

COVER FEATURE

SECURITYTM 2020

Identifying the
Store of the Future

By Francis D'Addario, CPP, CFE
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Dateline: January 2, 2020

Mercedes Castro confidently exited her vehicle at 4:04 a.m. in East Los Angeles. Her ear bud reported “vehicle armed” as she stepped away from her smart car. Confidence had replaced the palpable anxiety that she had felt when first notified of her assignment. The neighborhood nine years ago would have been optimistically described as “at risk” or “underserved.”

The brief thought of past history brought a chill to the unseasonably warm morning. Past “near misses” when the accomplished manager was an intern would not be forgotten. Personal, street, and workplace violence had risen in 2011 and the years that followed the decade of disappointment. Individual, family, and business survey data registered historical highs with regard to “fear of crime.” The near meltdown of the global economy, combined with simultaneous stressors, including wind-downs of the Iraq and Afghanistan wars, had extended unemployment and soft job growth. Required deficit reductions also had unintended consequences. Impaired law enforcement arguably enabled the expansion of organized crime.

“Board-level risk requirements for people, critical process, and asset protection are increasingly complex and require a new, collaborative, and performance-based approach with practitioners, manufacturers, and service providers.”

- Bob Hayes, Managing Director, Security Executive Council

Mercedes’ communicator reported “destination secure” as she closed the distance on foot to her storefront. Her three-factor device, GPS proximity reader and voice biometric, remotely illuminated her coffee shop-cum-social network, and e-retail entertainment hub, 100 meters prior to her arrival. Light spilled out on the pedestrian and personal mobility pathway. The store image and audio array was virtually communicated to her PDA. Camera views revealed comfortable seating and entertainment pods in a retro café. “No critical exceptions” flashed on the screen.

Mercedes had survived the violence, identity theft, network attacks, and supply-chain diversions that had collapsed iconic businesses and promising start-ups alike. Colleagues, family, and good friends had been victimized. Some still struggled. Few had been ready for the all-hazards risk that visited consequences on the unprepared. Business operators and boards of directors who were slow to act on leading indicators had felt the wrath of stakeholders. The impetus for change for some was swift and sometimes unforgiving. Mercedes and a number of her colleagues seemed to thrive as they nimbly met and mitigated evolving challenges.

She paused at the entrance with bags in hand for the briefest moment to register her biometric. As the door swung open and she was greeted by the mellifluous tone of PAL: “Good morning Ms. Castro, three ‘class two’ exceptions are ready for your review.” The “Mercedes Mix” purred from speakers. Harold Melvin and the Blue Notes’ “Wake Up Everybody” seemed to bring brewers out of their slumber. Other machinery of the store queued-up in order to conserve energy. What seemed like fantasy ten years ago had become reality with the help of a lot of selfless cross-functional teamwork.

Mercedes contemplated the blueberry aroma of the Ethiopian Harrar coffee that brought the best of East Africa to LA. Just-in-time security had optimized core processes and morphed nicely from bricks-and-mortar to virtual e-retail requirements. Promising solutions had been tested and adopted. Many reduced risk and had proven return on investment. Other products and services disappointed and were deferred pending improvement.

Natural and manmade risks still required ongoing, intelligent vigilance. Global warming, pandemic, and seismic hazards were ever-present. Numerous human adversaries remained dangerous in-person or via predatory networks, but innovation leveled the playing field. Private- and public-sector risk mitigators worked more fluidly, identifying looming hazards. Next-generation leadership was relevantly engaged, but the work was never done. Mercedes sipped her Harrar thoughtfully and confidently rose to meet her opening manager and the challenges of a new year.

2020 Antecedents

2010 began ominously with a reversal of fortune in most security measures. The risk landscape was littered with the shortfalls of previous mitigation efforts. Global organized crime, ably chronicled in Moises Naim’s book *ILLICIT: How Smugglers, Traffickers and Copycats Are Hijacking the Global Economy* proved prophetic. Metrics dashboards turned red despite an estimated trillion dollars spent globally on security since 9/11. Consider the headlines:

- “Global Retail Loss Up to \$45.99B,” *3rd Annual Global Retail Theft Barometer*
- “Supply-Chain Theft Up 67%,” Freightwatch International
- “U.S. Identity Theft and Fraud \$54 Billion,” Javelin Strategy & Research
- “Global Cyber Crime Estimate: \$1 Trillion,” McAfee, Inc.
- “Officials Warn Terrorism Threat ‘Imminent,’” *Wall Street Journal*
- “Consumer Confidence at Record Low,” *MarketWatch*

The going-forward outlook was also bleak. Long-term performance was exacerbated by the combined near-collapse of the financial system and short-term cost-cutting measures. Program reengineering, rightsizing, and downsizing, limited or eliminated onboard analytical talent. Economic constraints curtailed budgets and purchasing, as well as research and development. There were still proven people processes and technologies, but the entire protection ecosystem required reevaluation.

“Security 2020” was a call to action for needed change. The decade-long strategic course correction for continuous risk mitigation improvement was announced at The Great Conversation of 2010. Bob Hayes, managing director of the Security Executive Council described the initiative this way:

“Board-level risk requirements for people, critical process, and asset protection are increasingly complex and require a new, collaborative, and performance-based approach with practitioners, manufacturers, and service providers.”

The needs included:

- Evaluating security-related products for effectiveness and value,
- Implementing multi-technology test beds to increase innovation and interoperability, and
- Providing leadership training for the next generation of security executives.

Proponents include Jon Grander, vice president of loss prevention for Brown Shoe, who said, “Loss prevention will evolve from the traditional shrink and safety as primary focuses, to a broader business-intelligence model. Enhancing the in-store tools, where LP is the traditional owner, will revolutionize outputs while creating a differentiator for retail companies. Talent and technology will be the most important drivers to influence the speed at which this transition can be accomplished.”

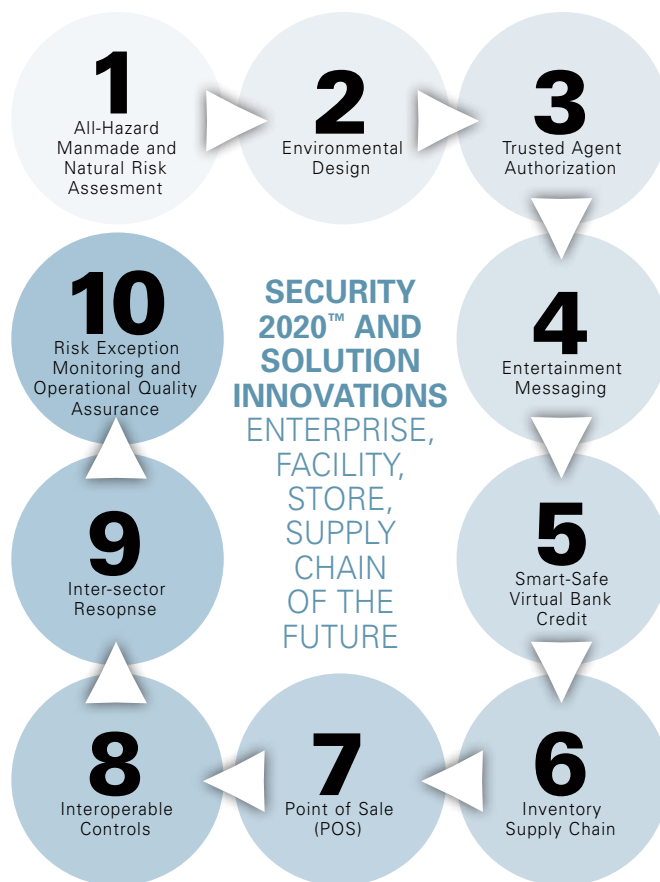
Many previous “promising” solutions had ultimately failed. Some were doomed because they were “siloed” rather than cross-functional. Proponents sometimes lacked imagination, influence, or know-how for successful intra-company or extra-organizational collaboration. Others missed opportunities to demonstrate scalable, interoperable integration, or true value. Still others proved short-term improvements without ongoing operational optimization or ROI. 2020 required proving grounds for enterprise, store, and supply-chain protection.

Store of the Future 2020

The recommended approach for any risk improvement begins with a preliminary all-hazards assessment. What are the man-made and natural risks to the environment that require attention? Typically, physical, logical, accidental, natural, or criminal hazards left unmitigated drive cost and hazard profitability. Related events result in unnecessary cost, damage, disruption, injury, or impairment of people, assets, or dependent business processes. While most align with board-level risk and compliance requirements, successful mitigation may be a strategic plan enabler with multiple “upside” value calculations.

Environmental design considerations take into account natural surveillance, lighting, and building materials that assure stakeholder comfort and safety. Security elements are considered for potential integration or process optimization. For instance, existing closed-circuit television may be leveraged for business intelligence, including customer count, merchandise interest, staffing, transaction anomalies, and inventory throughput. “Man-down” and “package left behind” analytic capabilities have a number of security, safety, and operational applications.

Multi-purpose design can typically meet and exceed multiple stakeholder needs for less cost than silo projects. Glazing or



window-film enhancements may hinder smash-and-grab risk while improving HVAC efficiency, without diminishing the merchandise views of passersby, police, or security patrols. Wireless applications similarly simplify installations with eco-friendly results. Diminishing cabling, wiring, and utility requirements for improved carbon footprint and cost efficiency can satisfy stakeholder needs while preserving or repurposing resources.

Improved authentication and diligence processes proactively protect. They identify trusted agents and legitimate customers to both deter fraud and identity theft while improving transaction accountability and speed of service. Facial, voice, or other biometric recognitions are viable in both brick-and-mortar and e-retail environments. Employee, service provider, and customer self-authentication may be extended to identity protection for new revenue streams as retailers and others offer preferred pricing for proven security services.

The stakeholder experience will predictably improve with integrated, in-store communications, featuring public announcement and video message capabilities. Security camera arrays at opening and closing may change to scheduled day-part entertainment or promotional or social-responsibility content, including just-in-time emergency or public-interest broadcasts like severe weather warnings or Amber Alerts. Timely “shelter in place” or evacuation procedures are invaluable for critical risk outcomes.

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2020 Enterprise Contribution Measures and Value Resources	Period-Over-Period and Year-Over-Year Measurement Yield Protection Contributions and ROI.
<p>Accidental Injury and Damage. Number and cost (frequency and severity) of injury and asset damage, events lost days, et cetera calculated with fully loaded cost of personnel, repairs, replacement, and restoration.</p>	<p>Number of events and cost analysis yields consequential operating margin intelligence. Data may reside in peer organizations, such as facilities, HR, risk management, or others.</p>
<p>Brand Reputation. Market-share valuation, customer and stakeholder confidence due to real or perceived unmanaged risks to people, plan, or core processes.</p>	<p>Critical security events impact sales, profits, or service deliverables. Stakeholder confidence may determine share equity of publicly traded entities and contribution viability for non-profits.</p>
<p>Business Interruption. Number and cost of mission, product or service sales opportunity misses due to preventable or mitigable man-made or natural risk events.</p>	<p>Insured and uninsured events may include planned exercises and drills as well as unplanned events. Data may reside in business continuity, risk management, operations, or other business units.</p>
<p>Criminal Injury and Damage. Event number and cost of casualty events, including medical, lost days, turnover, third-party liability, plus mitigation costs, employee assistance, repairs, restoration, and other.</p>	<p>Arson, assault, battery, contamination, disorderly conduct, diversion, embezzlement, extortion, fraud, homicide, identity theft, information alteration or theft, kidnapping, larceny, malicious destruction, robbery, threat, and other.</p>
<p>Compliance. Number and cost of health/safety or regulatory penalties, fines, closure, or suspension of business.</p>	<p>Data may reside in operational and distributed support services, including compliance or other individual business units.</p>
<p>Customer Experience. Staffing efficiency, product or service availability, quality, and throughput.</p>	<p>Typically available from marketing or merchandising data. May include consumer survey data, service snapshots, and helpline metrics.</p>
<p>Environmental. Health, safety, incidents, and cost, plus carbon footprint requirements.</p>	<p>Utility, fuel, or natural resource dependencies for asset protection or dependent services from cabling to audit and maintenance available from facility data.</p>
<p>Insurance. Casualty, workers' compensation, general liability, property, business interruption, professional liability, crime, marine cargo (supply chain), and special indemnity.</p>	<p>Total claims and insured and uninsured costs are generally available from risk management. Check business unit cost allocations.</p>
<p>Liability. Uninsured cost of non-compliance, quality assurance (recalls), and legal claims.</p>	<p>Total cost of fines, sanctions, mitigation efforts, and legal defense are found in legal, corporate affairs, compliance, or other business unit data.</p>
<p>Other. Any relevant risk or mitigation cost.</p>	<p>Use value experience, frequency, and severity.</p>
<p>Profit and Loss Statements. P&L information for manufacturing, product/service distribution, supply-chain logistics, sales, operating costs, and profits.</p>	<p>Business unit operating data is key to determining the efficacy of loss prevention and security risk mitigation operations.</p>
<p>Security. Total cost of ownership for people, process, and technology, including depreciation and service maintenance.</p>	<p>Risk awareness, prevention programming, event reporting, investigations, policy and procedure, systems, third-party services, and other.</p>
<p>Stakeholder Experience. Safety, security, confidence, and engagement.</p>	<p>YOY assessment of churn, turnover, and customer confidence for safety, security, and continuity.</p>

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Similar integration of smart devices and optimized services will contribute to superior operating results. Bill validation or other automated capabilities combined with courier services potentially eliminates most, if not all, cash-counting shortages, as well as money-counting and banking labor that may be more profitably applied to customer service. Provisional in-store credit eliminates float cost. Video transaction integration enables traffic and transaction analysis and risk-exception reporting not previously possible. Detection and accountability are virtually more certain to diminish criminal and other risk behaviors that are detrimental to stakeholder interests.

Interoperable electronic monitoring and reporting applications may only be limited by our imagination. Interactive lighting, HVAC, and protective exception communications may go to third-party quality assurance monitoring services for audio/video authentication before dispatch to others to preclude false alarms, fines, and unnecessary disruptions. Networked health conditions will augment timely maintenance, service, and component up-times. Out-of-stock messaging will enhance service capability, sales, and bottom line. Qualified supervision and exception reporting may enable extended operating hours, night-time delivery, virtual audits, or other services with similar calculable benefits for customers, operators, and distributed support services. Establishing the value proposition is all important.

Understanding the Cost of Risk and Benefits of Mitigation

Protecting people, product, and dependent processes fundamentally influences the perception of brand reputation. For Greg Halvacs, senior vice president and chief security officer for Cardinal Health, it's about attending to the essentials:

"Innovative risk mitigation is essential to healthcare, wellness, and community. Our ability to discover methodologies that work over time may be our legacy gift to the next generation of internal and external customers."

Service differentiation for a competitive edge may closely follow for the \$99-billion-dollar pharmaceutical services company, operating in over thirty countries with 40,000 employees. Proven logical and physical protection practices are additionally anticipated to comprise the curricula for next-generation leaders.

Understanding the total cost of risk and the financial benefits of mitigation within one's own organization is the first step in influencing investment. The C-suite requires us to know our total functional cost of ownership. Our ability to represent fully loaded costs of personnel, services, technology, licenses, and maintenance should impress no one. On the other hand, our ability to have command of that detail as a percentage of historical and anticipated risk will open some eyes. Aggregating the data is job one. It is essential for calculating risk mitigation contribution and ROI.

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Period-over-period and year-over-year profit and loss (P&L) statements are a rich data source for measuring solution innovation impacts in a test store(s) against a matched control(s). Not all costs are represented or fully allocated at the unit level. Significant costs, both direct and indirect, may be found in compliance, facilities, human resources, risk management, legal, or other departments. Fully understanding all measures within a program or in context with a test or pilot enables us to persuasively calculate value.

Each of the areas depicted in the chart on page 20 pose monetary risk for a company. Improvements likewise will be interpreted as benefits either through savings or cost avoidance. Selecting a respected financial analyst for your cross-functional team is strongly recommended to make your business case for loss prevention and security contribution.

Stakeholder confidence may be the Holy Grail of performance measurement. If associates, customers, partners, and the community know that you will do “the right thing,” brand reputation benefits follow, including “benefit of the doubt” even after catastrophe. Drs. Rory F. Knight and Deborah J. Pretty of Oxford Metrica provide support in their landmark research that tracked publicly traded share values after mass-casualty events. On the other hand, unmitigated risks including theft and fraud drive cost, deny sales, and constrain available labor. Only when organizations begin to discern their true total cost of risk and

protection investment will they appreciate the value of effective mitigation. Collecting and aggregating and benchmarking metrics for relevant trend reporting and ROI analysis is strongly recommended.

Cross-Functional Stakeholders and Solution Innovation Partners

Strategically aligning protection to the business plan and board-level risk is essential. Executive champions are relatively easy to find for risk mitigation with strong ROI potential, particularly when the solution is scalable and peer management endorses the plan and performance metrics. The ability to influence others to leverage traditional security technologies for accident prevention (safety or risk management), business intelligence (marketing and operations), compliance (audit), crime prevention (legal), and optimized staffing (human resources) may lie within bonus-able performance measures and management imperatives. Networked, analytical solutions for cash, POS, and inventory will also likely attract beneficial interest from finance, IT and supply chain.

Proactively convening crisis-management team members for more strategic risk mitigation is a proven practice for a number of successful brands. Diverse data, functional expertise, and common denominator interest in crisis avoidance typically prevails. Evolving preparedness compliance will move others. Any approach should ultimately be informed by industry segment leader practices with input from trusted product and service providers.

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Many banking, food-and-beverage, fashion, pharmaceutical, and other retail businesses are calculating or testing smart security technologies and processes. Yet few have vetted multiple providers for layered solutions with trusted oversight for outcomes and metrics.

Steve Foley, senior vice president of Verint, an actionable intelligence provider, claims, “The Store of the Future 2020 concept is extremely promising. Engineering collaboration between business operators, manufacturers, protection professionals, and integrators to affordably audition low- or no-cost, ROI-capable innovation is long overdue.”

2020 solution innovation partners agree to provide products and services for trial validation with qualified end-user brands. Performance metrics are subject to validation by the Security Executive Council, but may be anonymous for brand protection.

Solution innovation partners to date include ASI, Aronson Security Group, CSIdentity, FireKing, First Response, Garda, Learning Dynamics, Resilience, SafirRosetti, Schneider Electric, and Verint.

2020 Store of the Future end-user test beds are presently in development for discount, fashion, healthcare, and quick-service food and beverage. Proven products and differentiated services must be amenable to audit, preferential pricing, and ongoing integrity diligence.

Onward

Our future brings both risk and mitigation opportunity. All stakeholders are affected. The data from Clark and Hollinger, Gallup, Oxford Metrica, and others are clear. Cared-for individuals are more engaged, productive, and capable of brand loyalty. Looking-forward strategies will retain talent and renew the customer experience by driving out waste and reapplying finite resources to core processes. Self-funded resilience is arguably reachable for mature, well-planned companies.

2020 is arguably a clear strategic vision for current and next-generation leaders. Look for proven practices here in the months and years to come. Dare to lead. I welcome your interest and input at fdaddario@seclleader.com. ■



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