White Paper

The Role of Risk Management in the Modern Distribution Centre

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Foreword

The purpose of this white paper is to provide risk managers with the ammunition they require to successfully bring about change in their Distribution Centres ("DCs").

This paper seeks to identify the key risk management challenges of DCs, in an omni-channel retail environment, and provide insight into what can be done to win over key stakeholders when proposing change.

DCs are often highly charged, unionised environments employing thousands of low-skilled, transient workers for which there is a growing shortage. This workforce must be managed to successfully deliver superior customer service across tens of thousands of SQUs, many of which are small, highly desirable, high value items.

As retail continually evolves, it is obvious that DCs will continue to evolve too. That will bring fresh challenges to risk managers around how to safeguard stakeholder interests, which often compete.

In some ways it is an old story…

Marketing wants to create frictionless transactions for customers to buy whenever and however they want, whereas risk managers see the "bigger picture" and are concerned about asset protection.

I recall, several years ago, being told by the Director of Risk & Audit for a top ten retailer that his colleagues openly referred to his Loss Prevention Department as the "*Sales* Prevention Department!"

However, what is different today is the nature of the relationship between the newly elevated in importance DCs and the Risk Management Department, as well as the nature of the pressures that risk managers find themselves under.

As a result, it is hoped that a white paper highlighting some key factors influencing how other risk managers have managed to successfully bring about change in their DCs will provide valuable assistance for others who wish to do the same.

Acknowledgements

I am indebted to the many retailers who have kindly shared information and anecdotes with me as I collated information for this paper. Through the Retail Risk conference series, I have been privileged to access a number of top-level risk managers who have been very generous with their time and information.

In particular I would like to thank Tim Edwards of JD Sports & Fashion, John Ferguson at Hermes Parcelnet and Steve Teatum of Next Plc, who have been especially generous in giving their time to this project. Their experiences with the introduction around technology supplied by our publisher, Thruvision, provided terrific insight into how new technology can successfully be introduced into the most demanding environments.

I would also like to thank Thruvision for making the production of this material possible. Apart from providing the necessary financial support, Colin Evans and Ian Lindsay were also a fertile source of information and insight through their global dealings with retailers purchasing their body screening technology.

Whilst Thruvision's co-operation and collaboration has been vital in producing this work, this paper is about providing risk managers with information about successfully bringing about change in their businesses, not a thinly veiled advertisement for Thruvision products.

As author I am responsible for the views and opinions expressed herein. Any errors or omissions are my responsibility alone.

Mark Emmott

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About the author

Having graduated with Honours in Law, Mark joined the legal fraternity only to realise that private client work was rather boring!

Switching from Law he then trained as a management accountant and became group management accountant for an electronics group. After leading a management buyout of a loss making part of the group, the company was returned to profitability and sold three years later.

Inspired by the impact a disciplined sales and marketing approach had played in the company turnaround, Mark then established Really Effective Marketing, a B2B direct marketing specialist. Subsequently a mutual client introduced him to Paul Bessant, Founder of Retail Knowledge – owners of the Retail Risk conference series and the Fraud Awards. Paul invited Mark to join the Board...

Introduction

Today DCs are at the very epicentre of modern retail.

The backroom stock control boys that were once so far removed from the “action” in terms of delivery of a customer experience though a store-based delivery mechanism, now find themselves squarely on the front line.

In delivering omni-channel retail strategies designed to win and retain customers across a multi-channel offering, the DC has grown rapidly in importance.

The previously unfashionable and infrequently recognised DC is at the heart of any successful retail operation. Retail organisations become increasingly reliant upon their DCs to meet customer expectations based upon the promises made by their marketing departments and those of their competitors.

DCs are now the engine rooms that drive retail enterprises. Today, as never before, the emphasis is on getting it right.

SECTION ONE

Assent of the DC in an omni-channel environment

Readers of a certain age will recall simpler times in retail. That's not to say they were better. They were just "simpler."

To put in context the revolution that has taken place in retail, and the rapid ascendency of the DC in terms of its importance to a retail business, we are going to start by reflecting upon where we have come from in order to appreciate where we are...

The high street was "where it was at." As a consumer with disposable income in the 1980's the weekend ritual was to journey to the high street, which was where pretty much all shopping was conducted. Similarly, with general shopping and household goods. The idea of having shopping delivered was not mainstream.

If you wanted the latest books, music or fashion then you went to the shops, picked it and paid for it with cash or cheque. Charge cards were available - M&S, for example, launched theirs in 1985. Debit cards were not introduced until later in 1987 when Barclays issued their Visa Delta card under the "Connect" brand in June. The internet was largely unknown (It is generally agreed that the internet did not become "mainstream" until the end of 1995, and even then, only really amongst tech professionals).

After your shopping trip, you returned home with your purchases. And woe betide you if you wanted to change your mind. Because, if having made your purchase you regretted it, you would usually have to revisit the shop from where you bought it, in person, to plead with the shop assistant to change the goods or issue a credit note.

I say "plead" because the Sale of Goods Act 1979 only provided refunds for consumers if the goods purchased were not of a "merchantable quality." Changing your mind meant that you were often stuck with your purchase, as retailers were generally not keen to refund purchases.

A very few retailers, such as M&S, saw the reticence of many retailers to cheerfully offer refunds as a marketing opportunity and became well known for offering a no quibble money back guarantee. However, they were in the minority of retailers.

Hard copy mail order catalogues, as big as a footstool, would be delivered to the homes of catalogue shoppers from which they, and their friends, could select their purchases. UK mail order, such as Littlewoods, picking up on the trends in the USA who lead the way in this field, did usually offer some form of money back guarantee. However, the returns process was often undertaken at the consumer's expense and refunds made as credits on to their accounts rather than to their banks. This was true even in the USA where forward thinking retailers, such as L.L Bean, managed to grab huge market share simply by offering an unequivocal money back guarantee at any time throughout the life of the product.

The focus on customer service was highlighted as the secret to success, with M&S becoming the first ever retailer to hit an annual turnover of £1 billion in 1998. Across the Pond, management gurus Tom Peters and Pete Waterman showed the way through their highly influential book In Search of Excellence, citing Sears and IBM as models of customer-centric success and evolution. Times were very different then...

Today, meeting the changed expectations of customers towards modern day retail would be impossible without a sophisticated DC. It is the vital component in retail the machines that, around the clock and 24/7, deliver to consumers a branded retail experience, wherever, however and whenever each individual customer wants that experience to be.

Here are the FIVE areas that underpin the ascendency in importance to retail businesses of the of the modern DC…

1) Importance of ability to deliver the right goods to customers on time, every time

Competition has transformed the consumer retail experience. At its centre, modern retail is about getting consumers to buy-in to a set of products and values that lead to an ongoing relationship.

At a time when people are sceptical about what they are being told – think about fake news, fake websites, fake goods and claims – the role of the brand is paramount. Branding is shorthand for the values a business stands for. It is the explicit statement of an implicit relationship.

Most important in retail is the role of the brand in securing trust. Modern consumers do not know who to trust. So, they turn to people, sources and organisations that have shown themselves to be trustworthy and aligned to the values that the individual holds dear.

Part of that trust dynamic is the ability of organisations to do what they say they will do – to deliver on their promises. However, the corollary to this is that trust becomes dependent upon a retailer continuously living up to their own claims regarding ever more ambitious ways to facilitate the consumer's shopping experience with the brand.

To put it another way, retailers must deliver on their promises because if they don't trust will be broken and the consumer relationship, to some degree, damaged. And in this competitive age you don't get too many chances with modern consumers, who are quick to switch their allegiances to other retailers offering the same or similar propositions – especially if they offer the same branded goods.

Hence the rising importance of the DC. Because it is ultimately the engine room of the business most responsible for delivering on the retailer's promises and maintaining that trust.

2) Ability to process returned goods – 50% of goods shipped will be returned

At the start of this paper we recalled certain aspects of the buying experience from the 80s. One important aspect of those times was the ability to exchange goods.

It is not that long ago that you would be unlikely to get a refund from a retailer unless your goods were defective, in which case the 1979 Sale of Goods Act required that a full refund should be given. Even so, some retailers played on the ignorance of the public at large and would tell their staff to refuse a refund, even of the goods were defective, and insist that customers were only entitled to have the goods exchanged.

One major development in the shopping experience has been the widespread use of returns by consumers to make their minds up. Today marketing departments are very keen to emphasise the ease with which goods can be returned if they do not meet the consumer's needs or tastes.

As a result, it is not uncommon for a DC to be dealing with almost the same volume of returns as they are making despatches.

Now those returns must be identified, checked, repacked and put back into stock. In effect those goods have to be processed at least twice, dramatically increasing the volume of goods handled by a DC and the value of stock retained in the business. And with increased volume comes increased opportunity for shrink, be that from criminal acts, accidental loss or administrative errors.

3) DCs as part of the customer experience

Today when a customer orders a red sports shirt in a specific size they may elect to click and collect in an hour or even less. To make that happen the business must know for sure what stock it has and where, in real time. If that fundamental fails then you have the situation where a consumer makes a trip to collect what they have clicked only to be disappointed and, as we said earlier, trust is then broken.

The author recalls retailer conversations, as recent as just three years ago, where discussions were had about RFID systems and their possible use within Loss Prevention. At that time, whilst the overriding view about RFID was that it was an excellent way to keep track of stock and reduce stock loss, it was "too expensive". That was when the Loss Prevention Department was looking for budget. However, then the marketing departments saw the possibilities and views changed quickly.

Thanks to the marketing people, RFID was no longer an LP overhead but a driver for new business. Marketers could see how, utilising RFID the business could offer customers ever faster delivery and positive consumer experiences based on a confidence in what stock was available and where. They could also track individual customer preferences and target them with bespoke offers and a customised shopping experience.

Angel Maldonado, founder of eCommerce search and navigation experts Empathy Broker, says: "As we see more and more consumers going online, and more frequently, this presents a great opportunity for eCommerce retailers, but it also means more than ever they need to get the digital experience right."

"Creating more memorable online experiences not only generates sales, it creates emotion, brand connection and loyalty. It's no longer enough to offer great products or have the coolest store. It helps, yes, but in the end, it all comes back to emotions, to making people feel unique and special. Smart retailers are thinking more about people, relationships and creating memorable and joyful digital experiences."

At that time many retailers had trialled RFID. Within those trials it was not uncommon to find stated stock levels as far as 40% out. That did not mean that 40% of the stock was missing or overstated in the balance sheet. It meant that vast amounts of stock were wrongly identified, such as small size Everton shirts listed as large size Liverpool ones! The overall value of stock may have been correct for accounting purposes, but the SQUs were wrong.

Now the modern DC has to make certain that the goods being shipped are indeed the correct ones. This is not just an accounting issue, but life and death in terms of brand reputation and the ability of the business to win and retain customers.

4) Proliferation of the buy, try and return culture

Recent research by Brightpearl, reported in the Retail Gazette, found that more than 40% of retailers had seen a marked increase in "intentional returns" over the past twelve months. "Intentional returns" are when customers deliberately over-order multiple items without the intention of keeping everything in their virtual trollies.

The research found 51% of the retailers surveyed agreed that their margins are being strongly impacted by the process of handling and packaging returns. Furthermore, 72% believe they will be squeezed even further as the try-before-you-buy trend intensifies.

Looking at the breakdown by age, this behaviour is set to become the norm – a full 50% of 18 to 24 year olds in the UK admit to buying multiple items with the intention of returning some. The trend is also more prevalent among female shoppers, with 28% saying that they have bought more items than they intend to purchase, for the benefit of trying them before they purchase.

From the research already emerging, it looks like pay later returns are much more than a passing phase and are instead likely to represent a long-term consumer behaviour. And here the DC is crucial to the initial delivery and cost-effective processing of the returns ready for shipment to the next customer.

5) Profitability of multi-channel sales eclipses store results

According to the Office for National Statistics spending online has continued to increase in recent times, reaching a new record proportion of 21.5% of all retail spending in November 2018.

However, omni-channel retailing is not just about volume. It is about profitability. Here is an *extract from 'A Study of 46,000 Shoppers Shows That Omni-channel Retailing Works',* from McKinsey and the Harvard Business Review, first published in 2017…

"Our study's results are revealing. They show that the retailer's omni-channel customers are more valuable on multiple counts.

After controlling for shopping experience, they spent an average of 4% more on every shopping occasion in the store and 10% more online than single-channel customers. Even more compelling, with every additional channel they used, shoppers spent more money in the store.

… our study firmly endorses traditional retailers' logic of embracing an omni-channel strategy and using it as a differentiator to fight the online retail onslaught."

In short, we know that customers served across an omni-channel environment are worth more to the business than others. So, the role of the DC is to facilitate proliferation of omni-channel customers bought-in to shopping with their brand.

SECTION TWO

As DCs become more important, what are the challenges?

So, as we can see, the changing nature of how consumers shop has placed greater emphasis than ever before on the role of the DC. The consequence of this is that DCs have had to grow in size and sophistication to be equal to the task.

However, as DCs have grown so too have the risk management challenges associated with operating them. Because with omni-channel retail comes omni-channel fraud.

The main challenges can be summarised as found in five key areas…

1. Prevention of internal theft

It is well known in risk management that internal theft is a major source of loss to businesses. And it is not getting better. Actually, it is getting worse.

The British Retail Consortium Annual Retail Crime Survey 2019 reported a 31% growth in retail crime, with theft estimated to have cost the industry £700M in 2018/19. And anyone who has spent time in any DC will know that theft is often an issue.

It is said that 10% of people will never steal if given the chance and 10% always will. So, the trick is to ensure that the 80% of good people "are not given the opportunity to make bad choices."

2. Prevention of external theft – contractors, vendors, maintenance people, out of branch staff

Similar to internal theft, external theft can often be opportunistic.

Surveys, such as the BRC survey referred to above, regularly identify external theft as the biggest factor in the annual cost of shrink to retailers, estimated to be a £700 million loss in 2018.

However, the above level of loss is focussed around shoplifting and organised crime. Figures specific to DCs do not seem to yet exist. That said, the National Cyber Security Centre has estimated that 65% of ALL security breaches can be traced back to a third party in the supply chain! So logically it is probable that external theft in DC's is a big contributor to annual shrink.

3. Range of goods offered

Modern DCs deal with tens of thousands of SQUs. Some are high value, quite small and so easy to conceal in clothing when attempting a theft.

Some items are made of materials that are difficult to detect, such as plastic or fabric. Metal detectors will not pick up plastic! RFID/EAS tags can be removed or destroyed.

The key challenges to detecting goods that can be concealed on a person body or clothing are:

a. Not all items contain metal, so metallic detection alone is not enough

b. Small, high value items that can easily be concealed upon the person

c. Some things are valuable by virtue of their commercial Intellectual Property rights, such as new clothing or footwear designs that are commercially sensitive, software, gaming programmes, movies or other digital products. Here the opportunity is to illicitly sell around the world, quickly and cheaply using tech easily available to all at low cost.

Exit search procedures would have to be more thorough than is commercially viable, or legally permitted to apprehend all theft.

4. Organised Retail Crime

DCs are attractive places for Organised Retail Crime ("ORC") gangs to operate in.

First there is the obvious possibility of organised theft of goods. Gangs can operate a shift process to exploit any weakness in a DC. By using a number of gang members to systematically undertake a process of theft a retailer can very quickly suffer significant losses.

The attraction of the DC as a source of revenue is not lost on organised crime. In fact, there have been turf wars over which gangs operate exclusively in DCs. Such warring between criminal factions has led to "pitched battles in the car park" where gangs fight for the "right" to exclusively operate within a DC.

Whilst much of the search procedures in DCs focus on stopping goods being illicitly removed, there has also been the issue, within some DCs, of the need to stop weaponry being taken in by gang members committed to eliminating other gangs from "their" DC.

Once an organised crime gang is operating within a DC it can be extremely difficult to remove them. Any successful apprehensions and even prosecutions of individuals are likely to be inconsequential in terms of the impact on overall theft and especially the gang bosses. And where gang members have been apprehended there are examples of that person doing the rounds of all DCs in the area, moving from one to the next in order to continue their criminal activities.

Finally, there is the issue of gangs using DCs in order to distribute prohibited substances. Once established within a large DC, a drug dealing operation has a large community temporarily cut off from the outside world most days. It is, of course, a captive audience. Although the implications for any business, whose employees are routinely using drugs, are dire.

5. Health & Safety – enforce prohibition of staff cell phones and lighters.

As mentioned above, part of the need to control what comes in and out of DCs includes stopping organised crime gangs taking weaponry into DCs arming themselves to fight other gangs for their turf. However, there are also Health & Safety reasons why control needs to be exercised on what comes in to DCs.

In many DC's cigarette lighters and mobile phones are banned. The reasons for the former are obvious from a fire safety and non-smoking workplace perspective.

Mobile phones are an issue for three reasons. First of all, you do not want staff distracted by phone calls, texts or social media activities when they should be working. Second, most modern mobile phones have cameras for taking pictures or video. These can be used to potentially steal data and so are part of the GDPR piece as well as retailers protection their commercial operations and procedures from people who should not be privy to such things. Finally, some of the large DCs occupy millions of square feet of industrial space. Should criminals infiltrate this space, having the ability to freely communicate with mobile phones, both with each other and with members of the workforce, would be to place a valuable communications tool in entirely the wrong hands and likely to lead to an escalation of criminal activity and loss.

SECTION THREE

New factors affecting the DC that risk managers must consider

In addition to what might be called the "conventional" challenges for risk managers listed above, the modern DC brings with it challenges not previously seen in a distribution environment.

Industrial history has played an important part in shaping the DC landscape. Towns formerly reliant upon steel processing or coal production for local employment and economic success sought to attract investment into their areas as heavy industry contracted or closed down altogether.

Retailers were not slow to see the economic advantages of moving operations to areas where regional and central government were offering very favourable terms in order to regenerate areas. And so, clusters of retail parks featuring retailer DCs have grown up, established at a time when land was cheap, government grants offered and, critically, a vast pool of labour keen for any kind of employment was freely available.

However, now that is all changing…

Staff retention – increasing competition between DCs for low skilled workers

Businesses are now competing for people to perform low living wage, low skilled jobs. That includes staff at DCs. As operations have expanded, so has the need for more staff. DCs that historically employed 600-700 personnel now require 2,500. Operations need to be 24/7. And thanks to the clustering of DCs for reasons discussed above, businesses are now having to compete to attract staff to do jobs for which there was once in the recent past seemingly an inexhaustible supply of labour.

The need for staff is acutely felt at times of high seasonal demand. It is at these times that risk management can really be put on the back foot. As one HR person said to the author, when it gets to November if you want a job and have a pulse… you're in!

Another factory Operations Director pointed to significant delinquencies throughout the factory as being wholly caused by a shortage of labour. Customers were being let down on delivery because they simply could not make the items fast enough. Other businesses had attracted swathes of the workforce away.

When it is "all hands on deck", anecdotally this is when risk management is forced to accept that the business will accept higher levels of loss than normal, simply so it can satisfy demand for customer orders. This makes it especially difficult for risk management trying to protect the interests of all stakeholders when general support for their work is being diluted by economic necessity.

And of course, businesses reliant on entry and exit procedures as the primary method of policing their DCs will have far greater stress placed upon these procedures. Staff quality may be compromised, staff numbers increased and all that stands between the business and criminal activity are some security guards with metal detector security wands!

Need for an environment conducive to staff retention

Following on from the above point, despite internal threat being a significant cost to most retail businesses, the emphasis is very much on staff retention. It is fair to say that some DCs are "desperate" to hold on to their staff. Any risk management initiative that detracts from the employee experience is likely to get short shrift from HR.

One risk manager who had overseen the introduction of new loss prevention measures around staff exit procedures commented that, despite the significant amount of threat that the new procedures would neutralise, if HR or the unions had not been in favour of the introduction then they "would not have been allowed to even trial it."

This need to work with HR and the unions or employee representation bodies has become all important in the introduction of new procedures to deal with risk in DCs.

New technology manufactured by Thruvision allows for the full body screening of employees in around 8 seconds during exit or entry procedures, without the use of X-Rays. Basically, the equipment uses advanced passive terahertz technology to spot anything that comes between the camera and the source of body heat – the person being screened.

In all cases the technology has allowed users to speed up the exit search process. It has also been demonstrably better at detecting and deterring thefts from DCs. However, what is most interesting is not the technology, but the reasons businesses gave for installing it.

When asked about ROI with the Thruvision equipment, purchasers focussed more on speeding up the exit process so that staff could "just go home" and about "showing employees the respect they deserve," rather than any calculation based upon reduced shrink and ROI. In a modern DC reducing loss is important for all the reasons stated in this study. However, currently the real hot button is about improving the employee experience and showing greater respect. And that might seem incongruous when we are talking about minimum wage, low-skilled positions, but that is where we are right now.

Avoidance of legal disputes around the search process

There is no *prima facie* right for a business to search the person of an employee, unless there is an agreement to such contained in the employees written contract of employment. And even then, it can be a legal minefield...

Every business wishing to search employees must have a clear, written policy in place. It must be issued to all employees and should set out the reasons why a search may be made, the individuals authorised to carry out such searches, where the search will take place and the consequences of refusal.

The existence of a policy will not prevent claims from disgruntled employees if searches are carried out unreasonably. Individuals who carry out the searches should receive training. Ensure that the searches are carried out in private by a person of the same sex as the individual being searched and that no overly-invasive methods of searching are used.

An employee's express consent needs to be obtained prior to any search. If the employee refuses, then no search should take place, but you may choose to see the refusal as a breach of contract and commence disciplinary action.

It is anecdotal of course, but the author has often been told that the people who make the most fuss about search procedures tend to be those who are "under suspicion" in the first place. Nevertheless, this issue can be a constant concern for those operating DCs, with the ever-present threat of unfair dismissal claims stemming from search procedures deemed inappropriate by the employee close at hand.

The author has noticed that it does not seem unusual for some DCs to be dealing continually with employees who felt that their privacy had been violated during search procedures. Perhaps because of the way in which they were touched when wands were being used. Or perhaps because of the way in which they were selected for search, or because of the delay caused to them during exit procedures. Whatever the situation, mass one-on-one searches are opening up businesses to legal complaints, quite apart form the demoralising effect they have on staff.

HMRC investigations into effective rates of pay

HMRC's crackdown on employers deemed to be paying less than the National Minimum Wage is well documented. Its publication *"National Minimum Wage and National Living Wage - Government Evidence on Compliance and Enforcement 2017/2018"* provides an overview of minimum wage enforcement activity during that period.

The report boasts *"We are tough on employers who fail to comply and have strengthened enforcement of the minimum wage."* It goes on to show that the initiative is well funded by government. *"We have increased resources to HMRC to enforce the minimum wage – rising to £25.3 million in 2017/18 from £20 million in 2016/17. In 2017/18, underpinned by this investment in enforcement resources, HMRC achieved record enforcement results - identifying £15.6 million of minimum wage arrears benefitting over 200,000 workers (double the number of workers identified in 2016/17). This is the largest amount of money recovered for the highest number of workers in any single year since the NMW came in to force, demonstrating a high marginal return on the increase in enforcement resources."*

The report goes on *"We also continue to publish regular "naming" lists, of employers who are found to have underpaid their workers the minimum wage. This naming covers a large volume of employers and continues to attract widespread media coverage. As of July 2018, 1,957 employers have been named since the naming scheme began, with over 600 employers named in 2017/18 alone (233 in August 2017, 260 in December 2017 and 179 in March 2018)... A record £14 million in penalties were issued to employers in 2017/18."*

Not only is the retail sector identified as one of the high priority sectors for targeting by HMRC, a chilling thought is that *"HMRC responds to 100% of worker complaints and also conducts proactive, targeted enforcement of at-risk employers."*

In March 2018 restaurant chains Wagamama, TGI Fridays and high-street retailer Karen Millen – along with hotel group Marriott – were among the 179 UK employers that the Department for Business, Energy and Industrial Strategy said had failed to pay nearly 10,000 workers the correct minimum - revealing that hospitality, hairdressing and *retail* were the worst offending sectors.

Well known retailers have been the high-profile targets of some of these investigations. Whether HMRC has got the balance right in terms of prosecuting those who deliberately or recklessly flout the law versus those who inadvertently or unintentionally infringe it is a question of some debate.

Business secretary Greg Clark wrote to retailers pledging to review national minimum wage regulations weeks before it emerged retailer Iceland may have become the latest business to inadvertently fall foul of the rules. In a letter sent to the British Retail Consortium (BRC) in mid-December 2018 Clark said he would consider changes to the law "when evidence shows that rules unnecessarily penalize employers".

The fact remains that DCs are an obvious target for such investigations. The searching of staff, as part of entry and exit procedures, is something that must be carefully considered within the context of the national minimum wage legislation. Systems that speed up exit processes, such as the Thruvision system, will be increasingly important in making sure that businesses stay on the right side of the law whilst protecting stakeholder interests.

In some businesses agreement has been reached with unions or employee bodies as to what is a reasonable timeframe within which entry and exit procedures should be completed. However, it is unclear whether a DC operating within such agreed timeframes could raise this as a defence to a prosecution by HMRC for infringing the national minimum wage rules if de facto this lowered staff remuneration to below the legal minimum. To use Clark's words, would this "unnecessarily penalise employers" trying to protect their businesses, or is it exactly the kind of activity the legislation is designed to stop?

CONCLUSION

What then can we summarise are the key concerns for risk management when bringing about change in a modern distribution centre?

In conclusion, we can say that in order to create an attractive proposition when trying to bring about risk management change in a DC, ticking as many of the following boxes as possible should help get buy-in from the business

1)DCs are the key to gaining, retaining and ethically exploiting the relationships businesses have with their customers and the opportunities generated by omni-channel retailing. Customers utilising omni-channel offerings tend to be the most profitable.

2) Most DCs rely on manual labour. Low skilled staff will assume increasing importance in delivering retail service. They must be retained as a minimum and ideally inspired to deliver. If management, or other departments such as HR do not believe your initiative will contribute to staff retention and a good employee experience, then forget it!

3) Solutions need to be sold to staff bodies, such as unions, HR and the staff themselves. Staff will “put up” with less, because increasingly they have a choice to go and work elsewhere. Any initiative must be shown to be in the interests of the majority of staff.

4) DCs are the battlefields upon which retailers fight daily in their attempts to get and retain market share. Businesses are often more prepared to spend money in DCs than, say, stores because the DCs are higher priority in the daily battle for growth and retention of market share. Investment that helps drive improvements in a DC is perhaps more likely to be sanctioned than expenditure in other parts of the risk management system.

5) When creating a business case for risk management investment in a DC, ROI is not just about the numbers. It is also about intangible factors such as improving the employee experience and showing staff respect. Technology such as the Thruvision system speed up entry and exist procedures and allow staff to be shown greater respect and dignity, whilst simultaneously increasing search speed and the deterrent factor. However, better deterrent value alone is unlikely to get buy-in from the business. This is because it is staff retention that creates competitive advantage. And without staff, currently everything else is commentary.

6) Exit procedures have become a vital part of the fight against crime and are especially under strain during busy periods for the business. This is especially true in times of peak labour demand where HR can be under huge pressure to recruit staff. However, not only should retailers look very carefully at their exit and entry procedures, especially if they involve physical searches of any kind, but also need to be wary of national minimum wage legislation and avoid inadvertently falling foul of it owing to slow processes.