

Footlocker

Sociology, Empowerment



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Incorporated: Risk Prevention Methods Foot Locker Incorporated (ticker symbol: FL) is a U. S. based company that operates worldwide. Their services include the sale of various athletic equipment, sports apparel and products. According to their company background, as of the beginning of 2009 Foot Locker operates roughly 3, 600 retail stores in 21 countries worldwide (“About Us”). Although Foot Locker provides their goods through both local retail stores and an online based “direct-to- customers” program, my risk management tactics will primarily focus on local retailers and warehouses and their risks. The five risks I have chosen are employee theft within the local branches and through bank accounts, customer theft within the store, physical injuries to customers and employees on Foot Locker property, property damage to Foot Locker property due to obscene weather conditions and the risk of fluctuating prices of necessary inputs that are used in the production of various Foot Locker goods including footwear. One of the most essential inputs in the production of footwear is rubber. As a risk manager, I must take into account the possibility of the cost of rubber increasing.

According to the commodities index ran by indexmundi. com, the price of rubber has increased every month for the past 6 months. In January 2010, the price of rubber increased to \$139. 73 from \$92. 86 merely 6 months ago in August of 2009 (“Rubber Monthly Prices”). This nearly 34% increase in the commodity price of rubber could have devastating effects on FootLockerscost of production. This increase will potentially increase the cost of producing foot and athletic wear, which in turn will increase retail prices. The need for consumers to purchase high end Foot Locker products will then

decrease as retail prices increase. Rubber remains the main input in producing footwear; however the leather used in everyday footwear is prevalent enough to be looked at. Due to the fluctuating productivity and efficiency during the current economic downturn, buyers tend to be less predictable. “ Earlier, the buyers anticipated sales trend and placed orders well ahead of time. But now they wait to ensure retail off-take before placing orders. Improving speed of operations even as one keeps cost down is important (“ Business Line”). ” This efficiency has brought down leather prices. “ Leather prices are also dropping and this contributed to leather costs coming down to 50-60 per cent from 70 per cent (“ Business Line”). ” Although this decrease in leather costs could potentially help the cost of footwear production, the main input in footwear production is rubber. As the price of the main input of my product increases, I must be ready to counteract this risk. In doing so, I am also performing another risk by hedging the cost of my inputs. I must be willing to set a pre-determined price of rubber to be purchased from my wholesaler for a set amount time. Although I take the risk of the price falling below my set price, since the prices have increased at a constant rate for the past 6 months my current risk is dramatically lower. By setting the price 6 months ahead of time I, as a risk manager, potentially prevent the 34% loss that could have occurred over the past 6 months. Along with the speculative risk of price fluctuation, there are many pure risks that come when providing goods to consumers. Employee theft is one of the most common risks an employer or company takes on when doing business. “ Every year billions of dollars are lost by businesses nationwide to employee fraud and theft and the number of

incidents are rising. ” (Schaefer 1). Employees could steal cash, merchandise, and illegally redirect customer account information to a private account. “ A former Foot Locker employee was sentenced to five years probation and ordered to pay nearly \$26, 000 in restitution for taking the company’s money to cover his Internet gambling debts (The Maui News). Although a prison sentence and or a large fine may be the consequences of such employee theft, the \$385, 000, 000 of cash and cash equivalents (2009) available for theft seems to lure in potential thieves (“ Balance Sheet”). The \$1, 120, 000, 000 in merchandise inventory available for possible theft is a savoring number to employees and even Foot Locker customers. Shoplifting is a prevalent crime within the United States that must be controlled by risk managers. During December of 2009, a Foot Locker in Atlanta, Georgia was robbed when “ police arrested two adults and four juveniles in a smash and grab job. ” (CBS Atlanta 1) Unlike employee theft, customer theft is limited to the \$1, 120, 000, 000 in merchandise inventory (“ Balance Sheet”). Although the inventory and cash could potentially be recovered from the employee(s) or customer(s) through a lawsuit, as a risk manager I would need to take preventative action. I would create loss control by having surveillance cameras both watching customer and employee actions. This includes surveillance on all cash registers and credit card machines. Also, I would inform both the customer and employee they are being watched and remind them of the potential prison punishment for any crime committed by posting signs throughout the store. For employees I would conduct thorough background checks to prevent the hiring of former high profile convicts. I would also spread the finances among

various managers; I would not allow a single manager to keep track of or control the finances of any single retail store or warehouse. Finally, as a risk manager I would follow up on any customer complaints with any banking issues and take into account any reported suspicions by employees about other employee or customer theft. In order to further prevent loss, I would purchase an insurance policy to insure any outsized amount of fraud or crime committed. Another risk held by business owners is the possibility of a lawsuit by customers and or employees for sustaining bodily injuries. Customers or employees may slip on an unmarked wet spot causing a concussion or other bodily harm. Also, a tall person might hit an unmarked metal shutter or sign. Injuries may range from a “ no problem” scrap or bump to a serious lawsuit involving several injuries. An employee may sever his or her spine after falling off a 20 foot latter while trying to stock merchandise; or be severely harmed while operating footwear machinery within a company warehouse. The potential loss and costs can be irreparable depending on the lawsuit. Several precautions should be set in place. Prior to employment, I would mandate all employees to sign a contract indicating that a lawsuit against Foot Locker cannot be conducted. The contract would include bodily injuries. However, a severance package under workers compensation will be rewarded to all deserving employees pending a full investigation. As of 2009, company severance packages totaled \$13, 000, 000 (“ Balance Sheet”). I would also provide training on how to stock merchandise within a retail store; warn customers of a wet floor or potential harmful area; and teach employees how to operate equipment within a warehouse. For customer lawsuit prevention, I would have managers post

clear signs where potential harm may occur. Also, I would post a sign right outside of every retail store transferring injury risk to all customers that step foot into a Foot Locker location. Furthermore, I would purchase several insurance packages against high stakes lawsuits from employees or customers that obtained bodily injuries on Foot Locker property. Using these measures reduces Foot Locker's liability to customers and employees. However, the risk to Foot Locker's property is always rampant due to prospective weather disasters. The potential cost during a weather disaster such as a flood or a hurricane can be enormous. Although the idea of all of Foot Locker's stores and warehouses being affected at the same time is highly improbable, the potential can be exceedingly high. The net value (purchase price subtracted by accumulated depreciation) of Foot Locker's buildings, furniture, fixtures & equipment reached \$223, 000, 000 in 2009 ("Balance Sheet"). This amount of loss could potentially bankrupt Foot Locker without the possibility of coming back into business. To prevent such a loss, Foot Locker could place their warehouses in locations with a lower potential for harmful weather conditions. Locations that tend to have a hotter climate with low wind gusts are ideal due to the low probability of property damage. Also, I would purchase insurance on all property, furniture and equipment that would covered a loss due to catastrophic weather. A precautionary measure to minor damage could be using flood bags during a flood and making sure exposed sections of property are sufficiently covered to prevent wind from damaging interior assets. To add on, in order to protect employees from harm a risk manager should make sure all emergency equipment is working roperly and all employees understand emergency

procedures. As a risk manager, assessing risks and developing the appropriate amount of precautionary methods to prevent potential risks is essential. Keeping track of these risks while evaluating the possible loss is just as essential; and a well developed report will help subordinate these risks.

Reference

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