

THE FIRST WORLDWIDE
SHRINKAGE SURVEY



CHANGING RETAIL, CHANGING LOSS PREVENTION

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CHANGING RETAIL, CHANGING LOSS PREVENTION

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Introduction

This report, *Changing Retail, Changing Loss Prevention*, analyses the evolution of retail crime and loss prevention in the light of the *Global Retail Theft Barometer (GRTB)* publications since 2001. The GRTB is a series of international reports produced by the Centre for Retail Research which provides annual data on the changing work of retail loss prevention in this period. The figures quoted in this report are global results drawn from the GRTB, unless otherwise stated.

Every edition of the GRTB, and its predecessor, the ERTB, has been sponsored by Checkpoint Systems, Inc, the global leader in shrink management, merchandise visibility and apparel labelling solutions. The GRTB is a means by which retailers can understand shrinkage and crime trends by sector and country, and is a contribution to debate within the retail industry.

The Global Retail Theft Barometers.

The *Global Retail Theft Barometer (GRTB)* started as the *European Retail Theft Barometer (ERTB)* reporting on up to 17 European retail crime and shrinkage between 2001 and 2006. From 2007, the studies, now called the *Global Retail Theft Barometer*, grew steadily to cover 43 countries by 2011. Most but not all of the major retail centres were included by 2011, including the U.S., Canada, Mexico, Germany, Brazil, France, Argentina, Russia, the UK, Japan, China, Australia, Hong Kong, Singapore, India, and South Africa. A complete list of countries surveyed is provided in Appendix 1.

FROM 'RETAIL SECURITY' TO LOSS PREVENTION

At one time, protecting a retail corporation's assets was a role seen primarily as a policing one and retailers employed personnel (often with a police or military background) to carry out this task. The main role was to apprehend thieves stealing from the organisation and to prevent violent crime. The expectation was that this role was to be carried out mostly by arresting malefactors and handing them to the police. The value of retail security was often judged in terms of the numbers of arrests made and the efficiency of individual loss prevention officers would frequently be measured in terms of whether they had achieved their target number of arrests.

Starting with the U.S. the 'retail security' (ie policing) model of loss prevention has been increasingly disparaged. The role of loss prevention, as its name suggests, has been to minimise retail loss rather than arresting large numbers of people. Loss prevention has been seen as being more concerned with financial and operational performance capable of reducing or preventing losses of all kinds. Specialist skills of investigation and arresting thieves without creating civil liability are of course essential to loss prevention work, but they only form part of what is required. The emphasis increasingly has been upon the *prevention* and *deterrence* of offending, and much less upon apprehending as many thieves as is

practicable. Indeed, at its best, a good loss prevention department might have no arrests at all if its prevention work is of a very high order, although in practical terms this is highly unlikely.

Apprehending thieves, processing them and handing them to the police (inevitably involving some court appearances) is extremely expensive and often costs more than the merchandise recovered when a thief is caught. Loss prevention specialists certainly patrol the stores and investigate suspicious employee behaviour, but loss prevention also includes preparing improved procedures, ensuring greater conformity with company loss prevention policy, training staff to be more aware of potential loss, analysing loss and working with other departments to mitigate actual or potential losses caused by error or procedural failures (as well as loss caused by crime), and helping to develop new policies needed for the changing pattern of retail losses, such as online losses or losses caused by the growing problem of refund/returns fraud.

RETAIL LOSS PREVENTION DEALS WITH SHRINKAGE

The performance of loss prevention departments is usually assessed in terms of ‘shrinkage’.

Shrinkage losses are caused by theft and fraud as well as procedural failures and accounting errors. Although the media often suggest that use of the word ‘shrinkage’ is simply retailers being mealy-mouthed about shoplifting, in fact the concept of shrinkage includes many different sources of loss. Shrinkage is defined as inventory loss, a discrepancy between the value of goods shipped to a store and the resulting sales proceeds. Unfortunately, individual retailers have different ways of calculating shrinkage, so this will always be a source of inconsistency when comparing shrinkage results.

The GRTB has always been a shrinkage and crime survey and it provides detailed evidence about shrinkage losses and the trends. By 2011, the GRTB found that in the 43 countries surveyed, shrinkage losses suffered by the world’s retailers amounted to \$119 billion (\$119 000 million) for the previous 12 months. An idea of the overall impact of shrinkage losses upon households can be seen in the fact that global shrinkage in 2011 amounted to a cost of \$185.44 per family each year in the 43 countries studied. Shrinkage losses expressed as a percentage of retail sales (at retail prices) were 1.45%, an increase of 6.6% compared to the previous year when shrinkage was 1.36%.

Table 1 shows the shrinkage losses, by region, in 2011. The lowest regional average shrinkage rate was found in the Asia Pacific countries (1.22%), the highest in Middle East/Africa (two countries only, 1.71%), with North America higher than average (1.58%) and Europe lower than average (1.39%).

Table 1

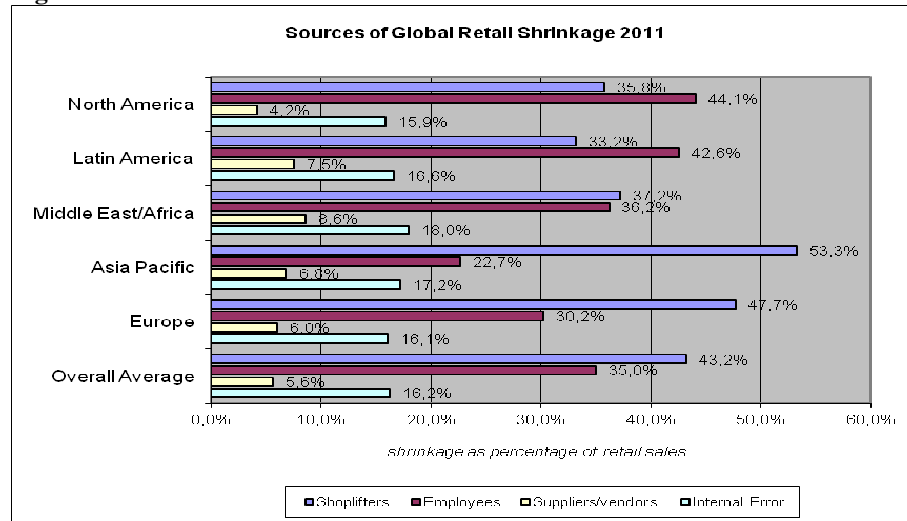
Shrinkage Losses by Region 2011		
	Shrinkage (\$millions)	Shrinkage as Percentage of Sales
Asia-Pacific	\$18,288	1.22%
Europe	\$48,615	1.39%
Latin America	\$6,053	1.67%
Middle East/Africa	\$815	1.71%
North America	\$45,321	1.58%
Global Totals	\$119,092	1.45%

SOURCES OF RETAIL SHRINKAGE

The main sources of retail shrinkage are: shoplifting (theft by customers); theft by employees; theft and fraud by vendors and suppliers; and process failures and accounting/procedural error, such as incorrect pricing and invoice problems. Loss prevention departments have therefore to be able to apply their skills in every one of these areas.

One of the most fundamental debates between retailers is whether the largest element in shrinkage is caused by shoplifting or by employee theft. Every edition of the ERTB and the GRTB has asked retailers to identify the main sources of their shrinkage loss. Using the 2011 figures (Figure 1), shoplifting was perceived globally to be the largest source of shrinkage (responsible for 43.2% of shrinkage), followed by employee theft (35.0%). Supplier/vendor fraud was 5.6% of shrinkage and process failures and accounting/procedural error was thought to be responsible for 16.2% of shrinkage. However there were great differences between countries and regions, and differences also between vertical markets.

Figure 1



In North America and Latin America employee theft was perceived to be the greatest source of shrinkage loss (44.1% and 42.6% respectively) and this was true for all the GRTB reports. In Europe and Asia-Pacific, shoplifting was thought to be the predominant source of loss (47.7% and 53.3% respectively). The early studies solely concerned with European retailers (the ERTB), show consistently that in those countries shoplifting loss has exceeded the losses from employee theft every year. Nevertheless, employee theft in Europe was responsible for 30.2% of retail shrinkage losses and in North America shoplifting accounted for 35.8% of shrinkage, so the value stolen by these second-ranking offences was still very significant.

In determining policy and practice, it is important for loss prevention departments to know whether employee crime or shoplifting is a bigger problem *for them*, as this will help to determine their priorities and how they allocate resources. One concern about U.S. retailers (before the recent rise in shoplifting which has produced a much more assertive strategy), was that for some retailers the losses caused by shoplifting were viewed as a constant but small issue that it was difficult to combat in a cost-effective manner. The opposite concern

about European retailers, and also those in the Asia Pacific region, was that their focus on shoplifting meant that they tended to underestimate the impact of employee theft upon their business and did not devote sufficient time and resources to the problems of employee theft.

Retailers operating ‘big box’ stores (such as hardware, electricals and grocery) were more likely to report higher rates of employee theft than retailers with smaller stores, department stores and fashion. This was true even in regions such as Europe, where on average shoplifting was perceived to be the greatest source of loss. Hence there is no single answer to whether employee theft or shoplifting is the most important element of shrinkage: it will vary between individual retailers, the country concerned and the vertical market (or type of business).

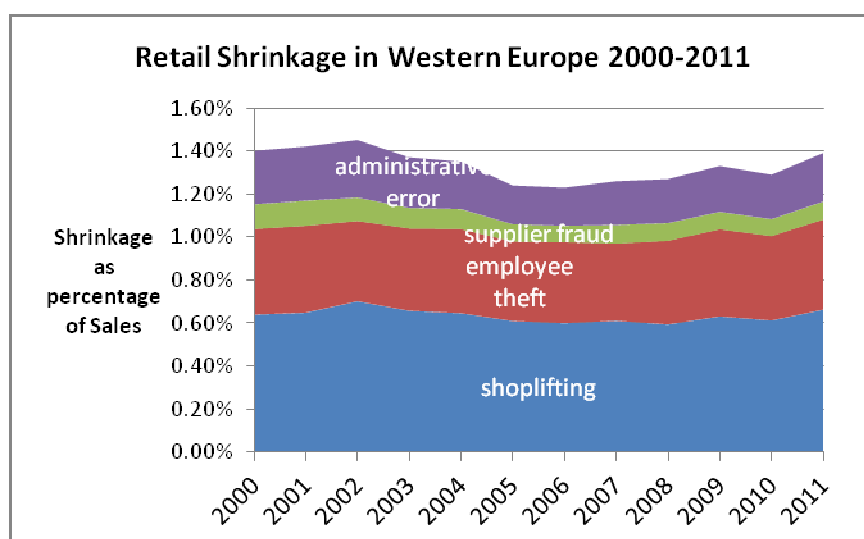
This means that in practice there is no iron law of shrinkage or natural level of shrinkage or universal cause of shrinkage losses. The level of shrinkage varies between retailers and countries. It will also vary over time.

TRENDS IN SHRINKAGE

The rate or level of shrinkage is affected by two main considerations. These are (a) the work internally carried out by loss prevention and other corporate partners to reduce shrinkage and (b) the external environment nationally and internationally that affects crime levels and the propensity to steal.

Since 2000, shrinkage levels in Western Europe have fluctuated considerably, as shown by Figure 2. Western Europe has been used because it is the only region for which we have consistent data covering more than a decade. In the early years of the period 2000-11, Western European retailers showed considerable success in reducing their shrinkage from an average of 1.45% of sales in 2002 to 1.23% in 2006. This was done by improved management methods, adopting loss prevention approaches, focusing more carefully on each source of shrinkage loss, and investing in loss prevention equipment.

Figure 2

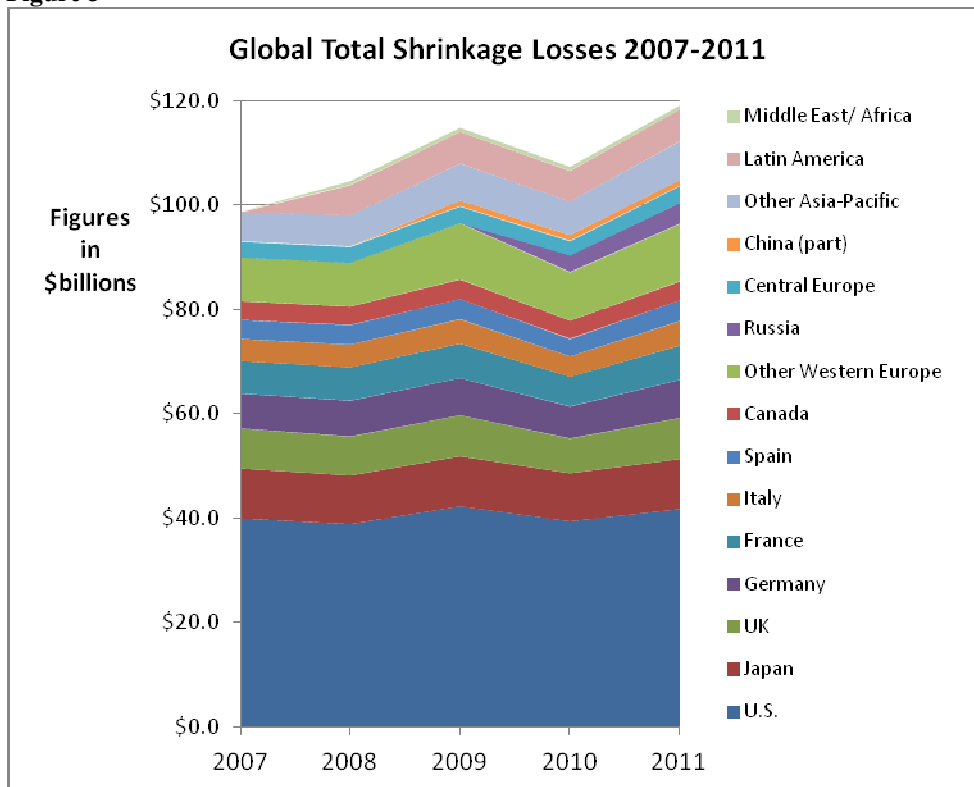


From the period 2007-08, shrinkage in Europe has risen quickly to a peak of 1.39% of sales by 2011. This was the period of the global recession. The link between recession and the increased rates of shrinkage is not a coincidence.

Exactly the same problems can be seen in other parts of the world as well; shrinkage has risen in the recession. Figure 3 shows the dollar-value totals of annual shrinkage globally for all the countries whose results are reported in the GRTB. These results are only available for the years 2007 to 2011. However most countries follow broadly similar annual trends and reinforce the European data shown in Figure 2.

Figure 3 shows two peaks, one in 2009 and a second one in 2011.

Figure 3



THE RECESSION: EXPLANATIONS FOR SHRINKAGE GROWTH

There are several factors that may explain the growth in shrinkage since 2007-08. Personally at the start of the recession I did not think that it would have much effect upon shrinkage rates: however the length and the depth of recession has meant that more people have enforced leisure, consumer confidence in the future has fallen, and living standards have often been curtailed by curbs on salary increases, inflation, short-time working or redundancy of a family member. Perhaps if badly-affected countries had emerged quickly from the recession it might have had little discernible impact on retail crime and shrinkage. The fact that the economic shock to millions of households and the changed expectations of consumers and employees have lasted for at least five years may have altered the perceptions and behaviour of many people, making them more accepting of theft and more willing to take

a chance when they see an opportunity for illicit gain. However many Asia Pacific countries were affected by the recession only in 2008, after which their economies have continued growing. They have been rather less affected by increases in shrinkage.

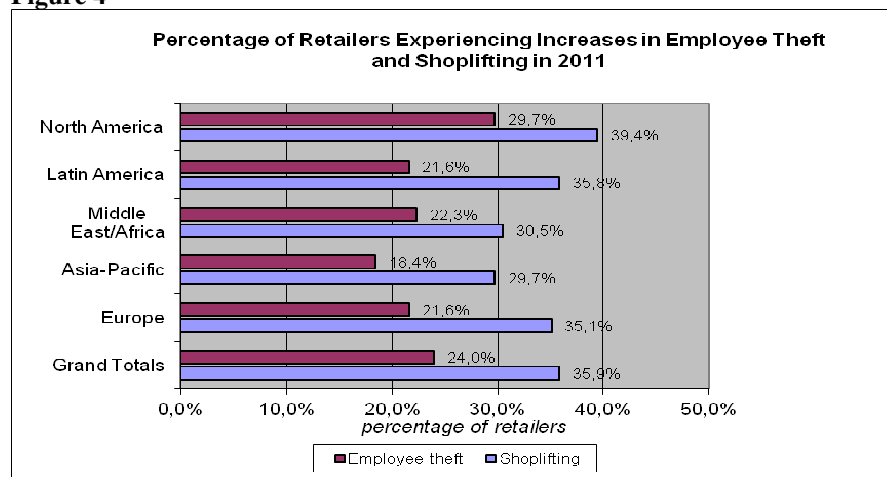
Although the recession certainly has played a part in increasing shrinkage, cuts in loss prevention spending and the growth in organised retail crime (ORC) have also had an effect.

1 Increased Shoplifting and Employee Theft

The ‘credit crunch’ years since 2008 have been marked by a sharp increase in theft, particularly shoplifting, but also by higher employee theft. Figure 4 shows that an average of 35.9%, globally, of retailers suffered an increase in attempted or actual shoplifting in a single year (2011), and 24.0% of them experienced an increase in actual or attempted employee theft. But even this figure was a decrease compared to the 2009 average, when the increased incidence of shoplifting affected as many as 41.2% of retailers. Total shrinkage has not risen by equivalent amounts because retailers have been able to detect and prevent many of the attempts at crime.

However many retailers in different countries that had tended to ‘accept’ shoplifting as a smallish problem that was not worth devoting considerable resources to have been obliged to develop new strategies to deal with the increase in shoplifting. In North America, 39.4% of retailers suffered increased shoplifting, which has led to a renewed emphasis upon curbing consumer thefts. In comparison, the increase amongst Asia Pacific retailers was 29.7%.

Figure 4

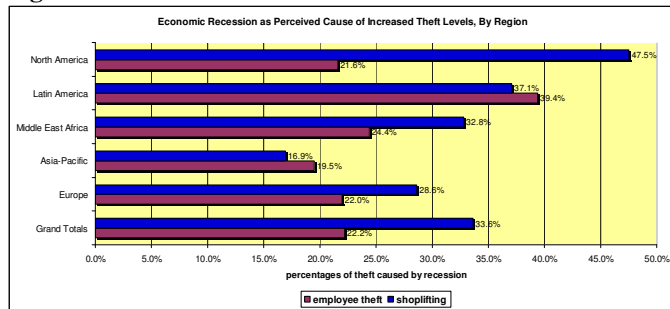


2 The Recession

An average of one-third of retailers believed that the recession was the main driver of increased shoplifting and 22.2% of them thought that this also explained higher employee theft (Figure 5). However in North America (predominantly the U.S.), where the recession had started earlier than many other countries and whose retailers suffered the third largest increase in shoplifting (after Slovakia and the Czech Republic), the proportion of retailers ascribing the cause of increased shoplifting to the recession was much higher at 47.5%. As early as 2009 respondents to the GRTB were reporting that they were seeing more ‘amateurs’ stealing from their stores and

they were often stealing different products such as goods for household use. This suggested that the pattern and cause of offending may have altered.

Figure 5



In contrast only 16.9% of Asia Pacific retailers thought that the recession was the main cause of higher shrinkage.

3 Changes in Spending on Loss Prevention

But in addition to the recession as an explanation of increased shrinkage, changes in loss prevention spending may also have played a part. The year 2009 was one where many retailers responded to the fall in consumer demand by reducing their loss prevention budgets along with all other budgets as a means of cutting the operating costs of the business. Here retailers were simply responding to the effects of the recession, and as shrinkage rates had fallen in the previous year the risk of doing so may have seemed small. However in 2009, shrinkage rates rose from an average of 1.35% to 1.43% (GRTB, 2009). Shrinkage fell in the following year to an average of 1.36%, but by then retailers had largely reinstated the 2009 budget reductions.

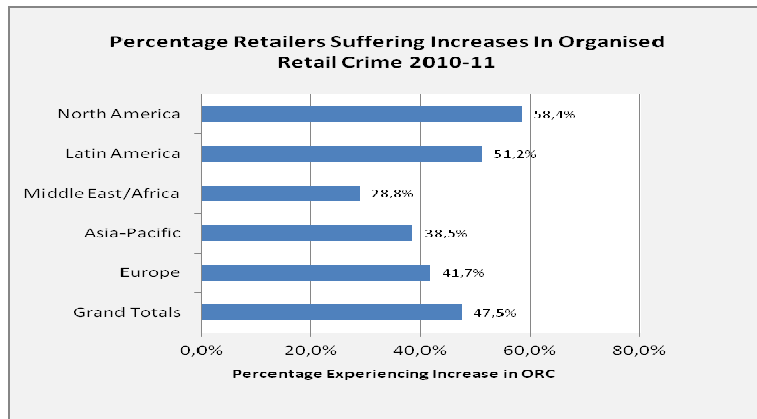
4 Growth in Organised Retail Crime

Organised retail crime, defined as retail crime for resale by criminal gangs or by professional groups, has had an increased impact on retailers throughout the world. A survey we carried out into organised retail crime in 2007 showed comparatively little impact apart from retailers in the U.S., Canada, Latin America, The Netherlands and Italy.

However by 2011, the growth in retail crime of all kinds meant that retailers in every continent were now experiencing appreciable losses from organised retail crime. These were most significant in North America (where 58.4% of retailers suffered an increase in organised retail crime), but even in Europe, 41.7% of retailers claimed to have experienced increased losses from organised crime and 38.5% in Asia Pacific (Figure 6). The growth of organised retail crime therefore is another factor behind the growth in shrinkage.

Because retail crime is often viewed as ‘victimless’ and penalties are low, ORC may become increasingly attractive to professional criminals as carrying lower risks than other types of crime (NRF, 2011). The U.S. National Retail Federation has noted that ORC gangs are becoming increasingly violent, cargo fraud is a much more common method used by ORC, and cited four successful prosecutions of ORC gangs involving total merchandise worth between \$126 million and \$181 million (NRF, 2011)

Figure 6



REFUND FRAUD

Refund fraud is one of the fastest-growing trends in crime against retailers and as a means of defrauding retailers may be part of the explanation of the recent growth in shrinkage. Refund fraud (or returns fraud) can be used as a method of shoplifting, as a low-risk method of stealing by employees, a method of illegal customer/employee collusion as well as being used by criminal gangs. Its advantage of course is that stolen merchandise usually can only be sold on at a discount, often between 25% and 45% of the retail price. If the item is refunded then the thieves receive the full retail price, thus making crime much more profitable. It can be more risky of course if loss prevention is doing its job properly. ORC gangs may obtain a legitimate receipt for an item, print off several copies of the receipt using a PC and a printer, and then steal the item from several different stores, enabling them to receive the full retail price several times. In the U.S. the National Retail Federation estimated retailers' refund fraud losses to be \$8.9 billion per annum (NRF, 2012). Globally GRTB reported in 2008 that refund fraud and fake price markdowns were responsible for 19.7% of employee theft, \$7,521 million, an increase of 25% over the previous year.

Refund fraud is seen by loss prevention as a rapidly growing problem partly caused by the well-intentioned attempts of retailers to be more accommodating to consumers who have changed their minds or bought the wrong product. Curbing refund fraud requires loss prevention to be more active in helping to frame new returns procedures, in making till receipts more difficult to forge, to work closely with other retailers, and to improve customer education about what is acceptable and what unacceptable.

ONLINE RETAILING AND NEW PAYMENT SYSTEMS

Online retailing is now responsible for between 8% and 12% of retail sales in many developed countries and is continuing to grow rapidly (OECD, 2012). This means that for criminals new retailing structures create new crime opportunities. The most common crimes so far affecting online operations are: fake orders, payment frauds, and delivery frauds.

Online businesses may also be subject to hacking attacks, denial-of-service and viruses and malware. In addition to outright losses, *cybercrime* - however it is defined – has the potential to destroy a company’s reputation and making it liable for fines by official regulators.

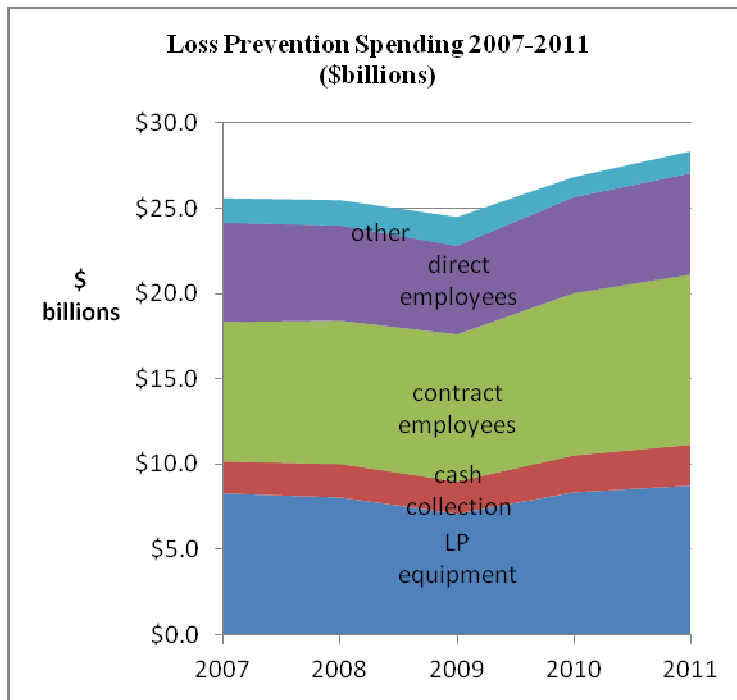
A similar argument can be made about new payment systems being introduced involving near-field communications and mobile/smartphone devices. Most attention is being paid to the extent to which smartphones and tablets may be used for ordering merchandise and making payments, so changing the way the retail supply chain operates once again. The whole area provides incredible new opportunities for retailers, but also creates major possibilities of significant fraud against the retailer and the unwary customer. In many retailers these changes are being led by the retailer’s marketing and operational needs with less attention being paid to loss prevention, even though the potential liabilities for fraud and reputational damage are immense.

There is a discussion in Bamfield (2012) *Shopping and Crime* on how retailers can limit the problems caused by their involvement in online retailing. Although online retailing is a comparatively small part of the retail sector at present, in the next few years many conventional bricks and mortar retailers will develop their online business to generate between 20% and 60% of their total sales. At present for many retailers much of the online loss prevention support is currently provided by IT and finance, but obviously this needs to change if loss prevention is to retain its corporate oversight for shrinkage, crime reduction and profit protection. It means that loss prevention needs to develop new skills.

LOSS PREVENTION SPENDING: NEW TASKS

More than one-half of loss prevention spending is devoted to loss prevention employees, both those directly employed by the retailer and contract employees. In 2011, human resources represented 56.1% of loss prevention budgets. Figure 7 shows that whilst there has been an increase in spending on employees, much of this has gone towards contract employees. There has also been a significant growth in spending on loss prevention equipment 30.9% of loss prevention in 2011), including electronic surveillance, software, access control, and communications.

Figure 7



GRTB 2010 published a regression analysis of how changes in loss prevention spending were associated with changes in shrinkage. A statistical relationship was found which could predict 62% of the variation in shrinkage. The equation was as follows:

$$\text{Shrinkage} = 380 - 611.LP\text{spend} + 9.69.LP\text{employees} - 6.67.LP\text{ equipment}$$

(SE) (78) (126) (3.31) (2.54)

$$R^2 \text{ (predicted)} = 61.9\%$$

DW 1.1477

LPspend – loss prevention expenditure actuals
 LPemployees – direct and indirect LP employees
 LPequipment – investment in loss prevention long-term assets.

The equation shows that there is an association between increased loss prevention spending and lower shrinkage (and vice versa) but it does not prove that loss prevention spending will inevitably cut shrinkage. This is a relationship that needs to be evaluated further.

The changes in retailing mean that the loss prevention team has become more involved in such matters as data analysis, project management, introducing new software tools such as data mining, working with sophisticated surveillance equipment providing information to other departments, and supporting online retail activities including combating online crime and cyber attacks. As was noted earlier, these require many new skills that are not part of the traditional skillset of the security or loss prevention manager.

Moreover the curbs on loss prevention budgets mean that loss prevention departments are spread more thinly and individual employees have greater responsibilities. Thus they need to work increasingly well with managers in other functional areas, improve the quality of communications and help to motivate others – as well, that is, as taking over new responsibilities as the nature of retailing changes. This will require a new type of manager with a different business background to other loss prevention managers and a greater

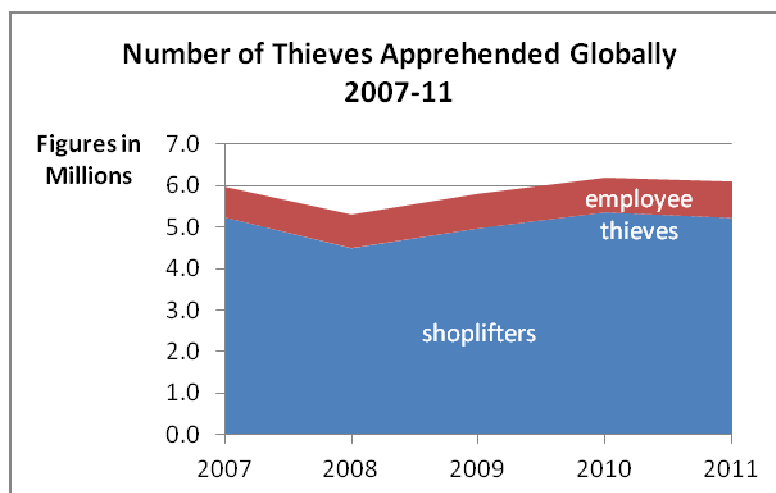
emphasis upon training and regular upskilling so that loss prevention proves equal to the tasks asked of it.

NUMBERS OF THIEVES

The number of thieves has been fairly static in recent years (see Figure 8), probably because of the loss-prevention deterrence approach and curbs on spending.

It is impossible to determine exactly how many individual acts of theft take place, because the majority of theft by shoplifters and by employee thieves is not witnessed as it occurs. The average value stolen globally in 2011 by every thief apprehended was \$202.16 and \$1,697.23 for employee thieves. If this is a fair representation of the whole population that steals from stores, then there will be 254.5 million individual shoplifting events globally and 24.5 million incidents of employee theft. However Figure 8 shows that the actual number of thieves from retail stores apprehended annually fluctuated around 6 million (apart from 2008), suggesting that only 2.0% of incidents of shoplifting result in apprehension and 3.6% of cases of employee theft. This is probably too low to provide effective deterrence through fear of arrest.

Figure 8



CHANGES IN WHAT PEOPLE STEAL?

People will steal literally almost anything from a packet of chewing gum to priceless items of jewellery. The criteria for theft is normally that products meet one or more of three criteria: *stealability* (how easily can they be stolen); *implicit personal rate of return* (how well the risks compare with the potential gains); and *inequity* (is the price seen as excessive or profiteering) (See Bamfield, 2012, *Shopping and Crime*). Many products meet these criteria. The criteria do not always mean that merchandise must be expensive, but it must be easy to steal and thieves may believe when stealing cheaper items that ‘no one will mind’.

Since 2001, when the first ERTB was published, changes in technology have produced changes in theft patterns: thieves no longer steal tape cassettes and Walkmans and are less

interest in iPods, but attempt to steal iPads, the latest iPhone, Apple accessories and Blu-ray. Reduced prices for products have meant that thefts of CDs (helped also by downloads) and datasticks are less common, but DVD boxed sets (especially of popular TV series) and flat-screen televisions are popular with thieves. New products are brought to market every year and are usually highly promoted at a premium price: these include gaming devices, game software, new perfumes, upmarket handbags, expensive sportswear, and sports footwear and trainers. They will all be vulnerable, at least for a time, to being stolen if there is a significant market for them.

Thieves like to steal merchandise that can almost be regarded as a money commodity, because it is used and accepted widely: such products can readily be sold on to others or exchanged for drugs, the exemplar being Gillette Mach3 razor blades, but more recently this has been joined by Lynx deodorant, Oil of Olay, infant feed and (in the U.S.) Tide liquid detergent.

The application of electronics to health & beauty products has also provided new opportunities for thieves, such as electronic toothbrushes, thermometers, electronic monitoring equipment, and electronic medical equipment for home use where these would otherwise have to be purchased by individuals.

The past ten years have made consumers more open to new foods, new products and new experiences. What were, at one time, exclusive or specialised products are now more widely available, hence the increased theft of products like Parmesan cheese (Parmesan-Reggiano), truffle oil, saffron, and expensive kitchenware such as electronic scales, speciality kitchen knives, and ‘celebrity chef’ saucepans and other items.

Lastly retailers have noted an increase in the theft of standard household items such as blocks of cheese, meat, legs of lamb, knives, frozen pizzas, antiseptic cream, analgesics, vitamin pills, dietary supplements, coffee, ‘cook-in’ sauces, milk powder, contraceptives and detergents. Naturally readily-stolen household products vary from country to country: thefts of *jamón ibérico* are much more prevalent in Spain than elsewhere, *Ricard* in France and saffron and parmesan in parts of Italy.

These products have always been subject to theft but there has recently been a significant growth in losses, resulting in some store putting electronic tags on meat or cheese.

THE RECESSION AND NEW LOSS PREVENTION

The recession, as we have seen, has hit loss prevention departments. Shrinkage has risen and loss prevention has to produce greater performance with the same budget. How have retailers responded to the issues created by the recession? Table 2 shows some of the actions taken since 2009. The most popular policy has involved increased employee training to spot and deter theft, taken by 95% of respondents with 88% planning to provide even more workplace training to inhibit crime. This was followed by the need to increase spending on crime prevention hardware and software (55% have now done this compared to 17.4% earlier in the recession). 34% of retailers are now hiring more in-store loss prevention workers, compared to 16.1% in 2009. The remaining policies including pre-hire screening, new CCTV video and spending more on loss prevention consumables had been carried out by between 27% and 30% of retailers.

The growth in the use of CCTV with analytics so that information can be provided rapidly, including investigating till fraud, has continued in most countries. There is interest also in ‘selling’ in-house CCTV capability to other functional areas for queue management and people counting.

Table 2

Policies to cope with recession	2009		2010		2011	
	Taken	Planned	Taken	Planned	Taken	Planned
More Employee training to spot and deter theft	71.4%	79.3%	91%	75%	95%	88%
Increased spending on crime prevention hardware and software	17.4%	26.9%	32%	18%	55%	35%
Hiring more in-store LP employees	16.1%	15.7%	24%	15%	34%	22%
Pre-hiring screening for employees	20.4%	20.4%	27%	23%	30%	24%
New CCTV video surveillance	15.9%	28.7%	20%	20%	29%	24%
Increased spending on LP consumables	16.8%	25.1%	24%	22%	28%	20%
Increase EAS reusable accessories	15.8%	18.4%	22%	17%	27%	15%

PROTECTING THE MOST-STOLEN LINES

As noted above, criminals typically steal a wide variety of merchandise. In practice, however, a large percentage of the value stolen involves only a small proportion of a store’s inventory. Hence providing additional protection for the most-vulnerable merchandise may well have a disproportionately beneficial effect on shrinkage.

Table 3 shows how retailers globally have responded to increased theft attempts by providing greater protection for their 50 most-stolen lines. The percentage of most-stolen lines that were *not* protected fell from 39.0% in 2007 to 24.0% in 2011. The use of EAS (electronic article surveillance) tagging grew from a combined total of 35.4% of the 50 most-stolen lines in 2007 to 43.9% in 2011.

There has been a fall in the use of dummy cartons or ticket systems (down from 6.2% in 2007 to 3.4% in 2011) and keepers/safers, locked boxes and product alarms have risen slightly from 11.2% (2007) to 13.8% in 2011.

Table 3

Protecting the 50 Most-Stolen Lines	2007	2008	2009	2010	2011
Percentage of lines not protected	39.0%	30.3%	28.0%	25.50%	24.0%
EAS hard tags	11.9%	16.9%	13.5%	14.00%	14.0%
EAS soft or paper tags	15.2%	12.0%	12.4%	13.70%	13.9%
EAS source tagging	8.3%	9.4%	9.3%	10.20%	11.2%
3-alarm accessories	-	-	4.5%	4.20%	4.8%
Displayed in locked cabinets or shelves	5.0%	8.6%	6.9%	7.00%	6.4%
Dummy cartons or ticket systems	6.2%	4.1%	3.9%	3.50%	3.4%
Chains, cables, loop alarms	3.2%	5.3%	4.7%	4.50%	4.6%
Keepers/safers, locked boxes, product alarms	11.2%	9.5%	12.1%	13.40%	13.8%
Other protection device	-	3.9%	4.7%	4.00%	3.9%
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

One can expect the proportion of most-stolen lines that remain unprotected to fall further, although it may not be economic to protect every single item of merchandise.

ELECTRONIC TAGGING AND RFID

The GRTB reports have also examined the progress of EAS source tagging and RFID. Source tagging, where it can be used, can be cheaper and more effective than tagging in-store and enables tags to be placed covertly on articles. GRTB 2011 estimated that source-tagging now represented an average of 21.3% of conventionally tagged products, or 492 items compared to 2,310 goods tagged in-store. Based on the responses made by retailers, the highest share was in Europe, where source-tagging represented 23.4% of in-store tagging although the actual number of items tagged (492) was lower than the 707 seen in North America (where the share was 20.9%). The lower North American percentage seemed to be related to the much wider range of goods than is tagged; an average of 3,385 SKUs are tagged in-store compared to the European average of 1,959.

By product category, the most likely categories to be tagged using EAS applied in any way were: apparel (24.3% of stock keeping units (SKUs)); electronics, 11.2%; and health & beauty, 8.7%.

Radio-frequency identification devices (RFID) are electronic tags capable of carrying more data that have a wide potential range of applications in the retail sector, including loss prevention. GRTB 2011 showed that slightly more than one-third of loss prevention managers (34.8%) thought the primary driver of RFID in their organisations concerned inventory visibility and management (ie logistics and inventory store operations) and only 19.3% saw RFID as being driven primarily by the retailer's loss prevention needs. This would obviously affect which functional areas are given the responsibility of introducing and developing the use of RFID. However 32.6% felt that RFID in their organisation was being driven by a combination both of inventory management and loss prevention requirements.

LOSS PREVENTION AUDITS

Over the last few years, loss prevention departments have become aware that they must not only agree and lay down the loss prevention rules, checks and procedures to be followed in the organisation, but they need to ensure that all employees and every store, depot and office owned by the retailer apply them consistently. Checking this increasingly involves store and depot audits to assess the extent to which every unit adheres to company loss prevention policy and procedures. The proportion of retailers with audit programmes in place rose from an average of 70.1% in 2007 to 84.0% in 2011. The percentage of those retailers that carried out audits three or more times per year increased from 35.1% (2007) to 64.0% by 2011.

Table 4

	Audit programme	Frequency of Audits per annum	
	in place	1-2 times	3 or more
2007	70.1%	35.0%	35.1%
2008	73.3%	30.3%	43.0%
2009	79.1%	22.3%	56.8%
2010	80.0%	22.0%	58.0%
2011	84.0%	20.0%	64.0%

Summary and Conclusions

- 1 **LP is wide in scope.** There is a wide variety of targets for crime and fraud in retail businesses, new practices are being developed all the time by criminals, so loss prevention has to work on inhibiting theft in multiple different areas, rather than focusing on only a few crime problems. They need to take a strategic view and do many things right rather than a few things superbly.
- 2 **Theft by Customers and Employees comprise 78.2% of shrinkage,** so alleviating shoplifting and employee theft should potentially do most to reduce losses.
- 3 **‘Paper shrinkage’ or process failures and accounting/procedural error** can account for up to 50% of the losses of some retailers although on average it accounts for 16.2% of shrinkage. It can be caused by many factors including poorly-designed processes, weak supervision, poor training and errors made in haste. Naturally it is as important as any other source of loss.
- 4 **Investment in loss prevention** can play a major part on reducing shrinkage but some retailers feel that that cannot prove the ROI or implement well. Good analytical tools and improved project management skills are as essential to LP as to any other part of the business.
- 5 **Relationships with other parts of the business.** Loss prevention’s role is to work with and through other parts of the business, changing how they operate and persuading other functional areas to prioritise loss prevention approaches. Loss prevention is increasingly becoming a service to the other areas of the business. This is helped, in turn, by developing joint methods of shrinkage analysis and control and by the potential use of LP electronic surveillance data and RFID for marketing, operational and logistics purposes.
- 6 **Loss prevention partnerships with other retailers and law enforcement** are a necessary part of learning more about crime and LP trends in a region, exchanging information and smoothing the process of working together to combat loss.
- 7 **Refund Fraud** is a growing problem of both shoplifting and employee theft, which is normally based on abuse of existing company procedures. Loss prevention needs to give a higher priority to developing better procedures, staff training, and identifying the worst offenders in order to curb the growth of this problem and help the work of the courts.
- 8 **Organised Retail Crime,** once a problem affecting a small number of countries, is now a major concern. Retailers need to: set up internal teams to assess the scale of the problem and produce appropriate solutions; work together with other retailers; share information; work with law enforcement; and publicise the ORC problems that they face and any successes.
- 9 **Cargo theft and distribution fraud** is a growing (and costly) problem, often involving ORC, although for most retailers it happens infrequently and this may mean that its importance can be overlooked.
- 10 **Establishing that new employees are not a new source of loss,** by checking new hires.
- 11 **Loss prevention policy compliance should become a standard element of the business.** Regular audits of compliance as well as ongoing training are essential. Many frauds such as refund fraud and employee theft are facilitated by weak and

inconsistent procedures. Robust compliance and procedures is a vital part of inhibiting these losses.

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Appendix 1

List of countries surveyed in the Global Retail Theft Barometer

Countries Surveyed for GRTB 2011	
North America	U.S. and Canada
Latin America	Argentina, Brazil and Mexico
Middle East/Africa	Morocco and South Africa
Asia-Pacific	Australia, China, Hong Kong SAR, India, Japan, Malaysia, Singapore, South Korea*, Taiwan and Thailand
Europe	Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg Netherlands, Norway, Poland, Portugal, Russia Slovakia, Spain, Sweden, Switzerland, Turkey and the UK