have to separate bills. The stores can take entire bundles as they are fed, rather than sorting, and that saves the stores time," said Smith. "And with integration at POS, we can identify employees and to whom the machine dispenses change if they need more in the till. That level of intelligence has improved the time spent managing cash at shift changes and at start and end of day."

That can bring a retailer substantial value. Administration accounts for 72 percent of cash handling costs, according to data from Gunnebo, a provider of cash handling solutions. The average time spent on till reconciliation during shift changes is nearly fifteen minutes, and even more is spent on manual consolidation in cash offices for each checkout. Replenishing tills, reporting, safe reconciliations, cash transport preparation, ordering change, and other administrative tasks that technology can automate consume additional time.

Indeed, retailers in case studies most frequently cite time saving as a primary source of payback for automated cash handling technology. For example, Tony Lawson, director of asset protection for Goodwill of Southeast Wisconsin and its sixty-four locations, estimates his organization is saving two to four hours per day by switching from counting all cash by hand to use of a Tellermate intelligent cash counter with an integrated keypad and printer. Schnuck Markets, Panda Express, and Rack Room Shoes tell similar stories of saving money by eliminating manual money handling.

By conducting a pilot study in which time spent managing cash is measured pre- and post-implementation of cash handling

continued on page 22

to Smith. "Our transition to cash recyclers has been a success story for how it has impacted our business, and a lot has come from having a team within AP to align with functional teams, such as treasury, logistics, and the other innovators that own the process from a device standpoint."

Ashley Greehey

Ashley Greehey, senior manager for asset protection, heads up that AP team at Walmart, which she said was very hands-on during the roll out, including going out to stores in the field to conduct training with managers and associates. While the cash recyclers themselves are fairly easy to interact with, the training piece was important to coordinate roles, make people comfortable, transition some senior associates into new duties, and to lay the foundation for realizing the benefits from the technology, she suggested.

And they have realized benefits, including ones cited above related to the automation of previously manual labor-intensive activities. "With the recycling of the money, we keep lower amounts of cash and are not having to send out large deposits and change orders, so we're reducing our carrier costs," said Greehey.

Labor benefits have also been realized by simplifying processes and helping associates move to the sales floor with customers quicker. "Cashiers go into the office at the start of their shift, log on, and check out their own tills. And when they're done, they bring it back in." And bill validators replace previously labor-intensive work performed by associates, she added.

The most surprising upside, said Greehey, has been the intelligence piece, which has cut the time needed to perform a variety of LP activities even more than they had expected. Although it doesn't give them access to cash, LP associates enroll with the cash recyclers in order to have access to information that helps them conduct research and generate any number of needed reports, facilitated by the fact that every transaction is uniquely identified.

Walmart is also experiencing fewer cash shortages, from both fewer mistakes and less theft. The devices cut theft and loss by identifying counterfeit notes, increasing accountability, reducing cash handling, and simply by their presence. "We've somewhat gotten the feeling that the cash recycler is, by itself, a deterrent," said Smith.

"The other piece is that we've obviously minimized the risk, as less cash translates into less opportunity for robbery—and that to me is a win-win," said Smith. "The business wins in gaining more productive hours in the store, and security also wins."

continued from page 20

technology, it's possible for a retailer to make an assessment of the potential ROI from this aspect of automation. It's an important step for all retailers to take because the value from faster cash handling will vary, according to Mike Keenan. While use of cash recyclers helped one major retailer eliminate thousands of back-office jobs in 2017, those types of major savings aren't a sure thing. "Cash counting machines help people be more efficient and increase accuracy, but the value you'll get from that depends on the business environment."

Keenan explained that if a store has personnel who just handle cash, there is an opportunity to reduce headcount, which would translate into significant savings. "But so many retailers have moved to lean payroll models that they may just have a manager responsible for handling the cash." And although automation could allow a manager to increase his or her productivity, that is a substantially more squishy value-add than trimming payroll.

Keenan believes that LP executives need to take a judicious approach in general. "Today's cash management solutions are very creative, and they have lot of bells and whistles. They may sound good, but you have to thoroughly examine them—what will the ROI truly be?" He noted that for a retailer looking at purchasing units for thousands of locations, it's far from a guarantee that the payback period will be quick enough to make for a winning business case. "So an important part of looking at cash solutions is to be extremely clear on exactly what the unit or solution is going to bring you."

To that end, retailers should be wary of taking a siloed approach to examining cash handling solutions. As for LP, experts we talked to suggested that they should educate themselves on the broad business benefits of advanced cash management solutions—such as achieving working capital benefits by getting cash more quickly into accounts—as well as measure and communicate the security risks and benefits associated with different cash handling options.

> By conducting a pilot study in which time spent managing cash is measured pre- and post-implementation of cash handling technology, it's possible for a retailer to make an assessment of the potential ROI from this aspect of automation.

Reducing Risk

Advanced cash management units like cash recyclers reduce risk by limiting cash handling. Keenan cautions against advocating for devices solely on that basis, however, and suggests there are often less expensive ways to achieve equal security benefits. To combat internal theft at several retailers he served, for example, Keenan employed a dual-compartment cash-drop safe to reduce the risk of internal theft in the cash office. "It provided a solid reduction in cash theft as people on the inside realized that access was limited to working cash, and it was a relatively inexpensive solution," said Keenan. More advanced solutions may offer additional benefits—and may be worth the investment—but the most appropriate solution needs to be in sync with the business and depends on the day-to-day realities of a retailer, he cautioned.

In terms of expanding security value, safes really began to make strides around 2005, according to FireKing's Jim Poteet. That's when safes moved beyond mechanical enhancements like bill reading and currency tabulation into "more ones and zeros functionality" with the ability to transmit out information. In the last few years, connected safes made another significant leap forward. "That's when cloud-based really started to expand," said Poteet. "The information still goes out to a central repository, but we can now drive information back to the safe to conduct diagnostics and design proactive business rules to trigger alerts." Among others, connected safes today can trigger a text, email, or phone call to appropriate personnel if deposits are not made when they are supposed to be; the amount of safe drops violate established business rules; a safe door is left open; someone logs into the system after hours; cash is removed on a day or time when it shouldn't be; a cash cassette is almost full; or a site alarm is activated.

The visibility of cash transaction detail, such as who accessed a safe, when, and what they did—within seconds—helps reduce bank deposit discrepancies and cash shrinkage. It also helps LP identify trends, such as a store that habitually fails to do its 3:00 p.m. drop or a cashier that doesn't do the required number of drops per day. "The more data you collect centrally, the easier it is to trend and see patterns and conduct remote research before going out to a store," and is a vast improvement over cash management systems that only provide LP with an occasional report of past activity, said Poteet.

At 7-Eleven, Byron Smith has seen the use of smart safes alongside their integration with point-of-sale systems put the squeeze on dishonest store associates. In such systems, information from POS and information from smart safes coalesce in the sales reconciliation system. "I think it has closed the loop around cash," said Smith. "There are simply not a lot of avenues where the dishonest employee can now go. They have very few opportunities to steal where we don't see their cash handling," he said.

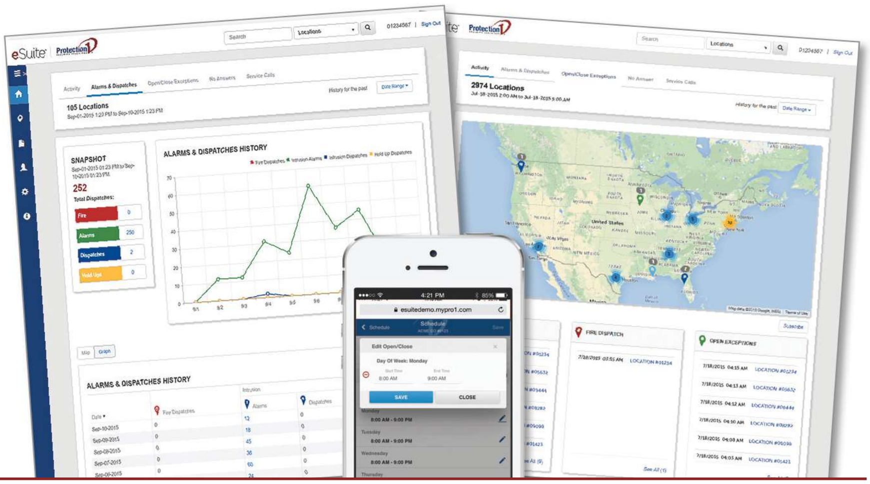
Visibility facilitates another time-saving value of cash acceptance safes—eliminating cash shrinkage that necessitates an investigation. In a survey by Tellermate, 64 percent of respondents agreed that cash management technology reduces the time spent investigating losses.

Some benefits are hard to quantify but can be substantial nonetheless. For example, Abercrombie & Fitch installed Tidel Series 4 System connected smart safes in 475 stores and credits them with enhancing employee safety by removing the need for them take cash deposits to a bank. Joseph Verber, former senior manager of loss prevention at Yum Brands and current CEO of Profit Solutions Plus, says that

continued on page 24

eSuite 2.0 and eSuite 2.0 Mobile are next generation account management tools that allow multi-location retailers to access and manage real-time information about service calls, installation and location activity through a user friendly map-based interface.

From a one-stop information source to a full-blown management tool, eSuite 2.0 provides unparalleled visibility and control over your security program to help you keep a finger on the pulse of your retail organization.



Let's Talk.

Call 877.PRO1.911 • Protection1.com/business

Protection 1 SECURITY SOLUTIONS®

BBB A+ RATING ACCREDITED BUSINESS

4.9 OUT OF 5 CUSTOMER SATISFACTION†

continued from page 22

Joseph Verber

safety is an important aspect of cost analysis, alongside the cost of preventing crime, violence prevention, workers compensation, and cash loss reductions. "Smart safes save lives first and foremost," said Verber.

Verber, who designed and used smart-safe solutions for Taco Bell, warns that the process of implementation is vital to realizing promised benefits. "Roll out can be extremely tedious but very important for operators. Installing smart safes needs special consideration, such as space, size, access to power, proximity to cash, and keeping the safe and area dry from liquids. And operations needs to accept the presence of smart safes and be given the training to use them properly."

In terms of features, 7-Eleven's Smith says he's been pleased with the speed and functionality of the counterfeit bill readers incorporated into units at POS from Tidel. Cashiers feed larger bills directly into the units and "the machine either accepts a bill or scoots it back out," said Smith. "It removes having to have a pen at the cash register."

Partners at 7-Eleven Taiwan are testing what could be the future—completely closed systems in which customers feed money and get back change from the units themselves, removing customer-facing staff completely from money–handling duties. It's all part of an ongoing process of examining cash handling opportunities that Smith credits with keeping 7-Eleven on the cutting edge.

"I think meeting your needs depends a lot on the relationship you have with a vendor who will work with you, who will help you develop the features you need and design some prototypes on your behalf, who is willing to invest some in research and development for you, and who is actively engaged in the relationship," said Smith.

Several LP pros cited customization of connected cash management solutions as a primary value driver. For example, an LP director might want to establish a rule to never allow a $20 bill in the till, in which case the POS can remind a cashier to put the bill in the safe when they say they need change for a $20. Or an LP director may want notification when a till amount exceeds a pre-set limit and the ability for the POS to prompt a cashier to deposit a specific amount of money to reduce the amount below the till threshold.

Finally, the data collection and reports that today's connected cash solutions generate may help transform LP. Rather than getting a handful of data points on a weekly or monthly basis, LP can manage using real-time data—and proactively manage risk. ■

GARETT SEIVOLD is a journalist who has been covering corporate security for industry professionals for eighteen years. Since 1998, he has served as the principal writer and editor of *Security Director's Report*, a monthly publication highlighting trends and best practices in corporate security management. Seivold has been recognized by several organizations for outstanding writing, investigative reporting, and instructional journalism. He has authored dozens of survey-based research reports and best-practice manuals on security-related topics. Seivold can be reached at GarettS@LPportal.com.