

Feeling the Loss

In an ever more competitive trading environment, reducing shrinkage has become a key issue for many retailers. Alison Campbell-Boreham considers how loss prevention solutions can help

Retail Systems Jun/July 2007

The retail landscape is changing. Loss prevention is fast becoming the last bastion for shrinkage and the issue is making its way into the boardroom. Until recently, it has been perceived as a luxury rather than necessity; the high cost of security and technology rendering it unavailable to all but the largest retailers. However, with technology prices falling and entry-level systems being introduced, loss prevention is now receiving far more attention.

According to the British Retail Consortium's Retail Crime Survey (2005-2006), crime cost the industry £2.10 billion in that year. Granted that amount includes a £676 million investment in prevention, but it still paints a bleak picture, made worse by an increase in customer theft on the previous years' figures. Encouragingly, the total cost of crime in relation to turnover fell to 0.86 per cent, from 0.88 per cent in 2004.

Britain still has one of the highest shrinkage rates in Western Europe however (although its ranking has dropped from first to third in the European Retail Theft Barometer 2006, which monitors the cost of shrinkage and crime for Europe's retailers and is compiled by the Centre for Retail Research in Nottingham). UK retailers achieved the largest reduction in shrinkage in 2006 (down from 1.17 per cent in 2002 to 1.33 per cent in 2006), but the rate is still above average (1.24 per cent).

Customer theft was responsible for 48.8 per cent of shrinkage and employees 30.7 per cent, although this figure rises to 50 per cent in the UK.

"I still don't think some retailers are taking this seriously enough," says Andrew Wood, operations director and founder of Oris. "Shrinkage is not a legitimate cost of doing business, it can be reduced. It's the guy who comes to me with shrinkage at 0.5 per cent saying he wants to do something about it I respect."

The focus for loss prevention in the UK now seems to be firmly on the inside. Key technology vendors have seen more invested in systems to tackle staff theft in the last year.

"This is the last free money on the table," says Phil Payne, director of professional services, IntelliQ. "This is about profit protection."

Payne spent 14 years in the police force and has a unique perspective on criminology. Prior to joining IntelliQ, he was national security manager at Lloyds Pharmacy, a retailer happy to go public about internal crime in the past. Payne would not be drawn to comment about his previous employer but did point out that certain openness about how they dealt with such events was at worst a good deterrent.

The last 12 months have seen loss prevention technology move on apace with integration between point-of-sale equipment and CCTV, plus increasing adoption of data mining tools to help make sense of all the information available.

Historically, technology would only go as far as analysis of transaction logs to find anomalies associated with sales data. The problem was that as well as every retailer understanding the limitations of their loss prevention strategy, so did the perpetrators. Armed with that information, finding a way around it was merely a formality.

“One of the frustrations in the past has been how to get exception reporting,” says Payne, referring to traditional, rules-based, one-dimensional loss prevention tools, which would at best provide information such as highest number of refunds or refunds of the highest value. “You need more than this if you want to detect something like refunds given on products that have not actually been sold. Data mining allows you to drill down.” he explains.

Catching thieves earlier is key to recouping losses and maximising resources in terms of investigations. A lot of crime goes undetected simply because loss prevention resources are too busy sifting through non-specific information.

In response, BT is launching a loss prevention solution which integrates video surveillance images with POS transaction data. It is designed to enable retailers to pinpoint and capture evidence of circumstances leading to stock loss, whether through wastage or crime. Based on BT Redcare’s digital CCTV network storage, the solution provides retailers with exception reports by analysing data from till transaction details and video footage.

“Most retailers have point-of-sale data and many have CCTV,” explains Gary Sharp, general manager, Retail & Global Brands, BT Global Services. “What they need is a means for better utilising this information so that they can significantly reduce investigation time and catch thieves earlier.”

The earlier a crime is detected and a case compiled, the more likely a positive outcome for the retailer, but only if the case is of the highest quality with reliable, validated evidence.

Retailers are moving towards civil recovery as a means of recouping losses and as a deterrent to prospective criminals. Loss prevention specialist Oris is aiming to bring the cost down by introducing a ‘no frills’ fraud management tool with an entry-level cost under £100,000 (compared to prices in excess of £250,000 historically). The four original founders of IntelliQ have jumped ship, set up IDM Software and partnered with Oris.

Fraud Manager is a hosted product. The company claims it can be up and running within weeks, providing a faster ROI than the usual six-twelve months with traditional data mining solutions. Data is presented in familiar language and formats and can be ‘sliced and diced’ to generate reports, item-level analysis and historical patterns.

Andrew Wood, operations director and founder of Oris, sees a vast difference in the value of today’s data mining products. “Rules-based tools are not telling you anything you don’t already know, but what about the fraud and crime of which you are not yet aware?”

RFID is being used to track goods through the supply chain, which accounts for 6.2 per cent of shrinkage (European Retail Theft Barometer) but it has yet to be adopted in earnest at item-level in-store. RFID is a technology that has been looking for a problem for a long time. It needs to come down in price before it can be used in store and there are still reception and transmission issues to be ironed out," says Wood.

BT, which is carrying out work in this space, sees it differently. The RFID focus might not yet be on loss prevention but it's coming. The Metro store in Germany is working with Kraft, Gillette and Procter & Gamble to use RFID technology to increase security and also enhance knowledge of customer reaction to a limited number of key products.

Goods involved in this particular test include Mach 3 razors, Philadelphia cheese and Pantene hair products. An RFID reader is built into the shelves with all the wiring hidden at the back.

Aside from traditional electronics article surveillance, which is highly effective in shop-lifting reduction, CCTV and security guards (costly but in some areas effective), other types of loss prevention tools include smart safes and cash recycling.

Smart safes are lockable repositories for cash that sit behind the counter. The difference between them and normal safes is that they validate currency being deposited, thus ensuring no counterfeits are accepted. Deposits are also tracked through use of a personal identification (PIN) number for each employee, reducing shrinkage. The technology is also used inside unattended payment terminals and self-checkout systems.

Cash recycling is growing in popularity because of its ability to reduce the cost of cash handling and security. Retailers can lose three-six per cent on every GBP earned through cash management. Recycling devices, such as those provided by Extended Retail Solutions, accept and store banknotes for later dispensing to another customer as change or, increasingly, cash-back.

So, if loss prevention really is the last free money on the table, retailers had better act fast to scoop it into their pockets and not allow the criminals to get there first. Something can be done, the technology is there.

Any shrinkage is unacceptable - no matter how small a percentage.