

TO CATCH A THIEF

“OUR FIGHT AGAINST SHRINKAGE WAS RESTRICTED
HISTORICALLY BY LIMITED ACCESS TO KEY PERFORMANCE DATA”

ROBERT JENNINGS
BOOTS

James Thompson reports

Last year, when Bhs discovered that a lorry packed with 20,000 bras had been stolen, the department store chain's loss prevention team quickly went into action. It cleverly reduced the cost of the bras to just 1p on its electronic point of sale (Epos) systems and set up a prompt for employees to contact store managers if anyone attempted to refund or exchange a stolen bra in its stores.

The department store also used its existing data-mining software, from IntelliQ, to track any refunds or exchanges of the bras on the Epos systems.

Sure enough, within 24 hours a person tried to refund the stolen lingerie in a Bhs store. Bhs head of loss prevention Nigel Terry says: “The bras never went live into the chain, but through data mining, we saw the item being presented as a refund in the store.”

As a result of these actions, a number of arrests were made, said Terry.

However, this type of success story represents a drop in the ocean of the UK retail industry's shrinkage problem. Whether it is customer or staff theft, credit card fraud or products damaged in the supply chain, shrinkage is a major blight on the balance sheet of all retailers.

Shrinkage costs European retailers more than £2.5 billion a year, according to the Nottingham-based Centre for Retail Research's European Theft Barometer 2005 report. UK retailers have the highest average shrinkage rate – 1.38 per cent of store turnover – in Western Europe, although they have trimmed this figure by 13.2 per cent in the past 12 months.

The IT department is now in the vanguard of efforts to curtail shrinkage, as vendors roll ever-more sophisticated technology off their production lines. IT has to weld this new technology to its corporate network to optimise benefits.

SMILE, YOU'RE ON CAMERA

Large retailers are installing ceiling-mounted CCTV cameras and Epos systems onto the same high-speed wide area networks. They are also complementing this technology with powerful data-mining tools to identify anomalies in EPOS data, such as repeat credit card refunds, and build a watertight legal case against the perpetrators.

Of course, no combination of security technology offers a panacea for the plague of fraud. But what does help is when retailers deliver a co-ordinated strategy that stitches together technology, processes and people across departments.

Boots is a case in point. Until recently, it did not have a co-ordinated approach to sharing shrinkage data across departments, including loss prevention, logistics, personnel and store operations.

Boots head of loss prevention Robert Jennings says: “Our fight against shrinkage was restricted historically by limited access to key performance data and before we could improve, we recognised that we needed to establish what we were up against.”

Early last year, Boots started whipping its processes into shape using online shrinkage management software from ORIS Systems to track data across its 1,400 stores.

About 2,000 Boots employees use the software, although it was only employed initially by between 20 and 30 staff in head office. After pulling together shrinkage-related data, ORIS' Shrink Information Database delivers on-screen and hard-copy reports to different parts of the business.

“We can clearly see the benefits of this management tool at head office, but the time savings have transformed the way store managers can react to – and therefore reduce – shrinkage in their own stores,” says Jennings.

ORIS Systems managing director Andrew Wood says a key aim of the online system is to raise awareness of shrinkage and associated processes across Boots.

More tangibly, it also helps to measure levels of shrinkage in the supply chain, such as the performance of stores served by the same distribution centre (DC), he adds.

“It has made DC managers aware of any shrinkage they may cause, such as around pick accuracy. This is an objective measure of a DC’s accuracy”

To do this, the system produces reports over several weeks or months of stocktaking data. “There should be no difference between one DC and another,” says Wood.

A further use of the system is to measure suppliers’ performance, such as the amount of damaged or faulty products. “Boots can get a view of certain products that are costing them more than the norm and then involve the supplier in improving products to minimise those losses,” says Wood.

SWEET SCAM

No doubt technology is the frontline in the war on shrinkage, but there is no substitute for strict corporate policies and training staff to be vigilant in the quest to cut shrinkage.

For instance, retailers continue to be stung by staff simply dipping their hands in the till or engaging in sweethearting. “Sweethearting is where members of the public and members of staff in retail collude. Typically, one item is scanned and one item is not,” says Wood.

Another major problem is fraudulent exchanges of stolen products. Terry says: “The natural assumption about refunds is that someone is coming back into a store to ask for a cash refund. But when someone purchases goods and wants to exchange them for a different size or colour, it is often viewed in a different manner. Refund fraud exchange is a big avenue where laundering can take place, because there is not as much control over an exchange as with other items.” Bhs regional investigator Carl Mash adds: “99 per cent of exchanges or refunds are genuine, but the volumes are high. It is fairly normal in retail, because people get gifts at Christmas, for example.”

Ideally, all retailers would refuse any exchanges without a receipt, but this rigidity has to be balanced with high-quality customer service.

Ultimately, human nature dictates that retailers will never stamp out all forms of fraudulent activity. What they can do is to keep striving to integrate new technology with a culture of zero tolerance and information-sharing.

As New Look chief executive Phil Wrigley told ORIS Systems’ Wood recently: “Shrinkage is the last free money on the table.”

IT is increasingly taking up the shrinkage-busting reins, but it is the duty of all retail employees to deprive criminals of easy pickings.

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