PREVENTING EMPLOYEE THEFT

- Bill Gorman -

How naïve we all can be. Sometimes because we don’t want to think it, we just refuse to accept a problem that can be real and costly. Employee theft, knowingly or unknowingly, can be a major problem in a dealership. In 30% of the bankruptcy files in Federal Court, employee theft played a part. No matter how much the owner of a dealership doesn’t want to believe it, or doesn’t want to bother with it, prevention of employee theft is something the prudent dealer must pay attention to.

The examples are numerous. The ways to steal from a dealership are as varied as one’s imagination. In reality, there may only be small percentage of dealerships that have any problem on an on-going basis. By the same token, most dealerships experience some shrinkage sooner or later.

An interesting fact is that 65% of shrinkage a dealership has is internal from employees vs. 35% external from customers.

Employee theft can come from the following areas:

A. The sales floor. Discounts to friend’s merchandise thrown in for favorite customers. The first time an employee does it. It feels like stealing, the next time it feels like something wrong. Then it becomes standard operating procedure.

B. The stocking area for Parts & Accessories. The shipping & receiving area should be off limits to most employees.

C. A warehouse area. Only the Parts Manager should have a key for this area.

D. Items thrown in the trash. Sometimes in error; sometimes to be retrieved later.

E. In collusion with other people in the dealership.

Keep in mind that a dishonest employee can steal several items at one time or several times a day. A shoplifter usually only takes one item. Shrinkage should not just be accepted as a cost of doing business.

Competitive pressures of doing business today make it necessary to control all expenses. This means we need to take the time to address this issue. Shrinkage is a cost of doing business that the owner of a dealership can influence.
Loss prevention starts with attitude. Peer pressure at all levels of employees will help to deter employee theft.

Control can come in many forms. Training programs, fences and locks, limited access areas, mirrors, concealed TV monitors, spot checking inventory counts with accounting inventory, spot checking deals & receipt numbers, and mailing an audited copy of a deal to a customer to verify details.

Each dealership should have a strong policy on employee theft and take a stance that it won’t be tolerated. This stance must be followed through on. The dealership policy should be thoroughly reviewed at employee orientation.

Some examples that I have personally seen or uncovered in dealerships are as follows. Some of these may seem easy to catch, but don’t let yourself be fooled.

A. The salesperson asks the customer to put a $500 tip in the salesperson’s pocket so the salesperson could lower the price of the RV by $2000.

B. A trade was taken in but it only appeared on the unnumbered write up sheet, which was destroyed. The contract did not show a trade. The salesperson picked up the trade and took it home.

C. The customer wants to sell his used RV and comes into the dealership and speaks to a salesperson. He discusses selling his unit and the salesperson suggests that a consignment sale could be worked out. The salesperson goes to the seller’s home, picks up the unit and takes it to the home of a prospect he has and sells the unit and keeps a handsome margin. This has amounted to over a $100,000 loss per year in gross profit.

D. The person who balances the cash register happens also to be the person who opens the mail. The day’s cash register receipts are balanced by trading cash with a warranty check from the factory. The results, $40,000 in cash later spent at the racetrack by the office manager; the warranty is written off.

E. A salesperson has prospects come back and ask for him often. When the purchase is made, this same salesperson goes into the accessory store and hands an arm full of merchandise to the customer that is unrecorded. Result, inventory never comes close to what it should be and the dealership loses $76,000 in one year from this source alone.

F. A customer comes in complaining to the owner about service work preformed on his unit that is still not right. The customer has no receipt and the dealership has no record of the work. The Service Manager has left the company. The customer claims giving a leather coat to the Service Manager to get the job done on time.
G. The Parts Manager inflates the cost of parts as he enters them into inventory. Results, parts inventory matches the inventory count in value. Problem, an amount of inventory equal to the inflated amount is missing.

H. The sales manager appraises trade-ins and is paid a percentage of the Sales Department gross profit. Three months later the Sales Manager quits and the used inventory is $250,000 over book value.

I. The sales manager wholesales used units for less than the deals were originally written for, then adjusts the gross profit down. The wholesaler pays a kickback to the Sales Manager. Results, $700,000 loss over a three-year period.

There are thousands of other easy to have a problem. A dealership is a hands-on business for an owner. New employees should be told that their work will be audited and if any shrinkage problems arise that integrity tests will be conducted. Some owners have actually had more merchandise shipped in than was ordered or put excess cash in the register just to see what happens.

**Remember that it is better to prevent a theft than to catch a thief!**

Bill Gorman was President of Gorman Planning Co., Ltd. in Virginia Beach. His many years of experience in the industry included positions as owner of a dealership, general manager, sales manager, salesman, mechanic, service manager, manufacturer's representative, consultant and trainer. Following his death, Bill's impact continues in the hearts of people and within the many organizations with which he had contact over a long and highly successful career.

These articles are re-published and may be used for individual reference. They are published in this online library with permission.