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BUSINESS LOSS is a common phenomenon in the market and it significantly damages many companies' profitability. Against the backdrop of the current global recession where companies are experiencing financial hardships and trying to minimize expenses in any way possible, the question arises of whether companies are truly doing everything in their power to improve their profitability.

Loss prevention is actually an organisational perspective aimed at reducing or preventing potential losses. The approach suits any company or organisation that conducts some sort of operational or logistic business. The inventory, warehouses, movement of merchandise inside and outside the organisation, the interfaces between the various departments and the other processes and activities, are generally examined in purely operational and logistic terms of production efficiency and availability of logistic support and not through potential loss parameters. This may create a situation where the organisation loses a lot of money due to abuse or unintentional operational and logistical errors.

Loss Prevention Proactive Strategy or Reactive Response?

Loss prevention actions are meant to generate and implement work processes that completely integrate the inspection and security components with operations.

Minimising and/or preventing loss is a critical element in managing expenses and improving profitability. Loss minimisation is a long road strewn with surprises, since most organisations are not at all aware of the financial value of their annual losses (aside from inventory losses). Loss prevention examines all the processes within an organisation in order to find failures and weaknesses through which money can leak through the organisation.

The failure can be a breached process that can be exploited for theft or it can be a process that contains the potential for errors. The leak can appear in interfaces inside the organisation, in logistic or operational processes, and more.

Loss prevention is part of the organisational strategy and not a specific reaction to an error or malfunction. The goal is to find the weaknesses and faults in an organisation and address them in order to eventually attain prevention on a daily level.

In most organisations, the company's problems are forecast to come from external sources and therefore, almost every company that takes operational efficiency seriously has a security officer that is responsible for protecting the company from external threats. However, according to a study conducted by the University of Florida, over 60 per cent of an organisation's losses are caused by internal factors that manifest according to the following:

System synchronisation – Bypasses and partial processes to the ERP systems that abuse the system, cause inaccuracies, and give options to alter operational procedures

that help in cases of inefficiency, information leakage and abuse of the organisation's resources.

Destructions – Often, where a product is eliminated from the inventory and cannot be counted, a bypass is created where these products are reused but not through the company, causing the company to suffer twofold (eliminating useable inventory, reselling the product by someone else and thereby harming the company's sales).

Inventory management – "Closed" systems such as ERP systems do not enable changes to be made once the data has



Source: DHL

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already been entered. In many cases, data is incorrectly entered to the various systems, mainly due to typing errors.

Data verification – Two main problems in large organisations are data verification and control & inspection at the senior management level. In numerous cases, weaknesses in the processes cause a disparity between the actual data and the data on which operational decisions are made in the company. The majority of

reports to senior management are made from middle management and from numerical reports, and decisions in the company are made based on the data that is received. These reports are often erroneous and there is a large disparity between the reports and reality.

The main work perspective in the loss prevention process is preventative. Prevention begins when a weakness is identified in the organisation’s operational / logistic activity. At the beginning of the process, we refer to three main types of loss: intentional, unintentional and hidden.

Unintentional loss refers to damage that is made innocently and unintentionally, such as an error in entering data.

Intentional loss refers to maliciously causing damage for various reasons such as revenge for dismissal, industrial espionage, etc.

Hidden loss is not considered loss but rather as an operational expense in an

Sources of Inventory Shrinkage

