



Loss Prevention 2010: Retailers Battling Shrink in Tough Times

Benchmark Report

Developed in Partnership with:



Sponsored by:



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EXECUTIVE SUMMARY

In this brutal economy, with external pressures on gross margin driven by the highly promotional environment and excess inventories, and the need to conserve working capital, we find more respondents than ever reporting the priority of LP rising in their organizations. Retail Winners place an even higher priority on Loss Prevention.

BUSINESS CHALLENGES

Retailers are most concerned about becoming larger targets for shrink as they grow, particularly for lower Tier-1 retailers. For smaller retailers, employee-related shrink remains a top concern. Yet as revenue rises, so does trust in employees. Sixty percent of retailers with annual revenue greater than \$5 billion rate organized retail crime (ORC) as a top-three business challenge vs. 33% of the smallest and 36% of mid-market retailers. In short, small retailers are troubled more by employee theft, large retailers by consumer theft.

OPPORTUNITIES

Retailers look for new LP initiatives to reduce gross margin, cut down employee shrink, reduce theft from individual customers, and take better advantage of their existing LP investments – yet with reasonable expectations. Larger retailers place a higher priority on reducing gross margin, and are far hungrier to squeeze as much efficiency from their existing store-based investments as possible; they are also more interested in those systems which can help battle ORC.

ORGANIZATIONAL INHIBITORS

For the total response pool, manpower expense has become a much larger concern in 2009: more retailers report that having the staff required to review LP and audit data is a significant inhibitor to their ability to adopt new initiatives. For Winners, however, the ability to execute is the enemy. Twenty-five percent of Retail Winners report that they have a good LP Plan but need to further improve execution. The key to overcoming these inhibitors lies in better Business Intelligence tools.

TECHNOLOGY ENABLERS

Retailers are focused on getting at the nascent value of their existing investments without adding people to review detail data, including both high and low-tech tools. Video Surveillance, Pre-employment Screening Systems, Sales Audit, Returns and Void Management, Exception Analysis Reporting, and Cash Management Systems could benefit most from improved automation, and BI remains key. FMCG retailers, in particular, lag in Sales Audit applications and Exception Reporting.

BOOTSTRAP RECOMMENDATIONS

Any technology refresh must eliminate the mundane work of balancing, cross-checking and low-level data analysis - the essential value of business intelligence layered on top of existing investments. It is also long overdue that retailers get their perpetual inventory systems under control - it is simply not possible to get a handle on shrink when the data is only available by department or category. Further, as it relates to organized retail crime, the smallest retailers are often the biggest targets, but don't often recognize it as such. All retailers should work more with local law enforcement and stay up-to-date on the tools and techniques of the largest retailers. Because LP is one of the rare components of retail not seen as competitive, there are myriad opportunities for retailers to learn from one another's experiences; while the keys to having a better perpetual inventory system may be closely guarded, the tools and techniques to keep employees in line and customers honest are openly discussed, particularly at well-attended industry events. Finally, keeping Loss Prevention up-to-date and shrink under control requires a continuous commitment with constant improvements. With difficult economic conditions, high unemployment and technology advances, thieves aren't going anywhere; they are only more desperate AND sophisticated.

Table of Contents

EXECUTIVE SUMMARY.....	ii
Business Challenges.....	ii
Opportunities.....	ii
Organizational Inhibitors	ii
Technology Enablers.....	ii
Bootstrap Recommendations	ii
SECTION I: OVERVIEW	1
Why the Study Was Conducted	1
LP Continues to Rise as a Corporate Priority	1
Aggregate Shrink: On Average, We're "Warm"	2
Methodology	3
Defining Retail Winners and Why They Win, and Why Laggards Fail.....	3
Survey Respondent Characteristics	3
SECTION II: BUSINESS CHALLENGES	5
Business Challenges: Growth is a Mixed Blessing.....	5
Sources of Shrink Shift	6
The Economy's Impact on Sources of Shrink	6
Where Do We Go From Here?.....	7
SECTION III: OPPORTUNITIES.....	8
Take What I Have, Make it Better.....	8
Where The Bad Things Happen	9
Cool Heads Prevail	10
SECTION IV: ORGANIZATIONAL INHIBITORS.....	11
An Issue of Human Capital.....	11
Needed: Business Intelligence Bailout.....	12
A Broken Model	13
SECTION V: TECHNOLOGY ENABLERS.....	14
Eking More Valuing From Existing Investments	14
Differences Emerge by Segment	15
Surprisingly Weak Application Penetration Areas.....	15
Low-Tech Tools: Basic and Expensive.....	15
Measuring Value: Critical KPI's	16
SECTION VI: BOOTSTRAP RECOMMENDATIONS	17
New Investments Must Eliminate Grunt Work.....	17
It's Long Past Time to Get Perpetual Inventory Systems Houses in Order	17
Get a Better Understanding of Organized Retail Crime.....	17
Talk to Your Peers	17
Understand the Nature of the Journey.....	17
APPENDIX A: The BOOT Methodology	19
APPENDIX B: About Our Sponsors	20
APPENDIX C: About RSR.....	21

Figures

Figure 1: The Economy has Mixed Effects on Shrink.....	1
Figure 2: Priority of Shrink in Your Company – Last Year vs. This Year	2
Figure 3: Average Shrink for Survey Respondents.....	2
Figure 4: Growing Retailers are Larger Targets	5
Figure 5: Sources of Shrink	6
Figure 6: A Shift to the Other Side of the Check-out Stand.....	7
Figure 7: Gross Margin is the Name of the Game	8
Figure 8: Small Hits that Add Up at the POS, Big Hits Hurt on the Loading Dock.....	9
Figure 9: No Ocean-Boiling Required	10
Figure 10: Can't Buy What We Can't Manage	11
Figure 11: BI is the Lynchpin.....	12
Figure 12: The Fox and the Hen House.....	13
Figure 13: Familiar, High Cost Tools	14
Figure 14: Traditional Low-Tech Tools Used As Adjuncts.....	15
Figure 15: Shrink and Gross Margin Most Important Measures	16

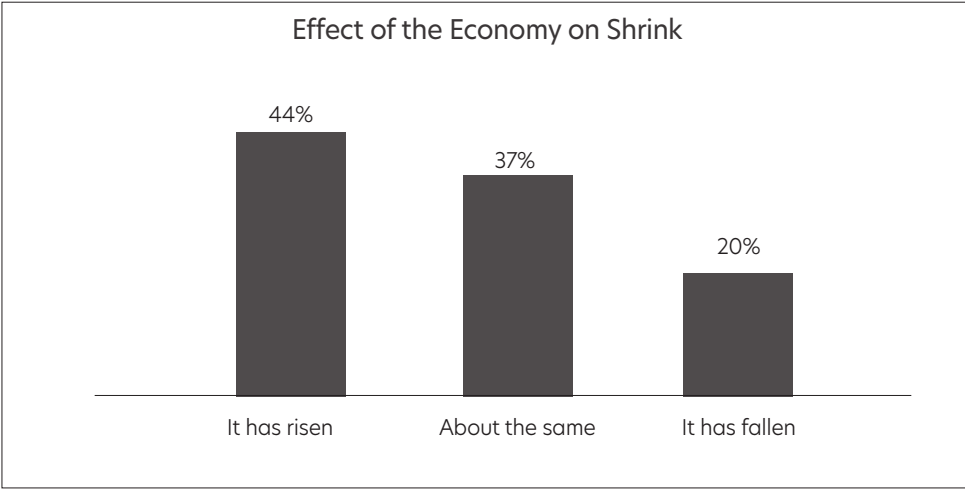
SECTION I: OVERVIEW

WHY THE STUDY WAS CONDUCTED

Towards the end of every year, RSR conducts its annual Loss Prevention Benchmark Survey. Given the difficult global economy in 2009, we were particularly interested in this year's results.

A poor economy can have a mixed reaction on shrink. On the one hand, high unemployment levels tend to improve the talent pool available for in-store employees. But on the other hand, desperate times breed desperate people, and desperate people tend to do bad things. In fact, our respondents report a mixed bag of results (Figure 1).

Figure 1: The Economy has Mixed Effects on Shrink



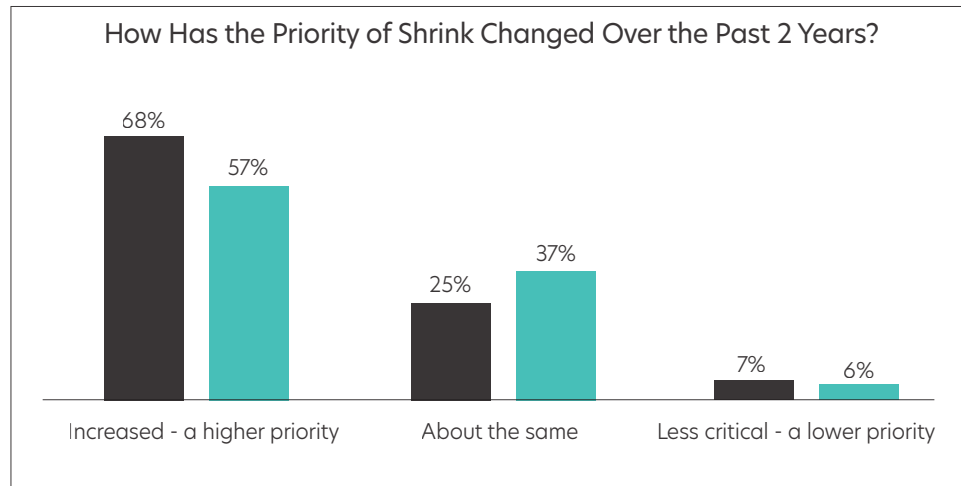
Source: RSR Research, December 2009

We struggled for some time trying to understand how the economy might actually affect shrink in a positive way. As we'll see in Section II (Business Challenges), we **found changes in the sources of shrink have had an impact on aggregate shrink in sometimes counter-intuitive ways**. Nonetheless the intuitive proves to be true in a plurality of cases. Forty-four of respondents have seen shrink rise in their companies.

LP CONTINUES TO RISE AS A CORPORATE PRIORITY

Throughout the years RSR has been tracking Loss Prevention, our respondents have consistently reported it increasing as a priority. On average, each year a little over half our respondents reported its priority increasing. This year, with the continued thinning of the retail herd, external pressures on gross margin driven by the highly promotional environment and excess inventories, and the need to conserve working capital, we find more respondents than ever reporting the priority of LP rising in their organizations (Figure 2).

Figure 2: Priority of Shrink in Your Company – Last Year vs. This Year



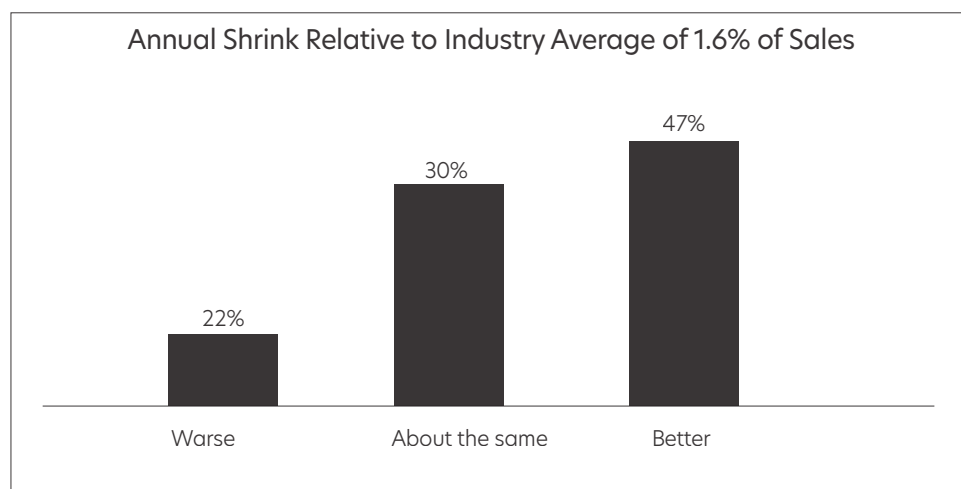
Source: RSR Research, December 2009

Retail Winners, those whose historical year-over-year sales outperform those of their competitors and peers place an even higher priority on Loss Prevention: 78% report an increase in year-over-year LP's priority, vs. 43% of laggards.

AGGREGATE SHRINK: ON AVERAGE, WE'RE "WARM"

While aggregate shrink has risen slightly, we find significant difference across our respondent pool (Figure 3).

Figure 3: Average Shrink for Survey Respondents



Source: RSR Research, December 2009

Those retailers with annual revenues between \$1 and \$5 billion appear to fare better than others, with 67% reporting lower than average shrink, vs. the largest (>\$5 billion revenue per year) and mid-sized (\$51- \$999 million revenue per year) retailers, who report 32% and 30% higher than average shrink respectively.

METHODOLOGY

RSR uses its own model, called the “BOOT,” to analyze Retail Industry issues. We build this model with our survey instruments. Appendix A contains a full explanation of the methodology.

In our surveys, we continue to find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large. The BOOT model helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

DEFINING RETAIL WINNERS AND WHY THEY WIN, AND WHY LAGGARDS FAIL

Our definition of Retail Winners is straightforward. We judge retailers by year-over-year comparable store sales improvements. Assuming industry average comparable store sales growth of three percent, we define retailers with sales above this hurdle as “Winners,” those at this sales growth rate as “average,” and those below this sales growth rate as “laggards” or “also-rans.” It is consistent throughout much of RSR’s research findings that Winners don’t merely do the same things better, they tend to do different things. They think differently. They plan differently. They respond differently. Of course, in our economic times like those of late 2008 and most of 2009, it’s hard to find anyone over-performing. **We therefore attempted to re-normalize our results by looking back to 2007.** For the same reason, we requested 2007 revenue levels.

Laggards also tend to think differently. They may have spectacular vision, but often fail on execution. They may forget the power and breadth of choices today’s customer has. They fail to re-invent themselves when it becomes obvious their existing business model is no longer working. They don’t change their business processes in an effective manner, and so they either eschew technology enablers, or don’t gain expected Return on Investment on those they DO buy. In good times, they skate by: in tough times these weaknesses come back to haunt them.

SURVEY RESPONDENT CHARACTERISTICS

RSR conducted an online survey from September-October 2009 and received answers from 83 qualified retail respondents. Respondent demographics are as follows:

- **Job Title:**

Senior Management (CEO, CFO, COO)	
Vice President	
Director/Manager	10%
Internal Consultant & Other Staff	36%
	27%
	27%
- **2007 Revenue (\$ Equivalent): \$50 Million or less**

\$50 Million or less	
\$51 - \$999 Million	
\$1 Billion to \$5 Billion	
Over \$5 Billion	
- **Locations (Headquarters vs. Retail Presence):**

<u>Region</u>	<u>HQ</u>	<u>Stores</u>
United States	80%	80%
Canada	6%	24%
Europe	4%	14%
United Kingdom	1%	14%
Asia Pacific	6%	12%
Middle East	2%	8%
Latin	0%	12%
America	1%	1%
Africa		
- **Segments:**

Fast Moving Consumer Goods (FMCGO)	34%
General Merchandise and Apparel (GMA)	51%
Hardware/Do-it-Yourself/Other	15%
- **Year-Over-Year Comparable Store Sales 2007 Growth Rates (assume average growth of 3%):**

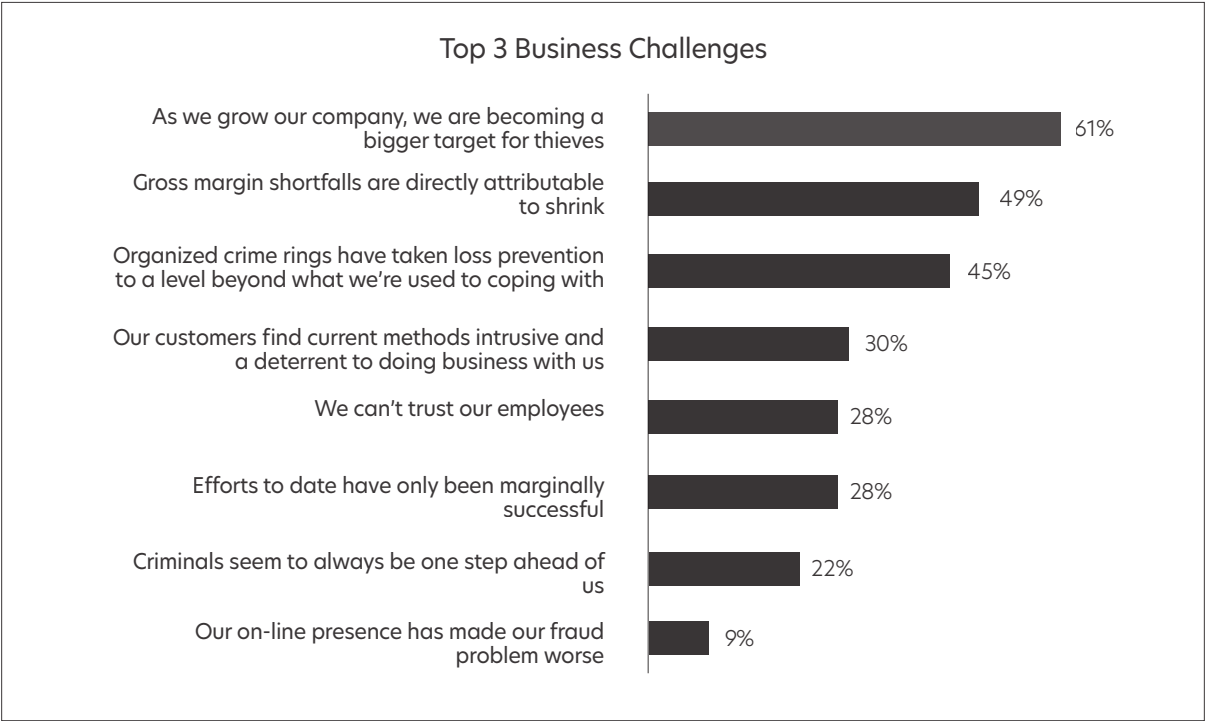
Worse than Average	20%
Average	40%
Better than Average (Retail Winners)	41%

SECTION II: BUSINESS CHALLENGES

BUSINESS CHALLENGES: GROWTH IS A MIXED BLESSING

Somewhat surprisingly, the single biggest business challenge for our retail respondents is their size (Figure 4).

Figure 4: Growing Retailers are Larger Targets



Source: RSR Research, December 2009

Concerns about growth even trump gross margin shortfalls as an issue. This concern is felt most acutely by lower Tier-1 retailers, with 78% reporting it as a top-three business challenge. Interestingly, the smallest retailers, those with annual revenues less than \$50 million, share the same concern, with 67% reporting this same issue as a top three challenge.

Somewhat surprisingly, the smallest retailers trust their employees the least. While it seems intuitive that small retailers have better relationships with their employees, in fact, as revenue rises, so does trust in employees. RSR believes that rather than blind trust, investments in technologies to weed out the most dishonest employees at larger retailers have paid off in a more trustworthy workforce.

On the flip side, as revenue rises, concern over Organized Retail Crime (ORC) rise proportionately. Sixty percent of retailers with annual revenue greater than \$5 billion rate ORC as a top-three business challenge vs. 33% of the smallest and 36% of mid-market retailers. In short, small retailers are troubled more by employee theft, large retailers by consumer theft.

SOURCES OF SHRINK SHIFT

We asked retailers to report their top three (3) sources of shrink. As we can see from Figure 5, we've seen some significant changes from prior years.

Figure 5: Sources of Shrink



Source: RSR Research, December 2009

Retailers report taking a proactive approach to combating retail theft, investing billions of dollars a year in hiring policies, personnel, technology and other preventive measures. Additionally, retailers' troubles with employee theft may often involve collusion with outside crime rings and thieves.

While employees remain a significant source of shrink, they are less apt to steal merchandise. Instead, they are more likely to steal cash. On the surface, this is a somewhat baffling turn of events: retailers have had sales and cash audit systems in place for years, but as we'll see later in this report, these applications are in need of a refresh, as retailers acknowledge the need for better business intelligence to analyze results, rather than more staff to pore over report details.

We've also seen a significant rise in the percentage of retailers who believe their customers are stealing merchandise from them. While only 31% of respondents believe these thieves are members of ORC, other data indicates that collusion is required to overcome physical and technology security measures.

THE ECONOMY'S IMPACT ON SOURCES OF SHRINK

As reported in Section I, 44% of retail respondents report aggregate shrink has risen. We asked

those retailers what they perceive to be the drivers of this rise. Interestingly, none reported an increase in robberies. As we can see in Figure 6, they believe this shift is shopper, or traffic related.

Figure 6: A Shift to the Other Side of the Check-out Stand



Source: RSR Research, December 2009

WHERE DO WE GO FROM HERE?

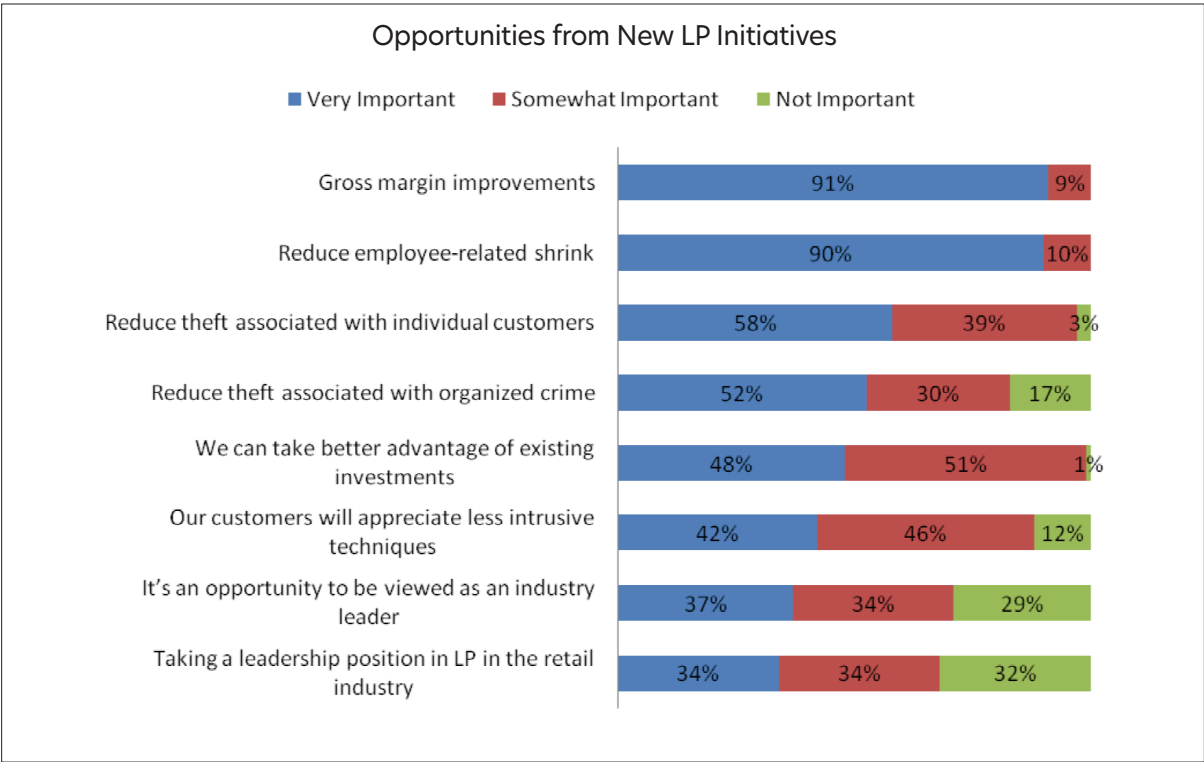
Continued and heightened emphasis on Loss Prevention (LP) has done little to mitigate the effect of difficult economic times. Yet our retail respondents continue to see opportunities for improvements. In particular, as we'll see below, LP is one area where retailers work together. There is little competitive advantage for any one retailer in reducing theft, but tremendous opportunity for the industry at large to share lessons learned and success stories from new initiatives. In the following sections, we'll tease out how Retail Winners are working together to create these opportunities, and leveraging new and existing technologies to support more effective responses to ever-more creative criminals.

SECTION III: OPPORTUNITIES

TAKE WHAT I HAVE, MAKE IT BETTER

Not surprisingly, the biggest opportunities our respondents expect to come from new LP initiatives surround improvements in gross margin and reductions in employee-related shrink (Figure 7). Yet in aggregate, with the exception of the chance to be perceived as industry leaders, all of the options we put forth before our respondents were attractive. Ninety-seven percent of retailers wish to reduce theft from individual customers (83% from organized retail crime), 88% hope their customers will appreciate less intrusive Loss Prevention techniques, and a full 99% of our respondents want to take better advantage of their existing LP investments.

Figure 7: Gross Margin is the Name of the G



Source: RSR Research, December 2009

When viewed by revenue, gross margin improvements are an even higher priority for larger retailers: 94% of Tier-1 (and 100% of mega retailers) place a high priority on reducing gross margin, compared to 57% of small retailers with revenue under \$50 million annually.

Large retailers are also far hungrier to leverage their existing technology purchases: 65% of Tier-1 and 59% of mega retailers cite the opportunity to take better advantage of existing investments as very important, compared to only 33% of small and 28% of mid-sized retailers. Larger retailers have already bought LP technologies, many of which require a lot of human intervention; the store-multiplier factor alone creates the need to squeeze as much efficiency from their existing store-based investments as possible.

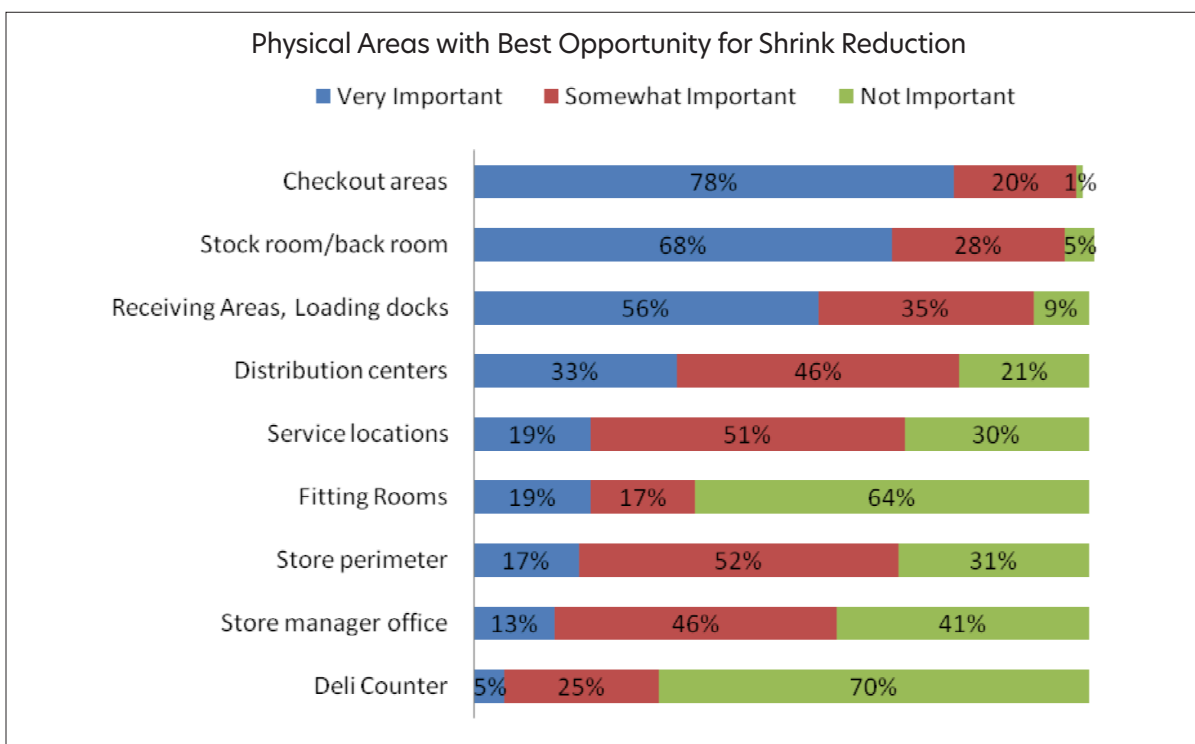
Continuing the theme of “bigger sales, bigger target,” larger retailers are also more interested in those systems which can help battle ORC: 65% of Tier-1 and 76% of mega retailers (compared to 14% of small

retailers) cite it as a very important opportunity any new LP initiative must address.

WHERE THE BAD THINGS HAPPEN

When asked about the areas of the enterprise that provide the best opportunities to combat shrink, as in years past, our respondents point decidedly toward employee areas: namely the checkout stand. Closely behind are the stock room and back room, while the third greatest opportunity resides in receiving areas and loading docks (Figure 8).

Figure 8: Small Hits that Add Up at the POS, Big Hits Hurt on the Loading Dock



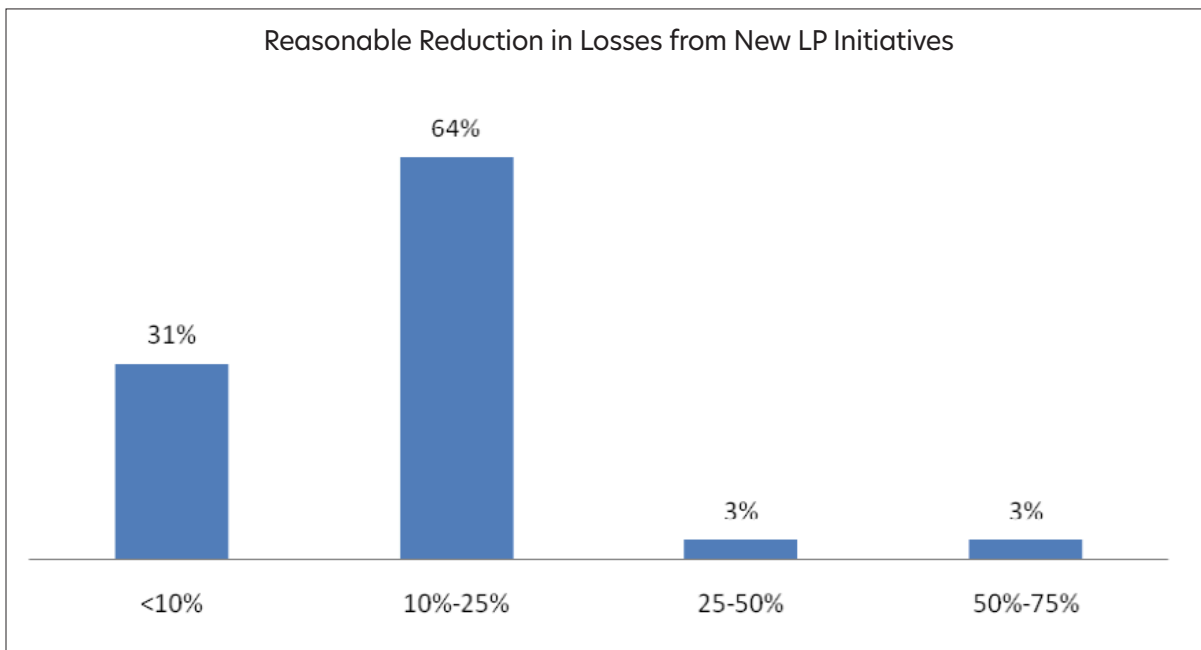
Source: RSR Research, December 2009

However, when viewed by performance and revenue, Retail Winners once more demonstrate the added measure of faith they have in their workforce, while Winners and large retailers maintain more concerned focus toward “outside” crime – ORC in particular. Winning retailers report vigilance in efforts to secure vulnerable areas. Through monitoring activity and the use of technology and auditing procedures, these retailers are constantly updating and enhancing security measures to deter theft. Thirty-two percent of Winners (vs. 17% of laggards) look to the distribution center as a very important area to reduce shrink, while 75% of mega retailers (vs. 50% of small retailers) see loading docks and receiving areas as hot spots. Both of these locales are prime targets for organized retail crime rings looking to complete large-scale heists.

COOL HEADS PREVAIL

Overall, our respondents have realistic expectations about the economic improvements new Loss Prevention initiatives afford; an inconsequential amount of retailers seek unreasonable gains, while 31% of respondents hope for less than 10% reduction in losses. The lion's share, 64%, would like to deal with technologies and LP initiatives that could reduce their losses anywhere between 10 and 25%. In a testament to the educational work conducted within industry, these level-headed expectations are consistent across all performance levels, product segments, and retailer sizes – a true rarity among any of the research we conduct.

Figure 9: No Ocean-Boiling Required



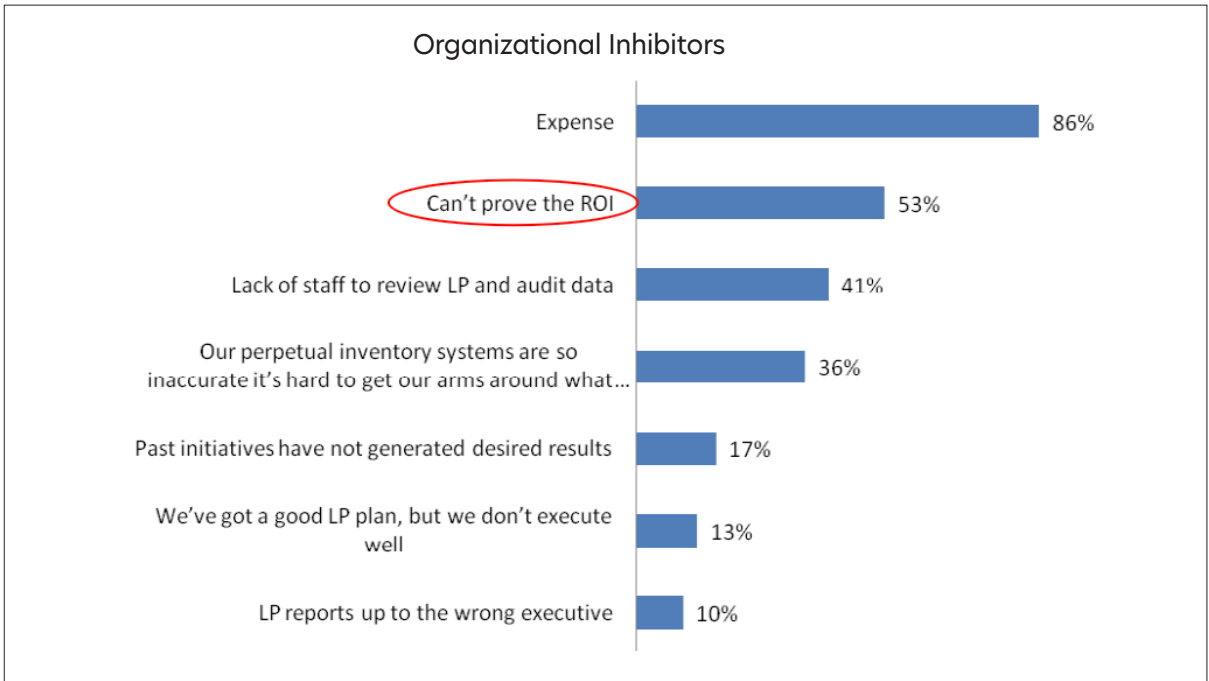
Source: RSR Research, December 2009

SECTION IV: ORGANIZATIONAL INHIBITORS

AN ISSUE OF HUMAN CAPITAL

In the current economy, when it comes to roadblocks preventing retailers from “getting there,” we see that expense and time to recoup investments top the list (Figure 10).

Figure 10: Can’t Buy What We Can’t Manage



Source: RSR Research, December 2009

These numbers are very much in line with the top organizational inhibitors identified last year (86% cite expense this year vs. 83% in last year's report, while 53% cite difficulty proving ROI in 2009 compared to 45% in 2008).

However, manpower expense has become a much larger concern: retailers report that having the staff required to review LP and audit data is a significant inhibitor to their ability to adopt new initiatives: **41% cite lack of manpower as preventing forward progress this year, compared to 29% in 2008.** This is no doubt attributable to budget cuts and freezes across industry, but as retail budgets free up at a rate faster than unemployment can fall, a window of opportunity will (and does) exist for retailers looking to capitalize on the enhanced talent pool still in search of employment.

Laggards have an even harder time with all roadblocks, reporting higher than the aggregate pool across the board: 92% cite expense as a top inhibitor, 69% can't prove ROI readily enough, and 54% say they don't have the personnel to properly manage any new systems. Quite simply, laggards lack the funding, tenacity, and human capital required to increase their Loss Prevention efforts.

Winners, on the other hand, have a different set of challenges. For them, the ability to execute is the enemy. Twenty-five percent of Retail Winners report that “We've got a good LP plan, but we don't execute well,” compared to 7% of average retailers and 0% of laggards. This is further example of Winners' need to better leverage the investments they've already made, and a

significant indicator that enhanced business intelligence is necessary for them to reach such a goal, as we'll see in a moment. This is of particular concern to FMCG retailers, who cite execution as a roadblock at a much higher rate than other segments. But even more importantly, FMCG retailers still have an inordinate amount of challenges surrounding their perpetual inventory systems. **A staggering 58% of FMCG retailers say their perpetual inventory systems are so inaccurate that they "cannot get their arms around them,"** vs. 23% of GMA retailers and 27% of DIY/other categories. We know that the faster the turn rate, the more quickly perpetual inventory can get out of balance, but to have it be a top-three obstacle for so many in the 21st century is a stunning statistic

NEEDED: BUSINESS INTELLIGENCE BAILOUT

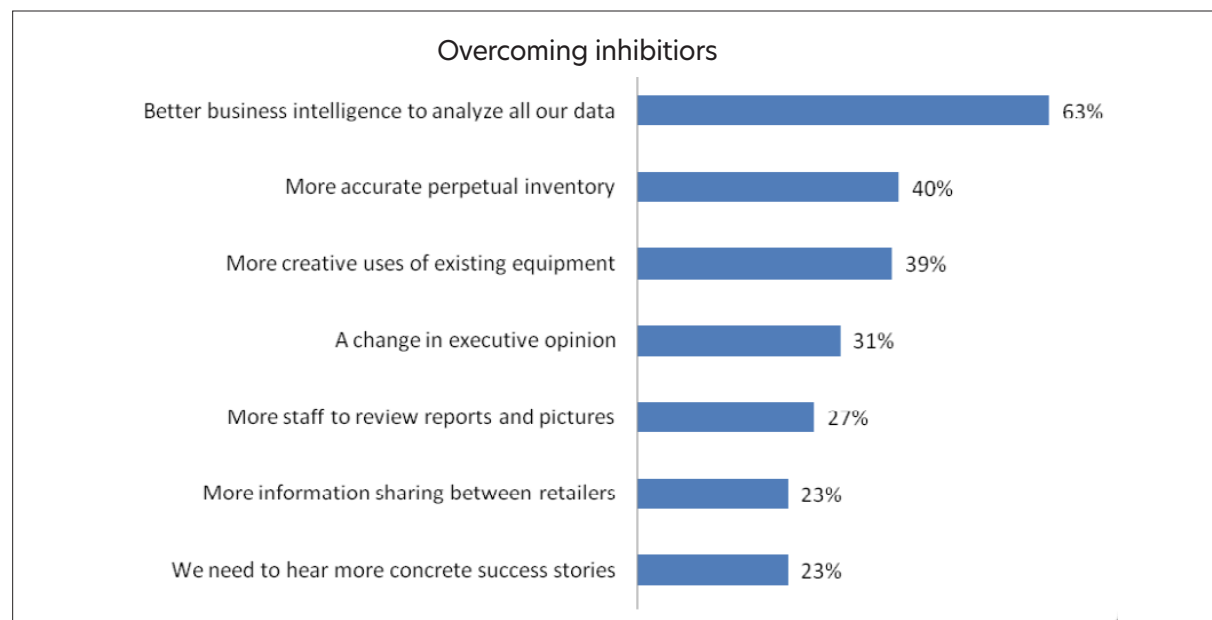
The key to overcoming these inhibitors lies in better Business Intelligence. Sixty three percent of the total response pool cites "better business intelligence to analyze all our data" as a top way to overcome problematic inhibitors (Figure 11).

SECTION IV: ORGANIZATIONAL INHIBITORS

AN ISSUE OF HUMAN CAPITAL

In the current economy, when it comes to roadblocks preventing retailers from "getting there," we see that expense and time to recoup investments top the list (Figure 10).

Figure 11: BI is the Lynchpin



Source: RSR Research, December 2009

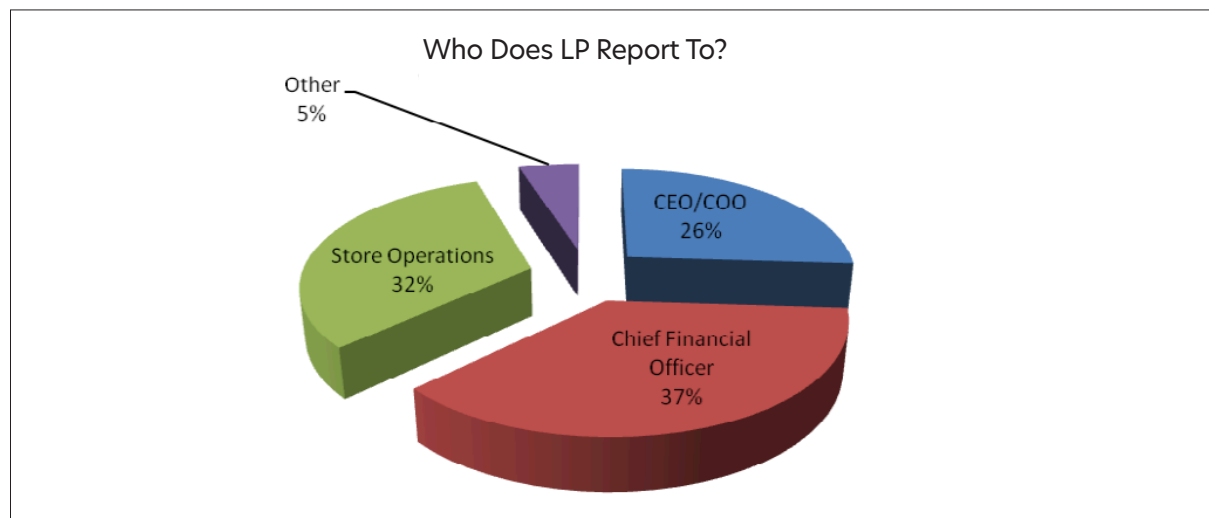
As we've just seen, Winners disproportionately identify the ability to execute as a roadblock; as a result, they also cite the need for better BI capabilities at a much higher rate than their peers. Compared to 46% of laggards, **79% of Retail Winners say that better BI tools are the number one way to get past their current LP issues.** It is important to note that this not only include reporting and simple execution reporting, but also the means by which data analysis takes place: better business intelligence means analysis must be based on statistical techniques that allow retailers to identify their real problems areas, and consequently be provided with actionable means to fix those issues. In a related point, Winners are also far more interested in sharing information with their competitive peers than are average or lagging retailers (32% of Winners vs. 18% of average retailers and 15% of laggards). For the best performing retailers, LP is not a competitive issue, but rather an opportunity for which knowledge-sharing and intelligence breed success.

Laggards remained plagued by doubt, resources, and overall strategy. More laggards say they need proof-of-concept via success stories than the remainder of our respondents (31% vs. 23% of total response pool), a greater need for staff to review reports and pictures (39% vs. 27% of total respondents and 18% of Winners), and also cite the need for a shift in executive opinion at an unbalanced rate (39% vs. 18% of Winners). Winners know the advantages of new LP initiatives, plan for their capabilities accordingly, and only need enhanced intelligence technologies to knock them out of the park. Laggards are stuck on the bench doubting whether the game can be won.

A BROKEN MODEL

A final inhibitor worth calling out is which department the LP department reports up to. In aggregate, 37% of our retail respondents' LP teams report up to the CFO, 26% to the CEO/COO, 5% report elsewhere and 32% report to store operations (Figure 12).

Figure 12: The Fox and the Hen House



Source: RSR Research, December 2009

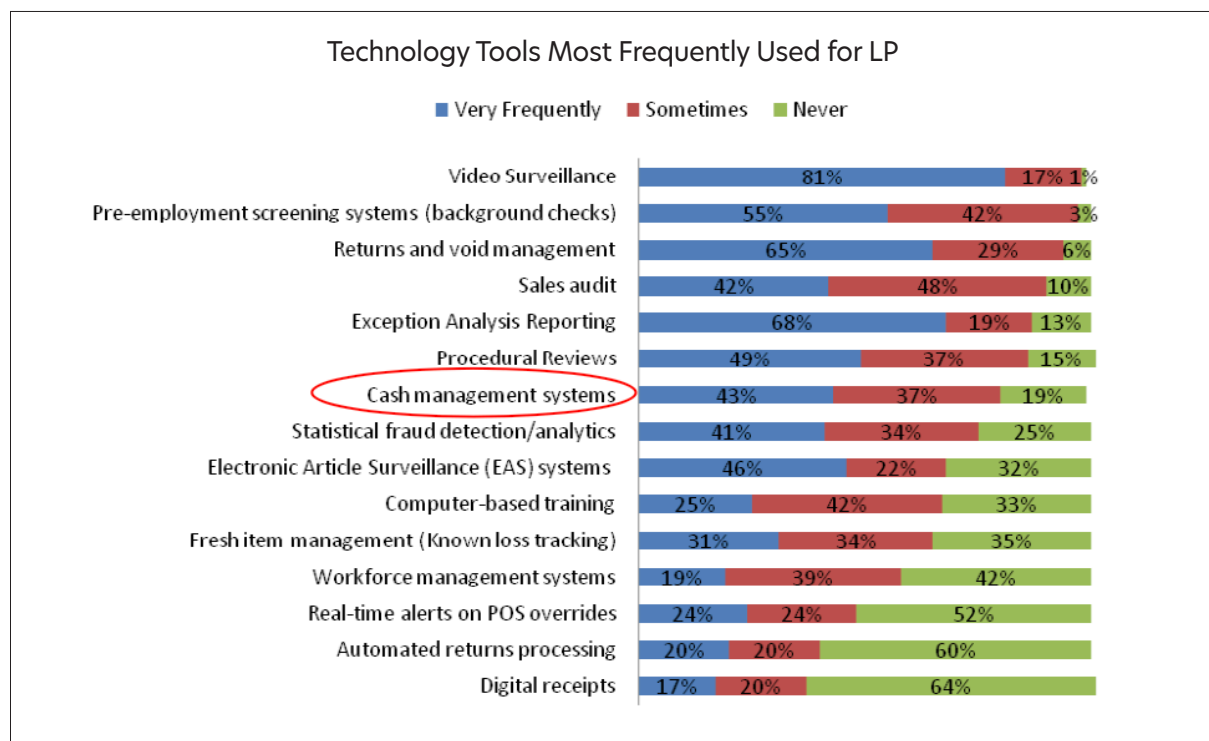
This last statistic is a baffling number, but becomes even more so when viewed by performance; 64% of lagging retailers' LP departments report to store operations – which has been compared to charging the fox to watch the hen house. Store operations personnel should be educated to and involved in Loss Prevention efforts, but the function of Loss Prevention should be elsewhere. Retail Winners know this: 38% of Winner's LP departments report to the CEO/COO, while another 38% report to the CFO.

SECTION V: TECHNOLOGY ENABLERS

EKING MORE VALUING FROM EXISTING INVESTMENTS

As we saw above, retailers are focused on getting at the nascent value of their existing investments without adding people to review detail data. This has been a consistent theme over the past three years. This year, we asked our respondents to highlight both high and low-technology tools in use. When we look at Figure 13, it's easy to see why retailers would be interested in adding Business Intelligence as a refresh to their application portfolio.

Figure 12: The Fox and the Hen House



Source: RSR Research, December 2009

The technology tools above, while apparently meant to reduce volumes of data, are also a bit long in the tooth, and likely in need of a technology refresh. To illustrate, the following is a list of "high tech" tools and the percentage of retailers reporting usage for longer than one year:

- Video Surveillance: 91%
- Pre-employment screening systems: 76%
- Sales Audit: 71%
- Returns and void management: 68%
- Exception analysis reporting: 67%
- Cash Management Systems: 63%

RSR believes these applications are the most labor intensive in retailers' high tech LP portfolios, and could benefit most from improved automation.

DIFFERENCES EMERGE BY SEGMENT

We were somewhat surprised to discover only 48% of FMCG retailers using Sales Audit applications. Given the essentially lower profit margin on fast moving consumer goods, one would expect those retailers to keep the sharpest eye on sales inconsistencies, yet these retailers clearly lag behind all other counterparts (over 80% of all other retailers have used Sales Audit for longer than a year). The same is true of exception reporting. While 76% of GMA retailers have used these applications for longer than a year, only 54% of FMCG retailers have developed this tool for LP purposes.

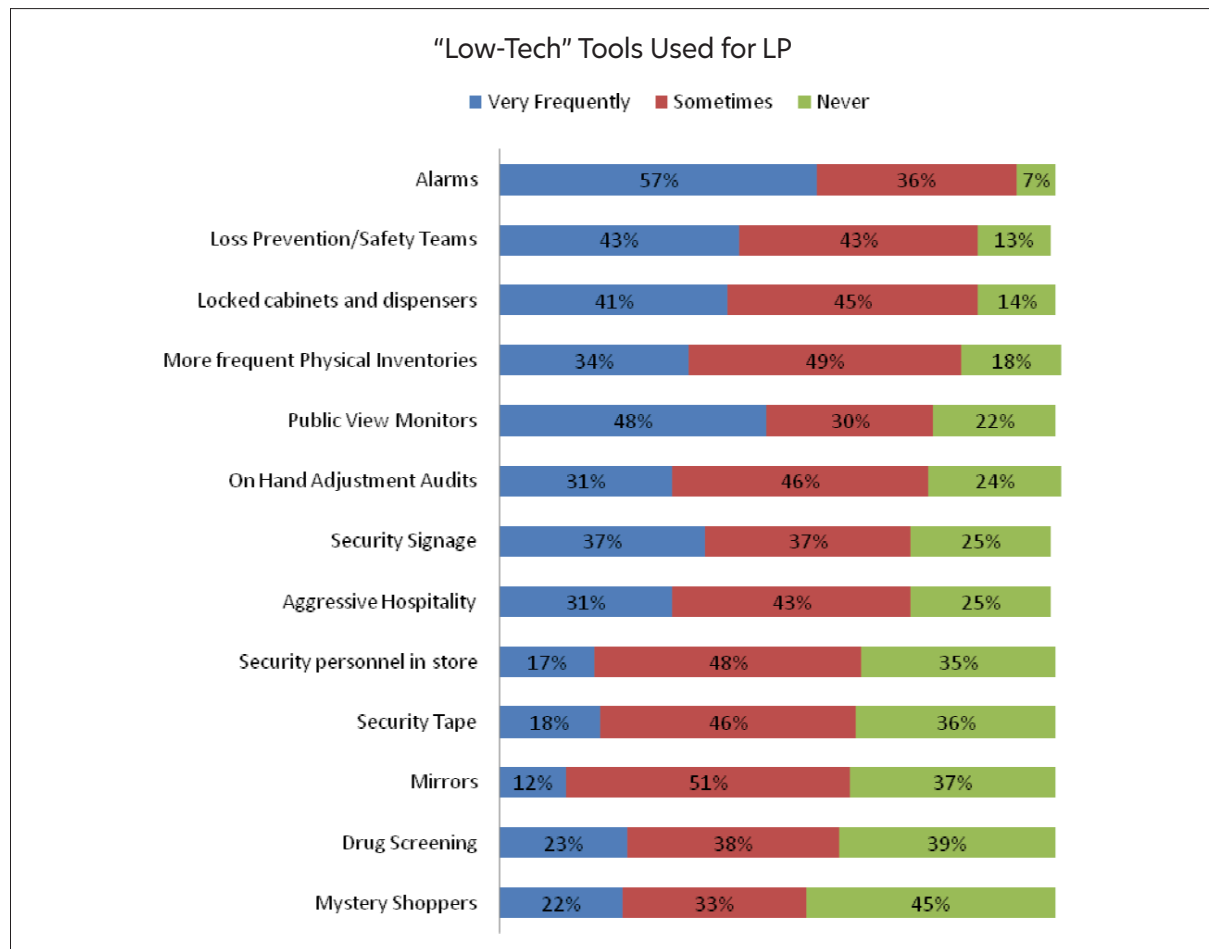
SURPRISINGLY WEAK APPLICATION PENETRATION AREAS

Only 59% of total retailers report using EAS tagging systems: 74% of GMA retailers and approximately 44% of all others. Statistical fraud detection and analytics also tends to lag: 39% report using the tool for longer than a year, with GMA retailers leading the way at 45%.

LOW-TECH TOOLS: BASIC AND EXPENSIVE

As we can see from Figure 14, traditional low-tech tools are in place to support LP efforts.

Figure 14: Traditional Low-Tech Tools Used As Adjuncts



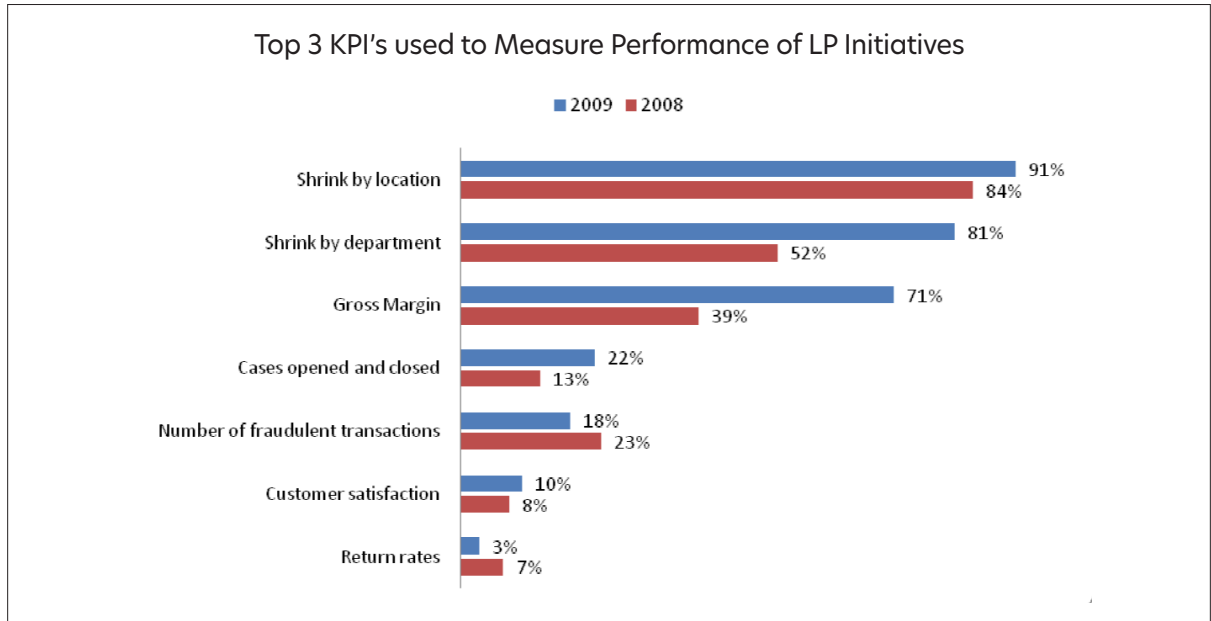
Source: RSR Research, December 2009

While most retailers have these low-tech tools in place, they serve more as adjuncts to LP efforts or as forensic tools than they do as primary LP prevention tools. Everything from public view monitors, to "aggressive hospitality," to more frequent physical inventories requires people, money and time to execute. In an era when those resources are scarce, it's no wonder that retailers look to get "smarter" in their LP efforts.

MEASURING VALUE: CRITICAL KPI'S

We found some interesting year-over-year differences in the way retailers measure the value of their LP initiatives. While Shrink by Location and Shrink by Department remain the most broadly used metrics, retailers are far more inclined to use aggregate gross margin as a tool to measure the value of their LP initiatives than they were last year (Figure T3).

Figure 15: Shrink and Gross Margin Most Important Measures



Source: RSR Research, December 2009

While this is logical – retailers are looking at direct outcomes, we can also see some disconnects in the value of prevention vs. forensics. One would expect Returns Management, for example, to lead directly to lower return rates, yet while 94% of retailers find the technology at least somewhat important, only 3% consider return rates a top-three KPI. Similarly, retailers seek to prevent losses, but 22% measure success based on the number of cases opened and closed. Perhaps the year-over-year increase in this metric is reflective of the increase in ORC as a source of shrink. There are those who would argue the best way to stop ORC is by increasing the percentage of criminals caught.

SECTION VI: BOOTSTRAP RECOMMENDATIONS

NEW INVESTMENTS MUST ELIMINATE GRUNT WORK

Even as the economy begins to re-stabilize, personnel budgets will likely remain tight for months, if not years to come. As a result, any technology refresh must eliminate the mundane work of balancing, cross-checking and low-level data analysis. This is the essential value of business intelligence layered on top of existing investments. We don't necessarily advocate additional staff reductions; rather we encourage the pre-filtered information presented to existing staff.

IT'S LONG PAST TIME TO GET PERPETUAL INVENTORY SYSTEMS HOUSES IN ORDER

While defining the tools and techniques required to improve (or in some cases even establish), item level perpetual inventory systems is beyond the scope of this document, noting the value of this data is not. Retailers who rely on a periodic "trueing up" of inventory counts, as opposed to eliminating process and

system “leaks” that cause perpetual inventory to get out of sync, cannot easily get a handle on specifically which items are prone to theft. For some retailers, this may imply implementing other systems like Fresh Item Management, for others, it may simply require disabling the “quantity” key at the Point of Sale. What’s certain is that without a sound base, reducing shrink is a fantasy.

GET A BETTER UNDERSTANDING OF ORGANIZED RETAIL CRIME

It’s easy to think of “Organized Retail Crime” as vast networks of savvy criminals. In fact, neighbourhood thieves acting in concert with each other also qualify as ORC. Any pre-planned, pre-organized activity that results in merchandise losses is an act of ORC. While the smallest retailers don’t often recognize it as such, they are often the biggest targets for this localized form of ORC. Working with local law enforcement and staying up to date on the tools and techniques of the largest retailers can provide benefit to small and mid-sized retailers too.

TALK TO YOUR PEERS

While we’ve highlighted differences between Retail Winners and their peers often throughout this report, LP is one area where information and success stories are not well-kept secrets. We are continually surprised and pleased at retailers’ willingness to share information with each other. There are several major Loss Prevention conferences each year, and all are very well attended. While the keys to having a better perpetual inventory system may be closely guarded, the tools and techniques to keep employees in line and customers honest are openly discussed.

UNDERSTAND THE NATURE OF THE JOURNEY

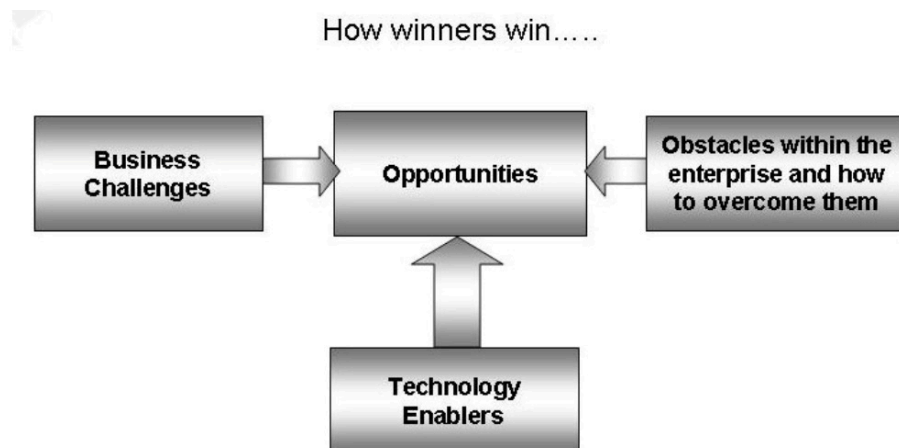
Keeping Loss Prevention up to date and shrink under control requires a continuous commitment with constant improvements. Difficult economic conditions, high unemployment and technology advances have made thieves more sophisticated and also more desperate. Shrink is a battle that’s been fought in retail since someone realized charging ninety-nine cents for a product made it necessary for an employee to open the cash register to “make change” rather than just pocket the proceeds from a sale. The battle will continue. Science will continue to support our efforts, along with the efforts of criminals. That is the essence of the LP journey – continual improvement.

APPENDIX A: ABOUT OUR SPONSORS

The “BOOT” methodology is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant external challenges. These issues provide a business context for the subject being discussed and drive decision- making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. The ways retailers turn business challenges into opportunities often define the difference between Winners and “also-rans.” Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find internal organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these

A graphical depiction of the BOOT follows:



APPENDIX B: ABOUT OUR SPONSORS



SAS is the leader in business analytics software and services, and the largest independent vendor in the business intelligence market. Through innovative solutions delivered within an integrated framework, SAS helps customers at more than 45,000 sites improve performance and deliver value by making better decisions faster. Since 1976 SAS has been giving customers around the world THE POWER TO KNOW®.



The industry-leading Sensormatic retail solutions portfolio offers vital loss prevention and operational improvement technologies and solutions. Backed by more than 1,500 patents, the Sensormatic solutions portfolio is sold through ADT and authorized business partners around the world. From the front of the store through the entire retail supply chain, Sensormatic solutions help keep losses lower – and profits higher. Today, over 80 percent of world's top 200 retailers that use EAS rely on Sensormatic solutions, which include EAS, source-tagging, data analytics and in-store, item-level intelligence applications. Sensormatic forward-thinking solutions also include dual EAS-RFID technology that provides item-level security and visibility in an ever changing retail environment. For more information, please visit <http://www.sensormatic.com>.

APPENDIX C: ABOUT OUR SPONSORS

Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- Identifying information that helps retailers and their trading partners to build more efficient and profitable businesses;
- Identifying industry issues that solutions providers must address to be relevant in the extended retail industry;
- Providing insight and analysis about a broad spectrum of issues and trends in the Extended Retail Industry.

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