

IS HIGHER SHRINK INEVITABLE IN A GLOBAL RECESSION? >>

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The global recession has affected individual countries - and various businesses within those countries - in very different ways. Cultural, legal, demographic and economic considerations vary all over the world, which means it is difficult to predict the exact response that citizens and customers will make situations like collapsing industries, lower wages and job losses. In every country, the impact of the economic downturn has come quickly, and retailers often are bearing the brunt of the impact.

Historically retailing is a 'leading indicator' and one of the first sectors of the economy to feel the pinch of a recession. The current 'credit crunch' may have had a greater impact on retailing. Stores' sales and profits have suffered extensively, driven to a large degree by big changes in shopping patterns and the reality that customers have become more frugal in their spending habits (Verdict, 2009; Bamfield, 2009). Although some retailers have actually benefited from the change in business conditions, speakers at the recent World Retail Congress pointed out that retailers in virtually every country are experiencing the most challenging market in decades (Retail Week, 2009).

Even before the economic downturn became evident, signs pointed to important changes in retail crime patterns. Most types of retail crime were expanding before Autumn 2008, across all countries and vertical markets. Increased shoplifting, employee theft, burglary, robbery and organized retail crime and fraud have put further pressure on profit margins. While this is not yet a universal problem affecting every retailer in every market, a significant proportion of retailers have been suffering major shrink problems. This research points out that both opportunistic and professional crime is on the rise, and violence - both threats and actual incidents - has increased.

Is It Inevitable?

Against this backdrop of bad economic news and retail crime trends, it might be natural to be pessimistic about retailers' abilities to strengthen their operations against shrinkage. But in a way, the bad news is an opportunity for retailers to re-examine their policies, analyze their use of shrink management technology, and develop a more comprehensive, integrated and forward-thinking approach to loss prevention. In fact, some clear best practices are emerging that smart, successful retailers already are putting in place.

Is crime rising? Reports from both retailers and police show that as unemployment has risen, there has been an increase in retail crime. For example a European survey by the Centre for Retail Research, carried out in January-February this year among the major retailers in Italy, Germany, the UK and France, reported that almost 40 percent of retailers had seen an increase in customer shoplifting as a result of the recession compared to the previous six months (Bamfield, 2009).

Police sources in the U.S, the UK and Australia in the same period focus attention on a significant increase in recession-related retail theft. A major rise in shoplifting and employee crime has been seen in the U.S. (news reports from different areas include Dorfman, 2008; Boyce, 2008; Husty, 2008; and Gary, 2008). In the UK, police figures show shoplifting increasing over 12 months in the Northeast by 22 percent and by 11 percent in London (Retail Bulletin, 2009; BBC, 2009a). In Australia, Silvester (2008) discusses how Australian police services are coping with the rise in shoplifting and other business crime.

It is probable that recession, unemployment, uncertainty, lower incomes and fear of the future may make some people more willing to steal or overcome their reservations about buying stolen goods. Without seeking to minimize their crimes, others may feel that the business, national and international failures which permitted the banking crisis and created a global recession devalues honesty and gives them some entitlement or justification to commit retail theft.

Different Trends in Theft

Retailers in several countries have reported that just as there has been a switch by customers away from high-cost product lines towards 'own label' and cheaper products, so a wider range of merchandise is now being stolen by thieves. Thefts of cheaper cuts of meat, household products, cheese and hair dyes have all risen just as demand for these items has also increased among honest shoppers.

Also on the rise is theft of expensive items such as razor blades, perfume, DVDs, electronic games, Apple phones, Wii video consoles, sunglasses, clothing, fashion accessories and power drills. In short, no product group or market segment is immune to this trend.

Another disturbing trend: The diversification of types of thieves. At one end of the spectrum, many retailers report that more 'amateur' thieves are committing crimes in their stores, while there also is more organized retail crime leading to bulk thefts, and more violence and intimidation of employees. It seems likely that employee theft will also be increasing, although at this stage there is less evidence than for the growth in shoplifting. There has also been a significant rise in robbery and burglary.

Key Statistical Trends

Of course, it helps to have cold, hard facts - statistical data - to help retailers make smarter decisions. One important source of quantitative data is the Centre for Retail Research's annual Global Retail Theft Barometer (GRTB), which will be published later this year. The study will, of course, pinpoint the countries where shrink has been most affected by the weak economy, and to identify changes in retail crime patterns compared to other, non-recessionary years.

The GRTB is the most comprehensive global study of retail crime costs and shrinkage patterns, covering 42 countries in the 2009 report, which will be released in November. It is funded by an independent grant from Checkpoint Systems Inc.. In last year's report, we raised the possibility that retail crime and shrink rates could start to rise in 2009, reversing a five-year trend our data had uncovered previously (GRTB, 2008). Clearly, this rise in shrink rates has started taking place, and most retail loss prevention managers agree that the problem of retail crime is greater than any time in the last 10 years.

Last year's GRTB - along with other national retail crime surveys - indicated that retail crime rates in many countries was lower than it had been for many years. In fact, shrink had fallen to 1.34 percent of retail sales. But although the percentage had fallen, the financial cost still was huge: The global cost of retail crime (cost of merchandise stolen, plus the cost of loss prevention investments) hit \$112.8 billion, equivalent to nearly \$230 per family (GRTB, 2008). Keep in mind that this cost is just for one year, and is paid by retailers and the shopping public.

What Can Be Done About It?

Even though the data pointing to higher global shrink in the current recession are conclusive, it also is by no means universal. Specifically, not every retailer is experiencing higher shrink; retailers are becoming smarter and more sophisticated about how to thwart thieves before they get out the door, and even more importantly, prevent theft attempts from taking place.

Perhaps the key first step is for loss prevention professionals, their staffs and their management to understand that higher theft is not necessarily inevitable, even in difficult economies. The problem with talking in terms of recession-induced crime is that the phrase implies that every retailer will inevitably experience a growth in crime that cannot be avoided - any more than one can avoid a major flood or a cyclone. Yet the GRTB has shown that every year a significant number of retail businesses improve their shrinkage and crime figures even when most businesses in their country suffer adverse results. So while current crime trends indicate that all retailers now face a major problem, there may be nothing inevitable about any increase in the costs of crime.

Just what are these retailers doing to fortify their organizations against shrink threats? First, it's important to understand that improvement doesn't necessarily require revolutionary change: As many commentators have pointed out, LP is about doing lots of different things right rather than doing one thing brilliantly. That said, a few best practices are emerging, based on the GRTB and other data, and from conversations with innovative retail leaders:

- **Take a strategic view of shrink management.** Many retailers respond to the threat of the moment, be it shoplifting or organized retail crime. But the smartest companies see shrink management as an inter-related set of business processes, facilitated by smart technology investments. Shrink management should be part of a retailer's most vital business operations from both a planning and deployment standpoint.
- **Monitor and understand the latest crime trends.** This may seem obvious, but we continue to be surprised by the number of retailers who don't keep track of local crime patterns, or who don't meet regularly with local law-enforcement agencies. Following these trends, for instance, help retailers understand what kinds of products are most at risk, and what steps thieves are taking to go after this merchandise.
- **Make LP policy compliance a standard part of day-to-day business activities.** This is an area where many retailers can make quick, measurable and cost-effective improvements in their shrink management. Regular audits of compliance activities and ongoing training are essential, and not enough companies are actually making this a standard procedure.
- **Do more thorough checks of new hires.** While nobody wants to turn into "Big Brother," there's no doubt that the economic downturn has created a much larger pool of potentially viable new employees from which to choose. Even when considering local privacy laws, most companies can, and should, do more and better screening of new employees.
- **Raise the profile of loss prevention inside your company.** This is similar to the trend in information technology departments in the 1990s, when chief information officers started to be viewed as strategic business leaders, not technical personnel who kept computer systems running. Having loss prevention be seen as a strategic activity will require new tools to measure its effectiveness and demonstrate return on investment.
- **Stay up to date on your shrink management technology investments.** Understand what's working for you and what needs to be updated, altered or replaced.

Loss prevention spending

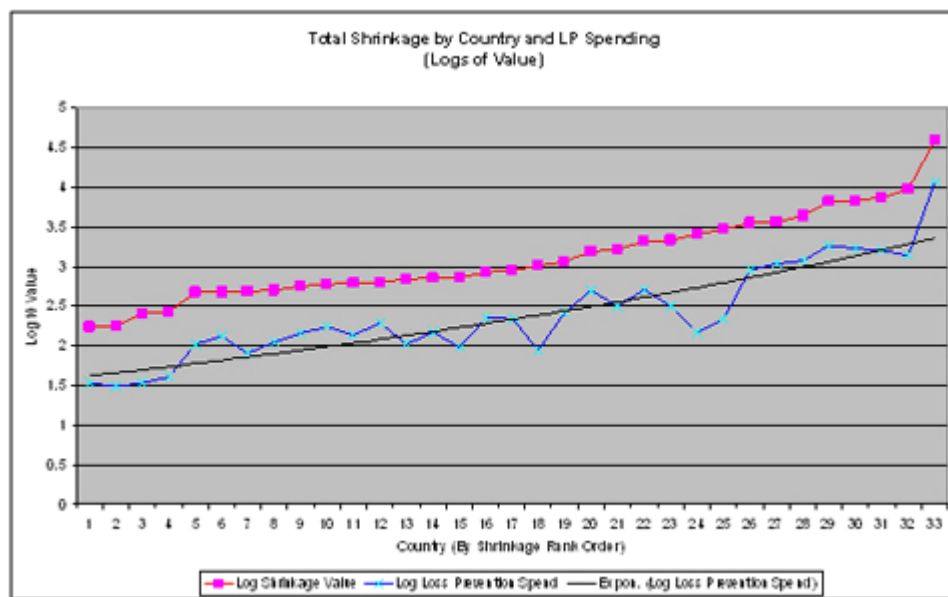
Every retailer is scrutinizing the amount spent in each budget category, including loss prevention. LP professionals are reporting this year that the loss prevention budget is very restricted and that they have to make the best of what they have received. But in a tough commercial environment like the present, where sales growth and operating cost control are both equally difficult to manage, loss prevention and shrink management may prove to be one of the few areas where improvements in net profitability can be made.

Cuts in loss prevention spending at a time when potential crime is rising may well be extremely short-sighted - particularly if the losses from higher shrinkage and out-of-stocks prove to be much greater than the gains from reduced LP budgets. Obviously every

retailer has to make its own decision. Smaller LP projects dealing with discrete issues such as improving LP outcomes in the worst high-shrink retail outlets, new processes to reduce losses of high shrinkage lines, and investigating employee theft can produce rapid payback. The Pareto 80:20 rule still has wide applicability in loss prevention and means that the discriminating LP executive who chooses his or her projects carefully can have a considerable impact over performance. This is even more important now when the gains in shrinkage reduction are under threat

Figure 1 shows the relationship between total shrinkage by country and total LP spending (both expressed as logarithms). It shows that in spite of some fluctuations around the trend, there is a relationship between losses from shrinkage and LP spending. Countries with higher shrinkage naturally spend more on security to keep the problem under control. At a time when retailers are under threat, where world conditions are no longer benign, and crime and shrinkage are likely to increase, businesses need to be sure that they have taken care to combat the higher crime losses that they potentially face.

Figure 1



Retailers spent \$25.5 billion in 2008 on loss prevention and security, equivalent to 0.33 percent of retail sales. Of this total, more than one-half (54.8 percent) was spent on security personnel, both in-house and hired from third-party corporations. LP personnel are an important part of retail security, but the truth is that they only identify a small proportion of what is stolen by criminals. Figures in GRTB 2008 show that thieves responsible for only 3.4 percent of the amount stolen from retailers were apprehended by retailers last year, and even in North America the figure was only 5.7 percent (GRTB, 2008).

Without decrying in any way the value of in-store security personnel, loss prevention through deterring or preventing criminal activity is likely to be a more successful policy than apprehending thieves per se. Shoppers or employees can be tempted to steal if they think it is relatively easy to do and the chances of detection are low. More people may well be inclined to try their hand at crime at a time of recession, but the key factor affecting whether people attempt to steal is based upon that person's notional risk/reward ratio of retail crime. If they have been successful once, then profitable theft can provide further reinforcement, making them more confident and willing to steal next time. In countries where the criminal justice system is perceived to be weak in dealing with persons apprehended for retail theft, then this will of course weight the risk/reward ratio increasingly in favor of theft.

Difficult times making life more challenging for all retailers. The job of loss prevention is more complex than ever because of new threats, increased sophistication by thieves and, to some degree, a stronger sense of desperation by potential thieves both inside and outside the store. There is nothing inevitable about higher shrinkage in any retail establishment. Threats can be identified, and strategies to deter and detect put in place. Through a combination of better strategic planning, vigilance in maintaining reasonable LP technology investment, and an understanding of why and how shrink takes place, retailers can continue to reduce shrink as a percentage of revenue, and protect their organizations' profitability in these tough times.

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