Winning Trends in Loss Prevention

Benchmark Study: 2008

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Retail Systems Research

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Executive Summary

RSR embarked on this Loss Prevention study assuming that the sources of shrink had changed. We thought Organized Crime had become a more serious driver of theft. As it turns out, while organized crime is a growing concern for the largest retailers (particularly those selling general merchandise and apparel), overall the sources of shrink remain the same: customers and employees steal both merchandise and money, employees provide sweetheart deals for their friends and family, and missed markdowns and other clerical errors create "paper shrink." Even as LP grows as a priority for most retailers, the issues they face remain unaltered.

Business Challenges

It is incredibly hard to create a customer-centric store when your core belief is that your employees, who are your company's face to the world, will steal from you at the first opportunity. But our retail respondents are adamant. They believe that their employees and customers are stealing merchandise and cash from them. Ironically, the worst performing retailers are more concerned about employee theft than their peers. While 56% of retail winners believe employee theft of merchandise is one of the top-three sources of shrink, *a stunning 80% of average performers and 70% of laggards believe their employees are stealing from them*. This trumps customers as a source of shrink by a wide margin.

Opportunities

Fifty-six percent of retailers believe they could reduce shrink by 10-25% with new LP initiatives to re-coup gross margin losses. They believe their most important opportunity lies in taking better advantage of existing investments, specifically by adding a fresh infusion of business intelligence. One obvious opportunity: the possibility of finding more intelligent ways to use the video surveillance systems they have already purchased. The opportunity to add better and more efficient rules into returns, sales audit, and cash management systems also promise returns on investment not yet seen.

Organizational Inhibitors and How to Overcome Them

Shrink and loss prevention may hold a high priority in retailers' minds, but these same retailers have difficulty turning thoughts into action. As with most store-based initiatives, sheer expense stands in the way of moving forward. It's no wonder then that retailers are looking to add business intelligence in centralized locations: Sixty-three percent of retailers believe that if they can just implement better business intelligence to analyze data from their far-flung locations, they will be able to cut total expense and demonstrate ROI more rapidly.

Technology Enablers

Retailers exhibit a preference for returns and void management programs, video surveillance, and sales audit systems, along with traditional "lower-tech" solutions, but the efficacy of high tech tools is hampered by lack of timely notification of issues to stakeholders. Even as more than 30% communicate LP issues in near real time, another 40% communicate to stake holders weekly or less often.

Bootstrap Recommendations

It's most critical to work on making in-store employees stakeholders in the business. Even as they remain a primary source of shrink, they are also a first line of defense AGAINST it. If you can't make them part of the solution, take a strong position on deterrence. Make sure employees know that you have tools in place that can help you catch thieves, from within and outside the organization. Towards that end, retail winners and average performers are turning to Computer Based Training (CBT) to assist in LP activities. While shrink may seem to be an intractable problem, winners are finding a way to minimize their losses.

SECTION I: OVERVIEW

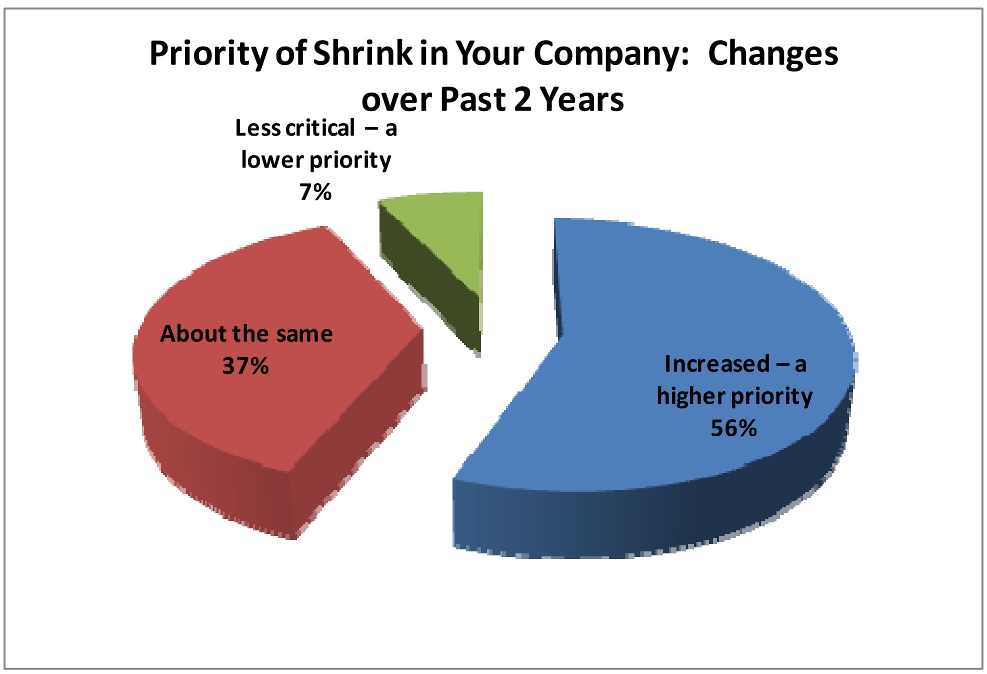
WHY THE STUDY WAS CONDUCTED

Loss Prevention and shrink management are as old as retailing itself. Legend has it that the "99 cent ending" so commonly used for merchandise pricing came into being not to massage consumer psychology, but to ensure that sales clerks needed to open cash register drawers to "make change" for customers, rather than quite literally pocket the proceeds from a sale. The ringing up of the sale and opening of the cash drawer recorded the sale, and modern retail Loss Prevention was born.

RSR embarked on our Loss Prevention study with the assumption that the sources of shrink have changed. We thought Organized Crime had become a more serious driver of theft. We felt it was time to quantify what has been until now, popular opinion. As it turns out, popular opinion is not an accurate representation of reality. **While organized crime is a growing concern for the largest retailers (particularly those selling general merchandise and apparel), overall the sources of shrink remain the same**: customers and employees steal both merchandise and money, employees provide sweetheart deals for their friends and family, and missed markdowns and other clerical errors create "paper shrink."

While the sources of shrink may remain the same we can see from Figure 1 that Loss Prevention is a more critical retailer priority than ever. **Ninety-three percent of retail respondents in our survey report that shrink has become more important or is equally important as a retailer priority over the past two years**.

Figure 1: Controlling Shrink Becomes More Important



Source: RSR Research

The purpose of this study is thus now quite straightforward: ***Our goal is to help retailers understand how winners improve or hold the line on their losses***. We identify ways technology helps retailers accomplish this goal without losing their most important focus: satisfying their customers.

Methodology

RSR uses its own model, called the "BOOT," to analyze Retail industry issues. We examine the approaches retail winners take to solving specific business challenges and how technology supports those winning ways. The model is built from retailer answers to our surveys, and an explanation of the methodology can be found in Appendix A.

Winning is not an accident in the world of retail. Customers vote with their wallets. **Sustainable sales improvement and successful execution of brand vision are direct results of an enterprise's recognition of external and internal business issues, its ability to take advantage of opportunities for improvement, and its use of technology enablers to simplify and rationalize business processes**. Data that emerges from the BOOT model helps us understand the behavioral and technological differences between winners and their peers.

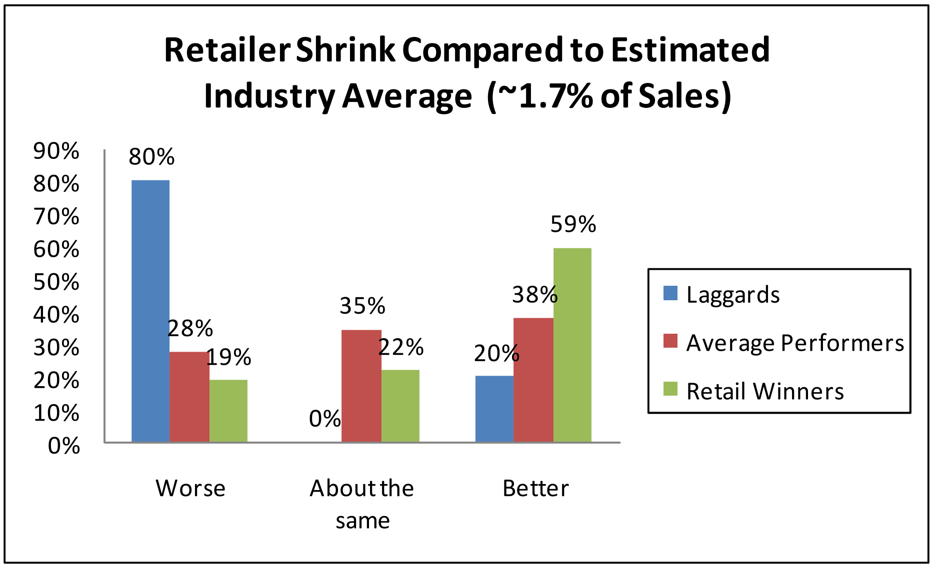
Defining Retail Winners and Why They Win

While our definition of retail winners is straightforward, its implications are far-reaching. Simply put, we choose to follow Wall Street. Wall Street judges retailers by year-over-year comparable store sales improvements, and we do the same. Assuming an industry average year-over-year comparable store sales growth of three percent, we define retailers with sales growth 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."

Interestingly, we find that over time, **most other KPIs fall into line behind the leading indicator of comparable sales.** Retail winners tend to have richer gross margins and slimmer payroll to sales ratios. Equally as important, **retailer winners do more than just sell more goods and services – they tend to think differently**. They have very distinct ways of running their business. Those methods lead to better results.

Our current benchmark survey shows consistency in this regard. We asked our retail respondents to compare their results with our estimates of average shrink. The answer highlights our belief in the better methodologies used by retail winners (Figure 2).

Figure 2: Retail Winners Manage Sales and Shrink Too



Source: RSR Research

Retail winners not only outperform their competitors in comparable store sales, but they have found the time and methods to improve shrink. While 59% of retail winners enjoy a shrink percent better than the industry average, 80% of self-reporting laggards have a worse shrink percent than the industry average.

Given the dramatic numbers presented in the graph above, it seems important to note that **individual responses were screened to ensure that respondents were all retailers**, and not just "ringers" telling us what we wanted to hear.

Survey Respondent Characteristics

RSR conducted an online survey between September and November 2007 and received responses from 96 retail respondents. Respondent demographics are as follows:

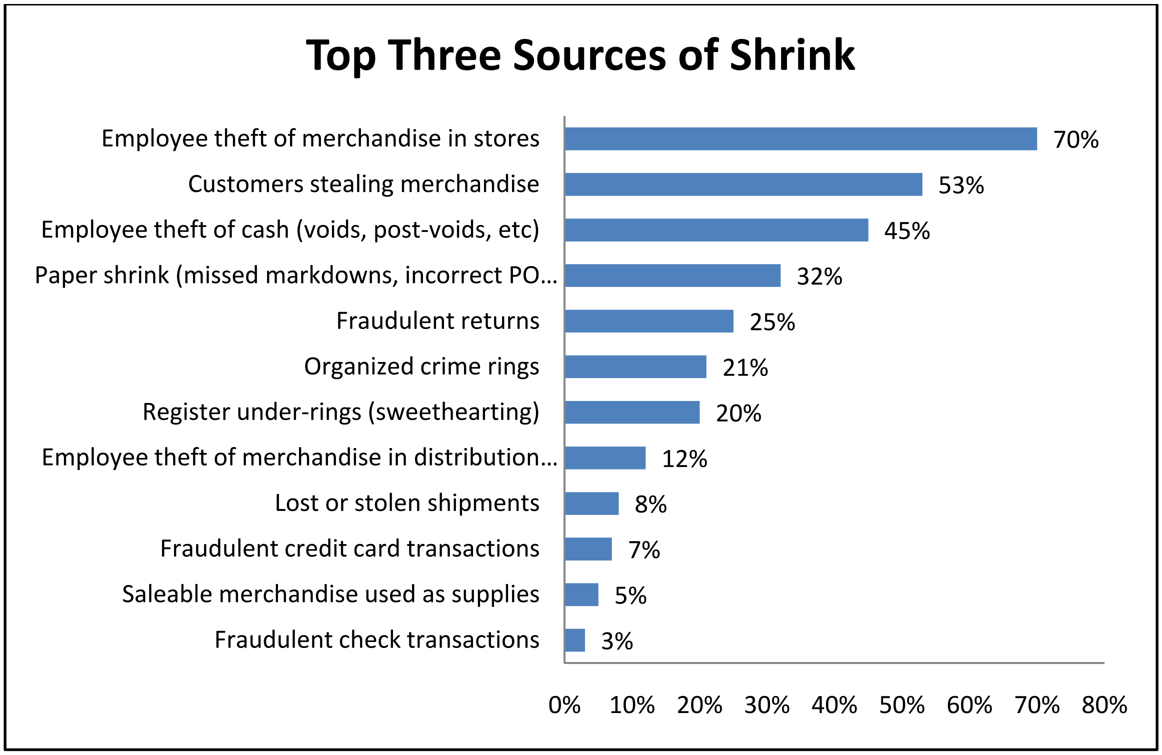
- **Functional Area**: 34% of respondents identified themselves as part of store or field management, 24% from finance, 14% of respondents identified themselves as part of merchandise management, 18% from logistics/supply chain or IT, with the remaining 10% from marketing, procurement and sales organizations.
- **Job Title**: 14% self-identified as a C-level executive, 24% as Vice Presidents, 39% as directors, with the remaining 23% in internal consulting and staff positions.
- **Revenue**: 25% of respondents have annual revenues of $50 million or less, 24% from $51 million to $499 million, 11% have annual revenues of $500 million to $999 million, and 39 percent have annual revenues of $1 billion or more.
- **Segments**: 68% of respondents represent general merchandise and apparel (GMA) retailers, 19 percent are from purveyors of fast moving consumer goods like grocery and convenience stores (FMCG), and 14 percent come from DIY, furniture, food and miscellaneous other retail segments.
- **Year-Over-Year Comparable Sales Growth Rates**: Assuming average comparable revenue growth of 3 percent, 41% reported better than average results, 44% reported average results, and 14% self-identified as worse than average.

SECTION II: BUSINESS CHALLENGES

The Sources of Shrink Mostly Remain the Same

Both the popular and business press are filled with stories about returns fraud, identity theft and Organized Crime rings, yet our retail respondents are focused on perennial issues (Figure 3).

Figure 3: Retailers Identify Top Sources of Shrink



Source: RSR Research

Our retail respondents are adamant. They believe that their employees and customers are stealing from them. Ironically, the worst performing retailers are more concerned about employee theft than their peers. While 56% of retail winners believe employee theft of merchandise is one of the top three sources of shrink, *a stunning 80% of average performers and 70% of laggards believe their employees are stealing from them*. This trumped customers as a source of shrink by a wide margin, with "only" 53% of average performers ranking customer merchandise theft as a top-three concern. **It is incredibly hard to create a customer-centric store when your core belief is that your employees, who are your company's face to the world, will steal from you at the first opportunity**.

It is true that larger retailers (those with revenues over $1 billion) feel threatened by organized crime rings. Forty-one percent of these respondents highlighted this as one of their biggest sources of shrink. They too, believe employees are their biggest problem, with 74% identifying them as a top-three source of shrink.

Paper Shrink Still Lives in 2007

"Paper Shrink" (losses caused by administrative errors rather than theft of merchandise, cash or conscious price overrides) is still identified as a top-three contributor to shrink by over 30% of respondents. Paper shrink is an issue regardless of segment, performance, size or even whether or not the respondent uses the retail method of accounting. We found this surprising, since one typically associates paper shrink mostly with missed markdowns and its impact on imputed inventory cost[1]. For retailers using the **cost** method of accounting, paper shrink can only be caused by incorrect purchase order pricing and lack of integration between payables systems and merchandising stock ledgers.

Fraud: Much Ado in the Media, but a Minor Concern for Retailers

Even as identity theft, fraudulent returns and fraudulent credit card transactions hold center stage in television commercials and TV and print news outlets, it appears retailers are far more sanguine about the problem. Certainly, for the most part (especially in North America), retailers bear little to no financial responsibility for fraudulent transactions. This responsibility tends to rest with the banks. As a result, there is little impact on retailer gross margin from fraudulent transactions – to date.

If anything, costs associated with fraudulent transactions are taken "below the line" as extraordinary expense, and don't affect the retailer's gross margin. We could also say that the total cost to retailers in ANY case, particularly in North America, has been little more than an inconvenience. The bottom line – with some very specific exceptions in the online world, fraudulent transactions don't yet have a large impact on the typical retailer.

Business Challenges: Growth, Mistrust and the Need to Find a Better Way

Retailers feel pressured by their shareholders to grow. They believe this growth makes them bigger perceived targets for thieves of all sorts. This trumps direct pressure by Wall Street and banks to reduce fraud exposure by a wide margin. Figure 4 shows the top business challenges faced by our retail respondents – the ones that drive them to make investments in new Loss Prevention Initiatives. The challenge of growth is their top concern.

As long-time retail veterans, perhaps we should have been less surprised at the persistent thread of employee mistrust among retail respondents. Nonetheless, we find the direct statement by 74% of retailers, "We can't trust our employees" somewhat stunning. This was true regardless of segment, size, or performance.

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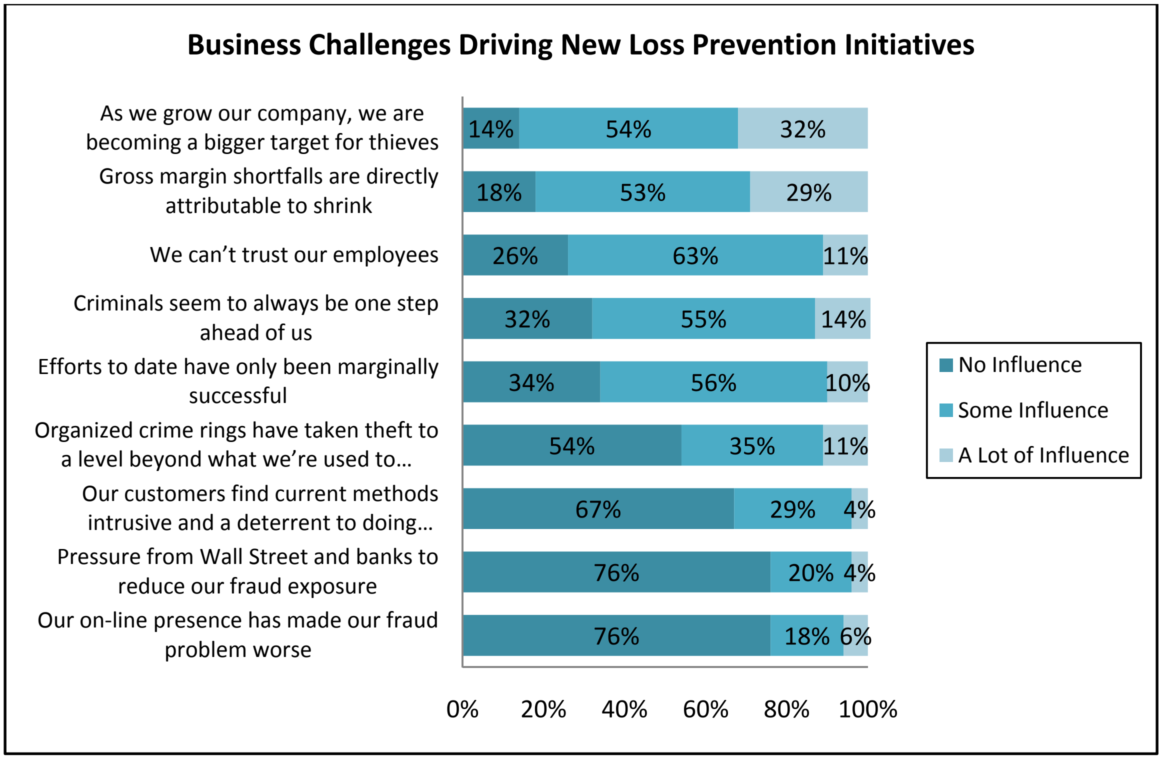
[1] A discussion of the Retail Method of Accounting is beyond the scope of this report. For our purposes, we will simply state that inventory at cost (what is typically shown on the balance sheet) is imputed as the cost compliment of merchandise inventory at retail.

Figure 4: Challenged by an Untrustworthy World

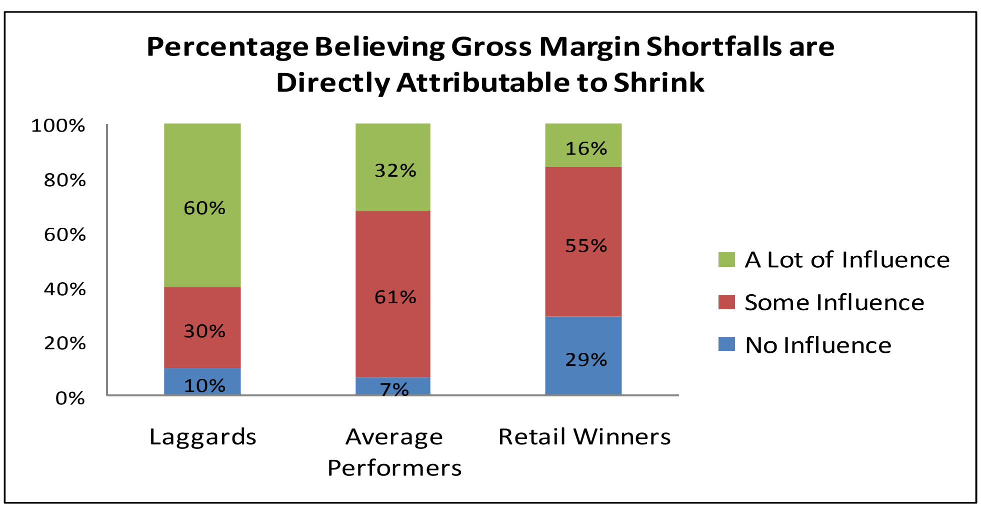


Source: RSR Research

THE WORST PERFORMERS BLAME GROSS MARGIN SHORTFALLS ON SHRINK

As illustrated in Figure 5, while all retailers rightly blame some portion of their gross margin shortfalls on shrink, poorer sales performers tend to highlight shrink as a more significant issue.

Figure 5: Poorer Performers Attribute Gross Margin Shortfalls to Shrink



Source: RSR Research

Certainly, as previously mentioned, poor performers' shrink percentage IS higher. Even a 100 basis point reduction in gross margin driven by shrink is significant for the best performers. There is no dispute there. We do wonder, however, if poor performers' lagging sales positions have led to paralysis in doing something about their shrink problem. Often, poor sales performance leads to a downward spiral of cost reduction, IT project suspension and budgetary adjustments that lead to further sales losses. In essence, losing becomes a self-sustaining problem.

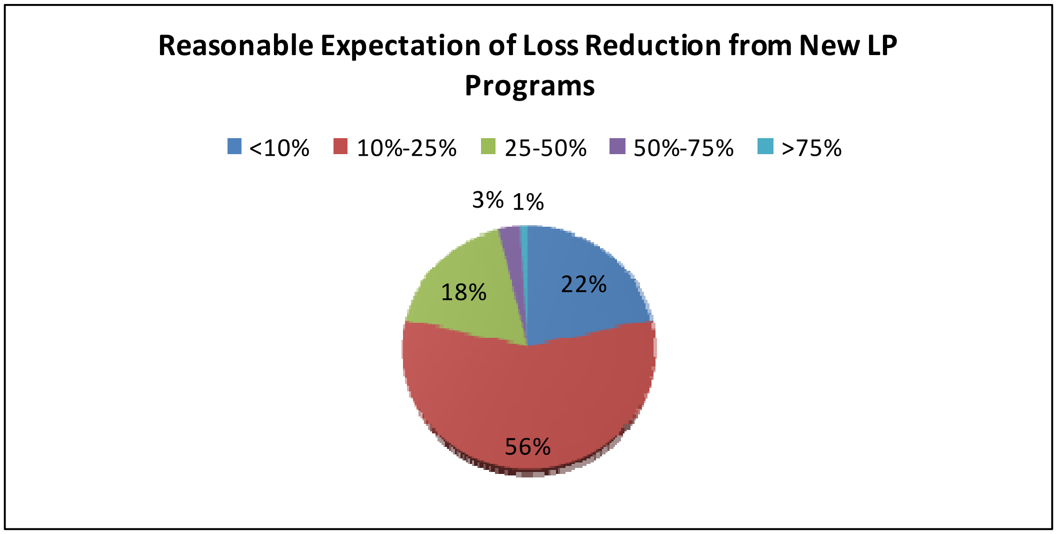
In the following section, we'll explore the opportunities retailers across all segments, tiers and performance levels see to improve on their losses.

SECTION III: OPPORTUNITIES

QUANTIFYING THE OPPORTUNITY

The majority of our retail respondents believe shrink reduction of 10-25% is a reasonable expectation from any new LP initiative (Figure 6).

Figure 6: Retailers' Expectations for Loss Reduction from New Initiatives



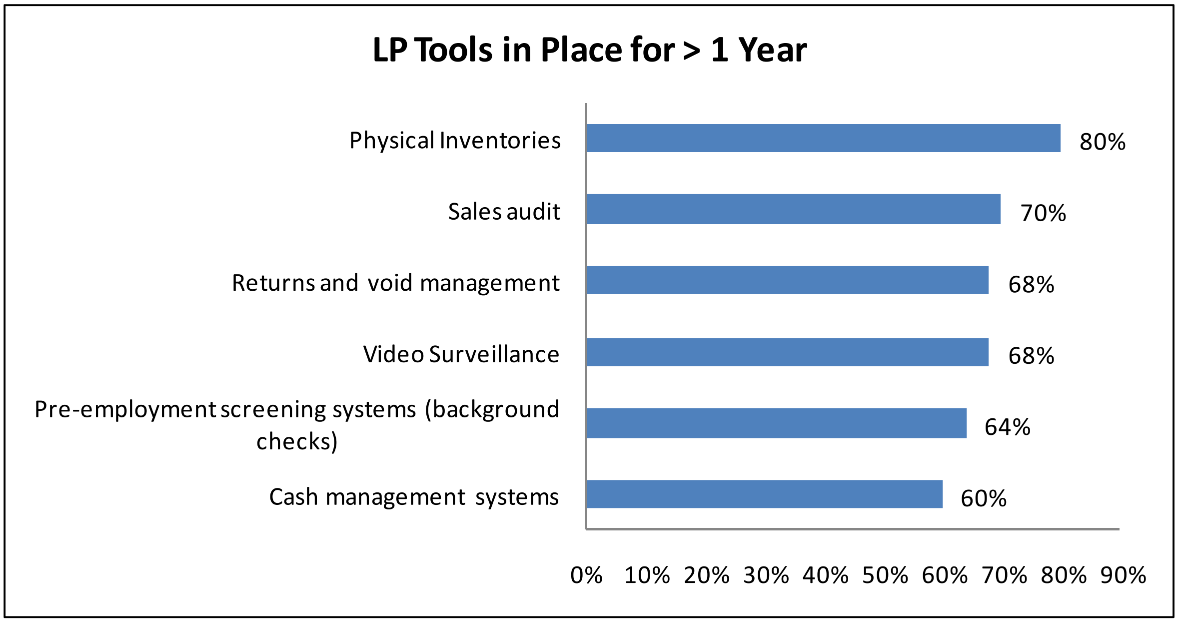
Source: RSR Research

This is consistent across retailer size and geography. FMCG respondents have slightly higher expectations than their peers, with 67% expecting those returns. What are the implications of this level of shrink reduction? In fact it is quite large. For a company with average shrink (1.7% of sales), an average selling gross margin of 50% and annual sales of $1 billion, *a 25% reduction in shrink would drive an increase to gross margin of 42.5 basis points and immediately bring an additional $4,250,000 right to the bottom line*. Given these expectations it's no wonder retailers are focused on Loss Prevention.

LEVERAGING EXISTING INVESTMENTS TO DRIVE GROSS MARGIN IMPROVEMENTS

Retailers have been investing in LP initiatives for years. The tools they buy range from centralized technology investments such as sales audit, returns, voids and cash management systems, to in-store tools like video surveillance equipment and third party technologies like pre-employment screening systems. A list of most commonly used tools for Loss Prevention is found in Figure 7.

Figure 7: Retailers Have Existing Investments in LP Tools



Source: RSR Research

Physical Inventory Processing: Blessing or Curse?

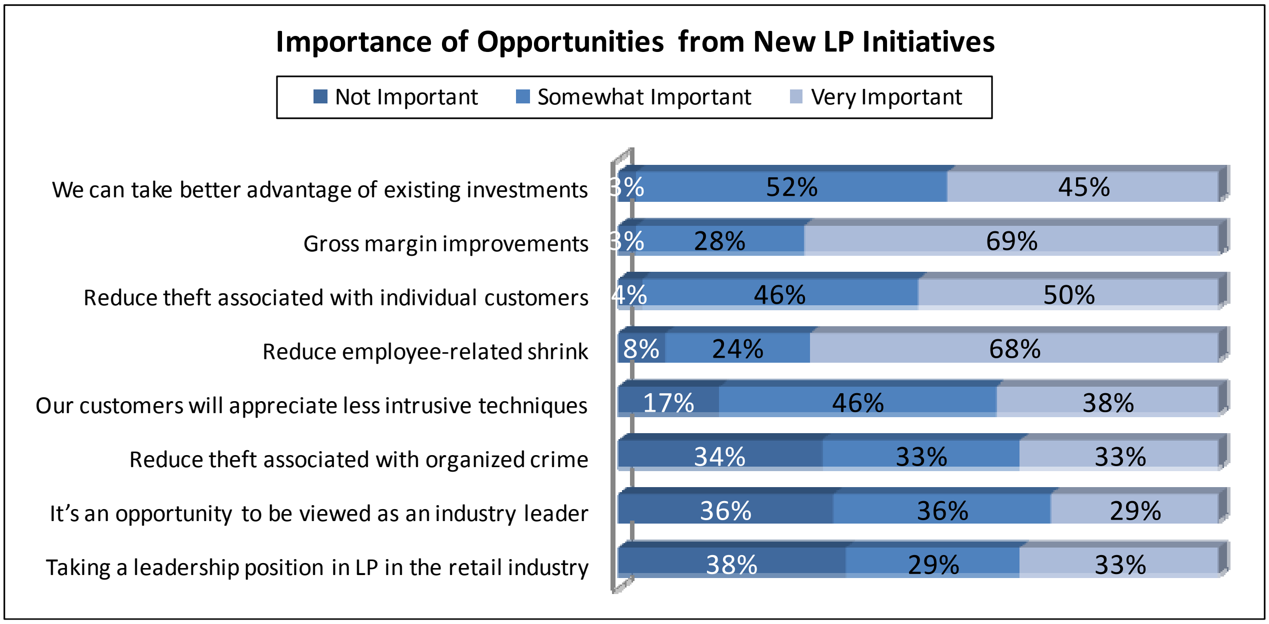
Physical inventories are most commonly used to identify (rather than actually prevent) shrink and "true up" perpetual inventory systems. Yet our retail respondents clearly identify them as *LP* tools. One could argue that even as "true-up" tools, physical inventories are lacking. Retail veterans know that even as they pay what amounts to an annual tithe to outside service bureaus to perform their physical inventories, without adequate and careful preparation (and significant additional internal payroll costs), physical inventory processes can actually *decrease* the accuracy of perpetual inventory systems.

Some of the early fascination with item-level RFID can be traced back to a desire to end the drain of money and resources caused by physical inventories in stores. Just as bar-code and locator systems enabled warehouses and distribution centers to eschew year-end physical inventories and substitute with periodic cycle counts, retailers hoped that real-time identification of RFID tagged merchandise would ultimately eliminate the need for physical inventories, ad hoc adjustments to inventory quantities and other techniques used to make "the books" look like what the customer actually sees. RSR believes the day will come when this is possible. The opportunity will be incalculable. It won't be as early as 2010, and it won't be across all retail segments; but it will certainly occur when tag and reader prices drop sufficiently.

The Most Important Opportunities

Given their expenditures on LP initiatives over time, it's no wonder that **retailers believe their most important opportunity overall lies in taking better advantage of existing investments** (Figure 8). One obvious opportunity: the possibility of finding more intelligent ways to use already-purchased video surveillance systems holds great intrigue. Retailers recognize that just keeping terabytes of video observation data does little to mitigate threats, and no store manager has the time to watch the videos in any case. The opportunity to add better and more efficient rules into returns, sales audit, and cash management systems promise returns on investment not yet seen. Clearly **retailers have hopes they can leverage their investments with a fresh infusion of business intelligence**. To be truly effective, this business intelligence must deliver information to store management on the selling floor, not in the back rooms at computer workstations.

Figure 8: The Most Important Opportunities to be Gained from LP Initiatives



Source: RSR Research

The thread of employee mistrust emerges again when looking at retailer perceived opportunities, as 68% of respondents report the opportunity to reduce employee theft as extremely influential, second only to Gross Margin improvements. We have to ask ourselves: Is customer-centricity in the store possible when driven by an increasingly more transient, poorly managed and mistrusted workforce? Can retailers really walk the customer-centric walk?

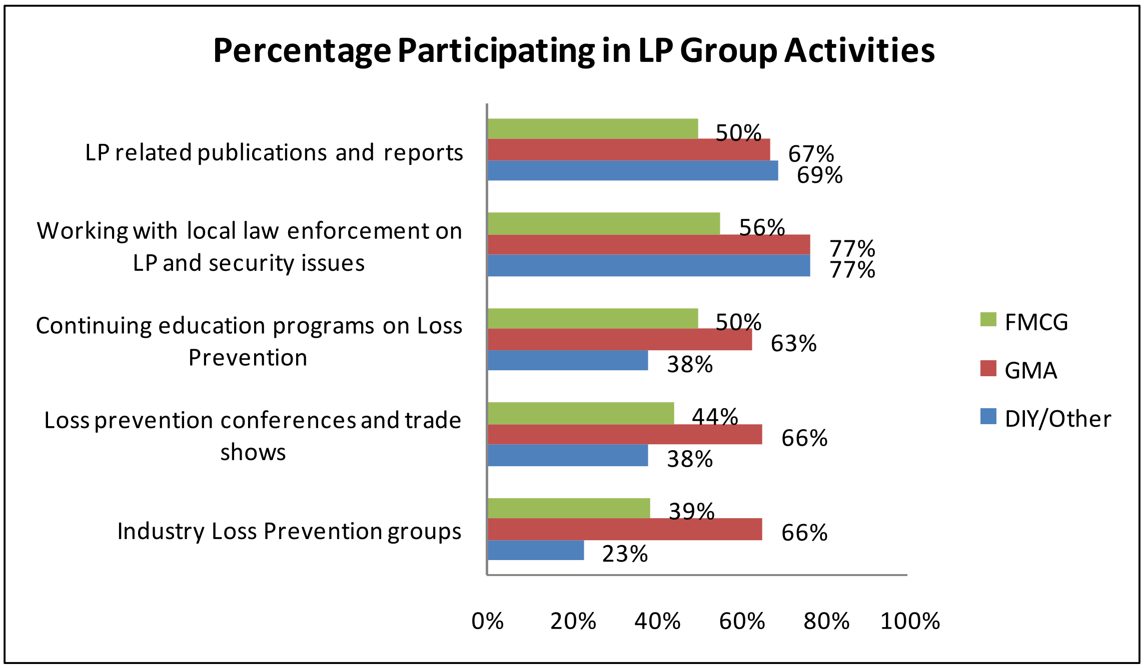
RSR's recent research into Workforce Management, "*The State of Retail Workforce Management*" asks similar questions. Retailers have historically done a hellacious job integrating their in-store workforce into their corporate mainstreams. Yet these same retailers recognize that self-service is not always an adequate answer for their customers' needs. Somehow, retailers must turn their employees into stakeholders. This requires efforts in recruitment and retention that retailers have not been willing to make to date. Clearly something has to give. Education and empowering existing employees is as important as pre-employment screening to drive down shrink.

LP is One Area Where Retailers Don't Keep Secrets

Retailers are famous for their secrecy. The phrase "Would Macy's tell Gimbels?" remains part of retail's lexicon even though it has been more than two decades since Gimbels' demise. One business area where retailers believe they have information worth sharing, however, is in the area of Loss Prevention.

From Figure 9, we can see in general, a majority of retailers participate in industry events, read literature, and work with law enforcement on their LP issues. **We also see General Merchandise and Apparel retailers taking the lead in supporting group LP initiatives. More than 60% of these respondents are active in collaborative ways**. We were quite surprised to see FMCG retailers NOT taking the lead, given their inherently lower gross margin percents and perennial issues with their employees.

Figure 9: The Majority of Retailers Don't Keep LP Secrets



Source: RSR Research

We are heartened to see retailers recognize that Shrink and Loss Prevention is an industry-wide issue. Improvements will not give one company a sustainable competitive advantage over any other. Rather it is an opportunity to improve the industry as a whole.

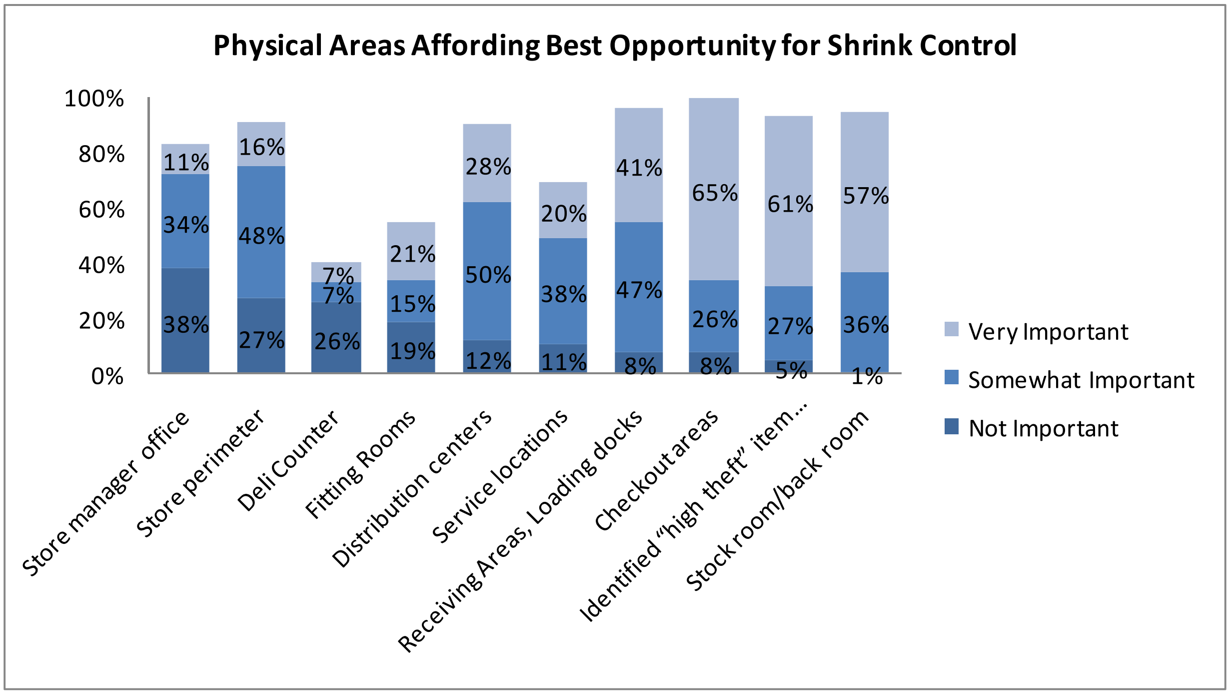
Getting Physical – Where are the Best Opportunities for Shrink Reduction?

Having gained an understanding that retailers believe customers and employees are their worst enemies when it comes to shrink (even worse enemies than their competitors), we can take a look at the physical locations retailers believe represent their best opportunities for reducing losses.

Figure 10 shows how retail respondents rate opportunities for shrink reduction. (Editor's note: numbers do not add up to 100% because we ignored responses of "not applicable"). Of course, by definition, we expected "high theft areas" to be a likely opportunity for improvement, as they seem to be the most likely target for thieves. However, it is interesting to note that check-out trumped all other locations as the ripest opportunity to eliminate or reduce shrink. **Ninety-one percent of respondents see at least some**

opportunity available at check-out. The loading docks of retailers selling fast moving consumer goods are also considered critical areas for shrink reduction with 65% of those retailers identifying docks as a "very important" opportunity vs. 41% of all respondents.

Figure 10: The Best Locations to Combat Shrink



Source: RSR Research

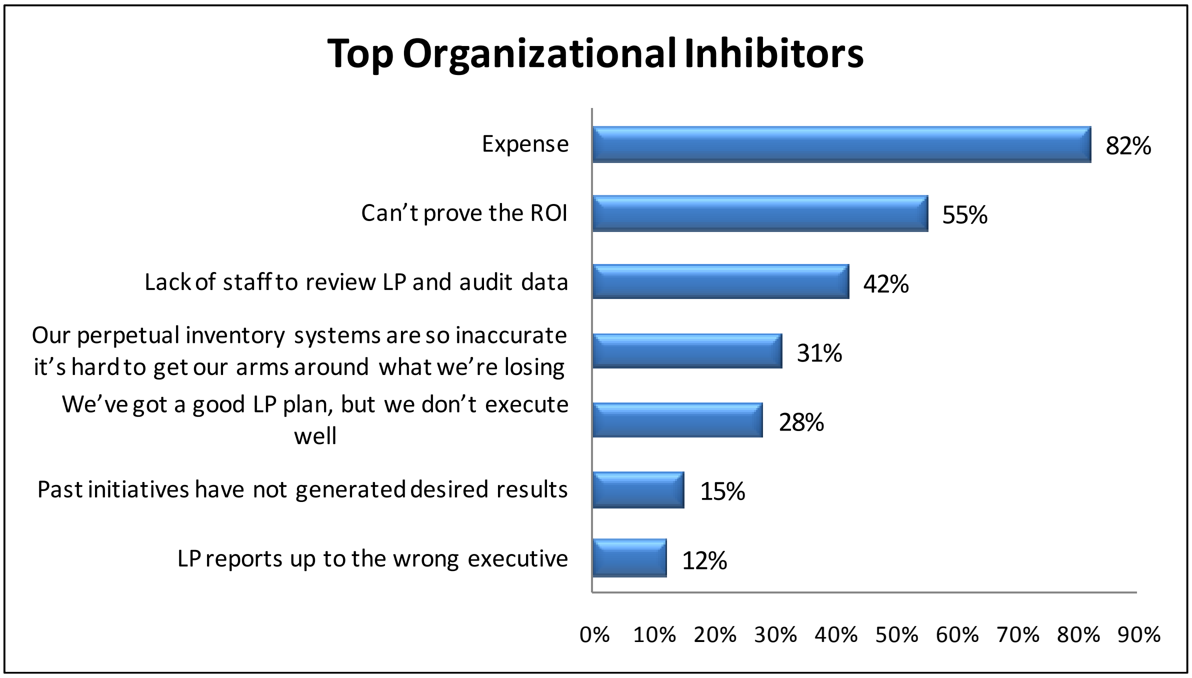
Having identified the opportunities available to reduce shrink exposure, we'll now take a look at the organizational inhibitors keeping retailers from executing on those opportunities.

SECTION IV: ORGANIZATIONAL INHIBITORS

EXPENSE AND THE NEED TO PROVE ROI INHIBIT CHANGE

Shrink and loss prevention may hold a high priority in retailers' minds, but these same retailers have difficulty turning thoughts into action (Figure 11). As with most store-based initiatives, sheer expense stands in the way of moving forward. It is far easier and less expensive to put high tech equipment in distribution centers and home offices than to install in hundreds or thousands of stores.

Figure 11: Expense is the Greatest Inhibitor to New LP Initiatives

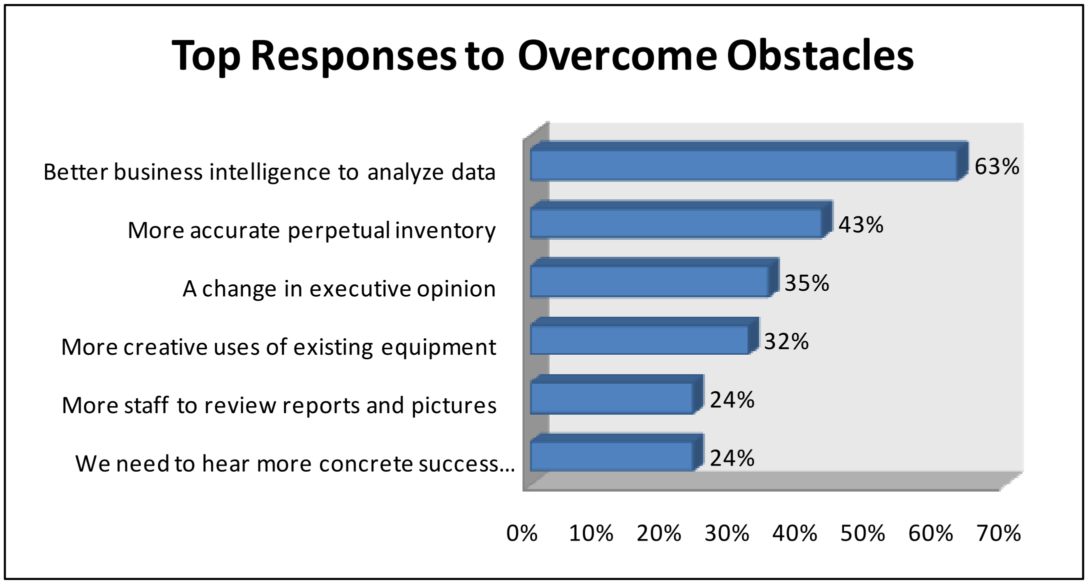


Source: RSR Research

If we return to our earlier example of a billion dollar retailer improving shrink by 42.5 basis points through a new Loss Prevention initiative, and if we assume an acceptable time to achieve ROI is two years, the "kitty" of funds available is $8,500,000. If we assume this same hypothetical retailer operates 500 stores we can allocate a total of $17,000 per store for purchase and installation of any technology solution. While this is adequate to install new camera systems in smaller footprint stores, it is also money that could be used towards store re-models and new store openings. It's difficult to persuade senior management to divert this volume of funds towards a new LP investment.

It's no wonder then that retailers are looking to add business intelligence in centralized locations. Figure 12 shows just that. **Sixty-three percent of retailers believe that if they could just have better business intelligence to gather the data from their far-flung locations, they will be able to cut total expense and demonstrate ROI more quickly**.

Figure 12: Better Business Intelligence Drives Better Decision-Making



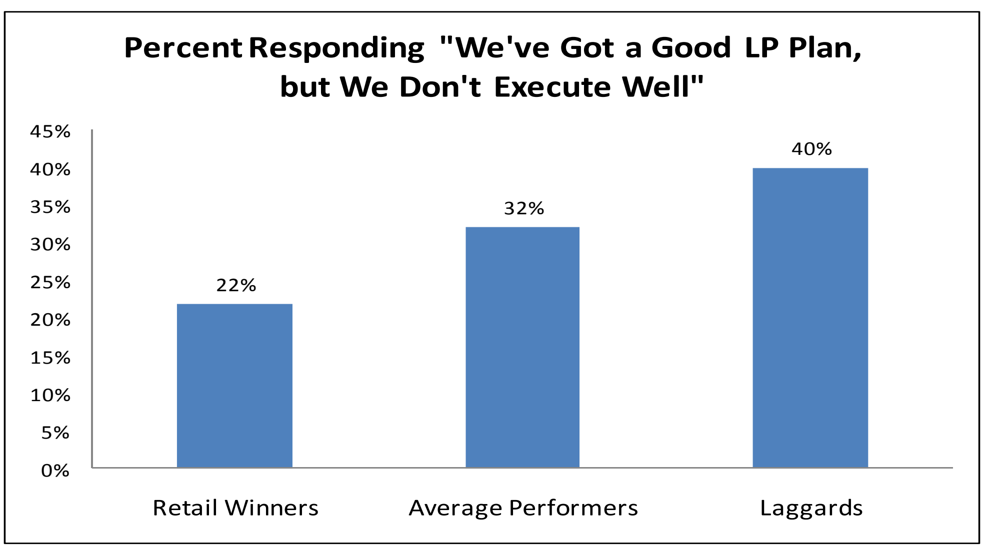
Source: RSR Research

Interestingly, the desire to find more creative uses for existing equipment rises inversely to retailer performance. Fifty-six percent of laggards, 33% of average performers and only 22% of retail winners believe this is a top-three way to overcome internal obstacles.

Retail is Still All About Execution

Laggards and average performers admit that although their LP plans are sound, they "just don't execute well." We can see from Figure 13 below that confidence in one's ability to execute decreases in step with retailer performance.

Figure 13: Winning is All About Execution

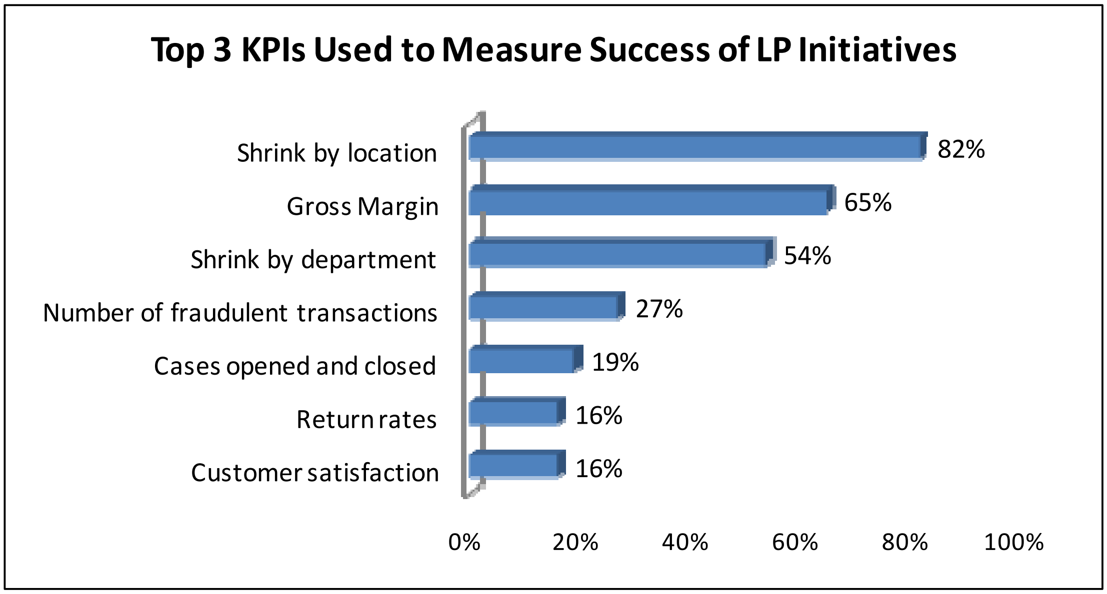


Source: RSR Research

Key Performance Indicators In Line, but Frequency of Measurement Varies

Retailers may struggle to get their Loss Prevention initiatives off the ground, but they have a clear understanding of how to measure success. Figure 14 shows the top responses given by retailers when asked the KPIs they use to measure success.

Figure 14: KPIs on Point



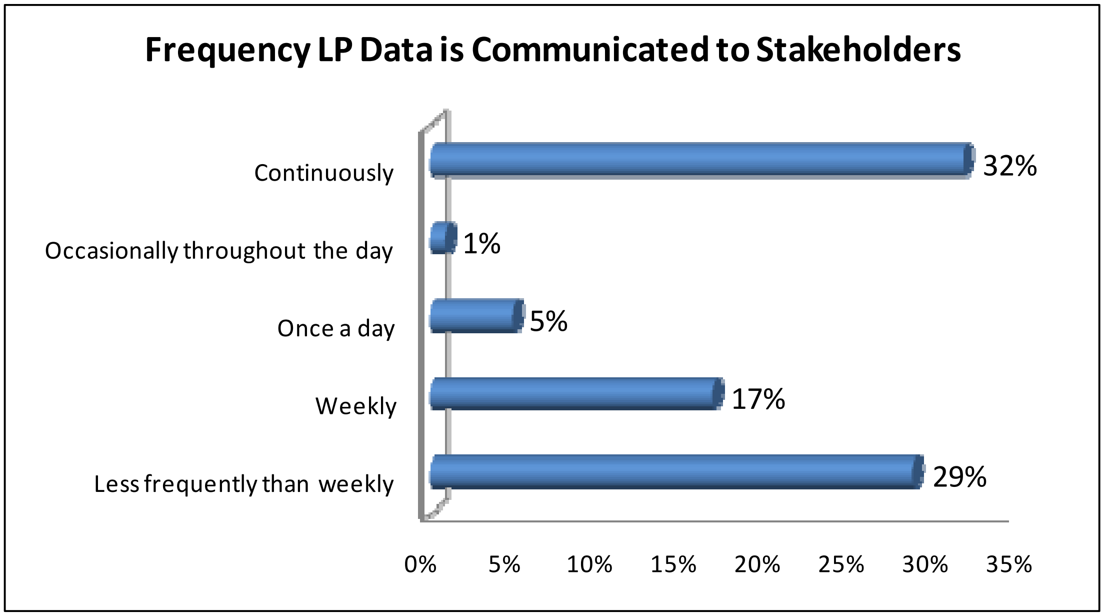
Source: RSR Research

It's not surprising to see shrink-by-location top shrink-by-department as a success measure, given the emphasis on people either stealing or making clerical mistakes. However, if "high theft" departments are targeted for loss prevention initiatives, it makes complete sense to focus on improvements across the chain.

That's the good news. The bad news is the somewhat mind-boggling bifurcation in frequency of reporting LP issues and potential losses to stakeholders.

Virgin Megastores saw a significant reduction in shrink by moving to a near-real-time reporting mechanism to store management. Clearly other retailers have seen the same. Yet for some inexplicable reason, even the largest retailers fall into one of two categories: "continuously" or "less frequently than weekly." This was consistent across performance levels, segment and revenue. We illustrate the percents based on company revenue in Figure 15. (Editor's note: those responding "don't know" were eliminated from the chart). RSR believes it is critical for retailers to improve frequency of communication to stakeholders and look forward to seeing a trend toward more frequent communication in future years.

Figure 15: Stunning Bifurcation in Communication about LP Issues



Source: RSR Research

While the largest retailers seem to be more proactive than their peers, overall, retailers are talking about the priority of loss prevention, yet still are not communicating to stakeholders when and how these losses occur in anything close to a timely fashion. A weekly or monthly report on price overrides will do little to change employee behavior in the stores: especially when employee churn is high.

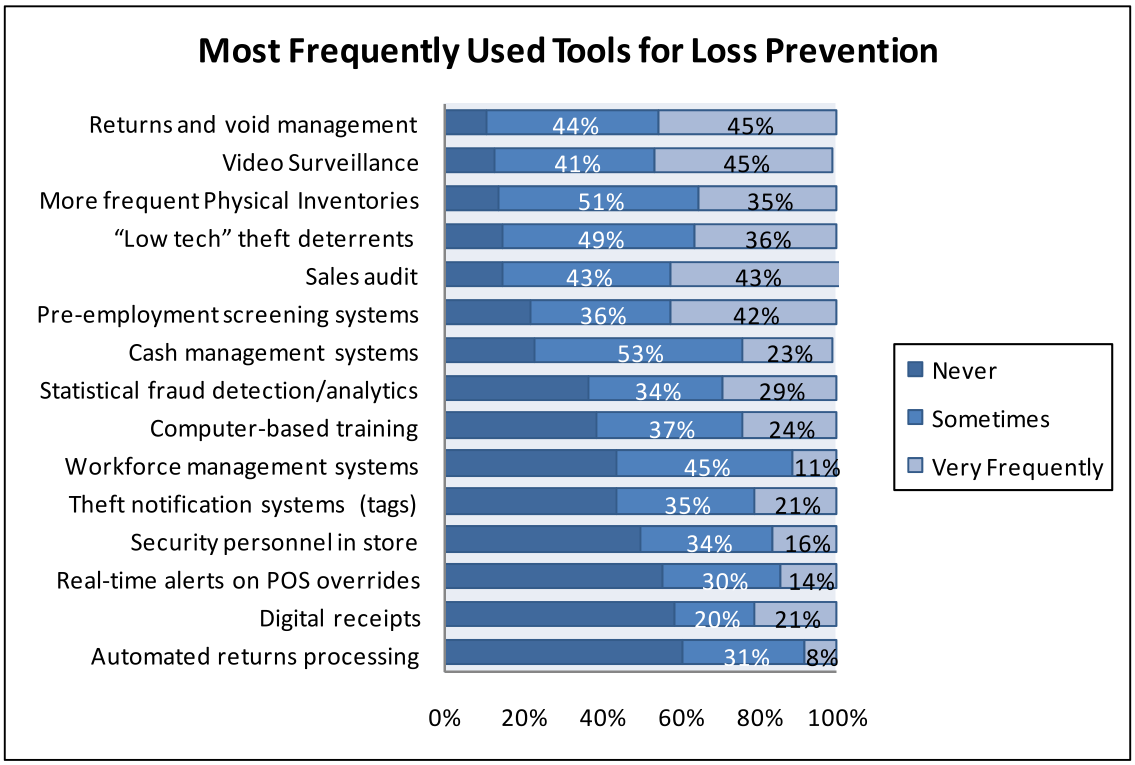
SECTION VI: TECHNOLOGY ENABLERS

MANY TOOLS, BUT MORE INTELLIGENCE NEEDED

Retailers use a large array of tools for Loss Prevention activities, but for a variety of reasons these tools have netted out to marginal long-term improvements.

For example, looking at figure 16, we can see the top-five tools used by retailers include returns and void management programs, video surveillance, more frequent physical inventories, "low tech" theft deterrents such as locked cabinets and dispensers, and sales audit systems.

Figure 16: Many Tools, Not Well Used



Source: RSR Research

These solutions work well, and in the right environment they should provide successful results. However, if we look at these tools in the context of the organizational inhibitors discussed in Section V, problematic business practices inhibit their success.

Returns and Void Management and Sales Audit

These tools are most valuable when alerts are triggered in near real-time. With 47% of all respondents communicating information on potential theft and losses to stakeholders weekly or less frequently (as noted in Figure 15), by the time an LP manager discovers a problem with returns in a store, an excess of voids, or suspicious cash issues the money has long since left the building. Employee prosecution may be successful, but financial recovery is dubious.

It is shocking to see how few retailers communicate real-time alerts on POS overrides to store personnel. With persistent connectivity now ubiquitous, there is no reason why alerts can't be generated from the home office to the store, or even directly from the POS system itself. Retailers are clearly missing the boat.

Video Surveillance Systems

Video surveillance systems are used at least some of the time at 86% of retailers, but just having a camera focused on the check-out area or the loading dock creates only a minor theft deterrent. It is most critical to actually review and use the data captured. As noted in Figure 11, 42% of retailers cited lack of staff to review LP and audit data as an inhibitor to taking advantage of LP improvement opportunities. Rather than add more staff to review data, especially video data, it's far more efficient to use intelligent systems to do the reviewing. A new generation of application is emerging that identifies issues and creates real-time alerts to in-store personnel. These applications promise to help video surveillance deliver on its promise. We can see everything that happens, but have been unable, until now, to do much about it.

"Low Tech" Theft Deterrents Such As Locked Cabinets and Dispensers

The problem with "low tech" theft deterrents is that they are too easy to override and become close to useless. And, they require people to manage them, which can be problematic on the selling floor. The keys to locked cabinets are often kept above the cabinet they are meant to secure.

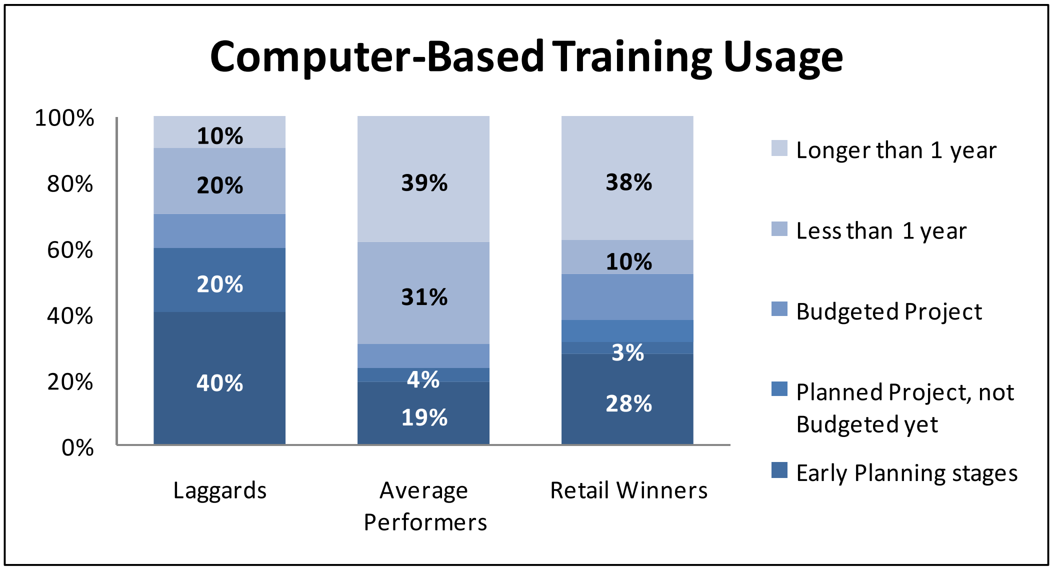
More Frequent Physical Inventories

Given retailers need to quantify ROI on any initiatives, it's surprising to see how many view physical inventories as an LP initiative. It's an LP reporting tool, if anything. Merchandise and money is long gone by the time a physical inventory is conducted. We recognize physical inventories are required by auditors to reconcile the accounting books, and are needed by merchants to insure replenishment happens as needed, but believe retailers need to be clear on the purpose and value of them. They represent a record of what happened – not when it happened, how it happened or how to prevent it from happening again.

Improving Employee Awareness through Computer Based Training

Almost 40% of retail winners and average performers have used Computer Based Training (CBT) as an LP tool for longer than a year (Figure 17), but average performers have recently placed stronger bets on CBT. An additional 31% have implemented CBT programs in the past year.

Figure 17: Adoption of CBT as an LP Initiative on the Rise



Source: RSR Research

The laggards in our survey are least interested in CBT as a technology enabler, and retail winners seem to have become more sanguine in adoption. We hope to track LP performance of these average performers over the coming year to see if these initiatives begin to bear fruit.

SECTION VI: BOOTSTRAP RECOMMENDATIONS

Get as Near to Real-time Alerts as you Can

As we've highlighted in this study, producing weekly, or monthly reports on price overrides, voids and returns does little to stem the tide of shrink. It may account for successful prosecution of thieves, and may even drive some restitution, but it's still incredibly inefficient. With POS systems and cameras producing a steady stream of structured and unstructured data, there is NO reason why retailers cannot get information to store managers and field personnel as soon as a pattern is recognized. There's really no excuse why the patterns themselves aren't recognized immediately.

Add Business Intelligence to any Tools you may be Using

If you've already made an investment in business intelligence to drive sales audit and cash management systems, take another look at the way your rules are set up. Ensure you are "up to level" on your release of software and ask your software provider (assuming you have a packaged solution in place) to let you know about best practices for your segment and size operation.

If you're awash in video cameras and rarely using the data, or expecting your store managers to watch the videos looking for theft, consider one of the new generation of business intelligence applications that can be added to camera data. These applications may still produce some "false positives," but are steadily improving, and at the very least, allow you to be pro-active and know that events will receive proper attention.

If you're not Part of an LP Group, Join One

The data is clear. More retail winners participate in industry groups, publications and events than their peers. Shrink and loss prevention are industry-wide problems. If you're not part of one of these groups, join one. If you're part of a group, get active. You will learn more about others' application of technology there than anywhere else. As stated, LP is one of the few areas in which retailers are willing to share candid information and best practices. To not fully leverage this rare resource would be foolish.

Think About Fraud Mitigation – Sooner or Later the Banks will get their Due

Check and credit card authorization processes have lulled the industry into a sense of safety that perhaps is unwarranted. Sooner or later, just as they have in Europe, the banks will start to hold retailers accountable for credit card fraud. While a deep dive into PCI compliance and data security is beyond the scope of this document, we encourage reading our annual *Consumer Data Security Benchmark Report* for more information.

Work on Making In-store Employees Stakeholders in the Business

We don't expect retailers to give stock options to their hourly workers stock options in hopes they will stop stealing. However, it's important to educate them on the cost of shrink and how it impacts them. The scope of workforce management is beyond the scope of this document. Suffice to say that improved retention and succession programs along with existing background screening will help retailers identify, train and retain the best and brightest workers that come through their doors. As of today, employee turnover is still rising. A few notables, like Starbucks, Costco and Whole Foods have received high marks from employees and objective observers for their treatment of their in-store workforce, but others remain locked in procedures left over from earlier times.

Computer Based Training (CBT) can help educate the in-store work force. Retailers have been very successful in creating videos that show the “tricks of the trade” of merchandise thieves. CBT can also alert employees to the downside of doing things like keeping keys to locked cabinets on the shelf above them, and letting the rest of the staff know where the keys are. It may also help employees avoid any traps that create paper shrink. Finally, CBT on physical inventory preparation should help retailers get the best return on their physical inventory expenditures.

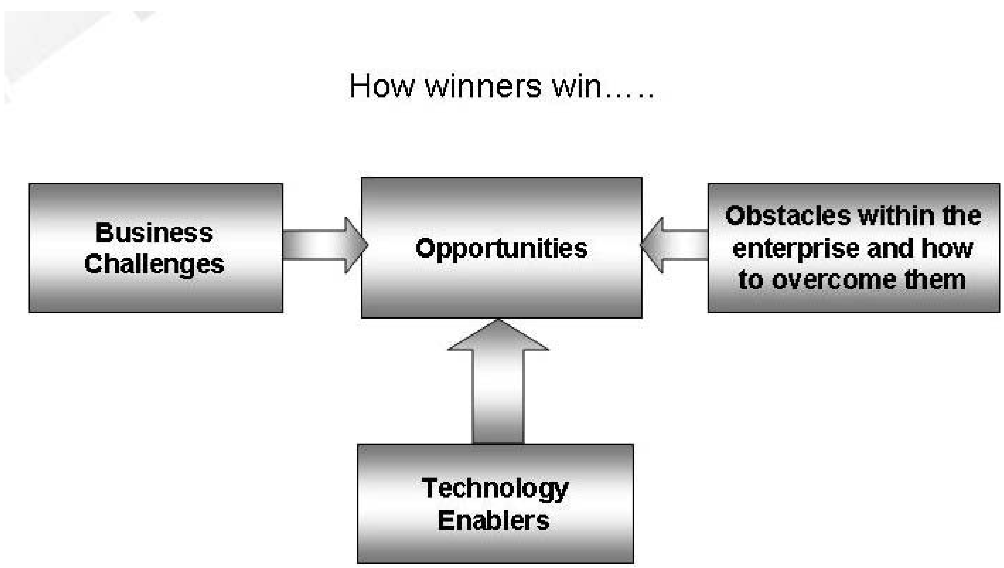
In summary, we see technology as a valuable enabler to improve Loss Prevention, but without focusing on the people that work in the retailing environment, initiatives will be trumped and shrink will remain the same.

APPENDIX A: THE BOOT METHODOLOGY

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 enablers, often far earlier than their peers.

A graphical depiction of the BOOT follows:



APPENDIX B: ABOUT OUR SPONSORS

micros RETAIL
Datavantage + CommercialWare + eOne Group

MICROS-Retail (formerly Datavantage/ CommercialWare/eoneGroup/RedSkyIT) is a retail technology company that helps retailers worldwide gain competitive advantage by efficiently delivering an exceptional experience to their customers across all channels. Designed to thrive in an ever-changing environment, the solution set consists of open, Java-based store systems, loss prevention, analytics, order management, e-commerce, merchandising, collaborative PLM and marketing applications. Available as best of breed solutions or as an integrated suite, MICROS-Retail solutions are supported with a choice of comprehensive and industry specific professional services.

As the provider of choice for worldwide retailers seeking to deliver a channel transparent experience for their customers, MICROS-Retail runs more than 50,000 registers, handles exception based reporting for over 180 organizations, and supports millions of web and call center transactions annually. With flexible deployment options, rich functionality and a track record of success and customer satisfaction in demanding environments, MICROS-Retail can integrate easily with existing resources and adapt to evolving business requirements, thus protecting and enhancing the value of existing and future investments. For more information please visit: www.micros.com/retail.

Sensormatic®

Sensormatic, part of Tyco International, is the industry leading provider of vital retail loss prevention and store performance management solutions. Backed by more than 1,500 patents, our innovative solutions are sold through ADT and Tyco partners around the world. From the front of the store through the entire retail supply chain, Sensormatic solutions protect inventories and deliver actionable information to help retailers manage daily operations, simplify decision making, enhance customer experience and, ultimately, improve profitability and store performance. Today, 80 percent of the world's top 200 retailers that use Electronic Article Surveillance rely on Sensormatic EAS, Source Tagging and Data Analytics to keep their losses lower – and profits higher.   For more information please visit www.sensormatic.com.

APPENDIX C: ABOUT RSR

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, and thought leadership and advice on navigating these challenges for specific companies and the industry at large. RSR's services include benchmark reports covering the state of retailer technology adoption for topics ranging from merchandising and supply chain, store operations and workforce management, to customer-facing and multi-channel technologies. Custom research reports provide more in-depth views into topics of industry interest, and advisory services help retailers and technology vendors make the most of the insights RSR provides. To learn more about RSR, visit www.rsrresearch.com.