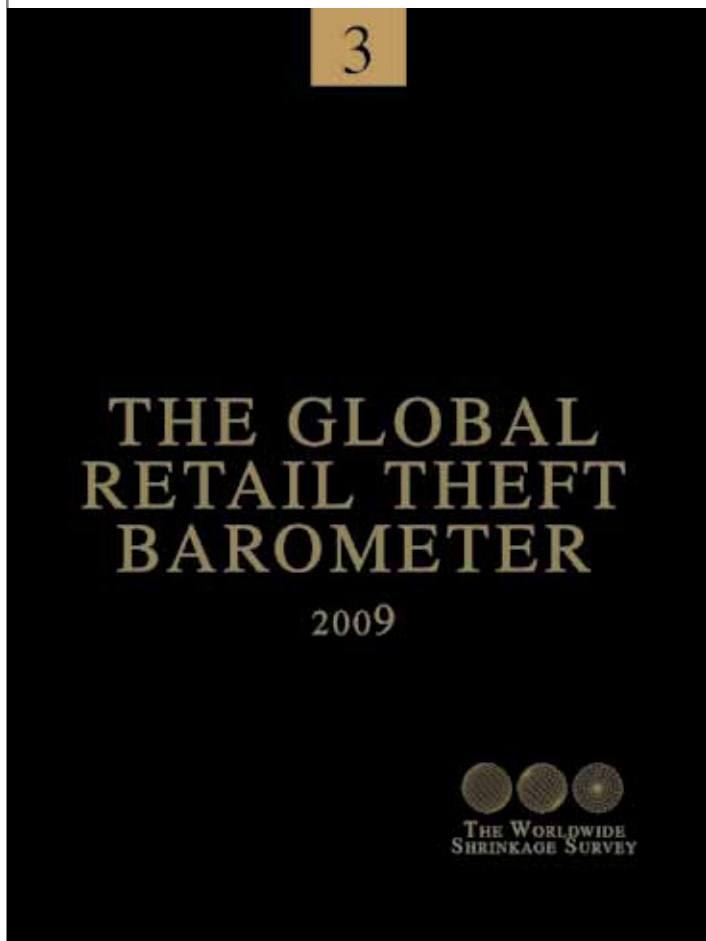


# Economy Down, Shrink Up

## *Confronting the \$115B Challenge*



**A**fter a tough 12 months of economic recession, global retail markets may finally be poised for renewed growth.

But that doesn't change the fact that merchandise shrink reached record levels in both actual dollars and as a percentage of sales. The third annual Global Retail Theft Barometer, conducted by the Centre for Retail Research, indicates that shrink rose 5.9 percent in the past year to \$114.8 billion. While those numbers are stark reminders of the difficult period suffered by most retailers, the report also acts as a blueprint for savvy organizations on how to plot their shrink management strategies for 2010 and beyond.

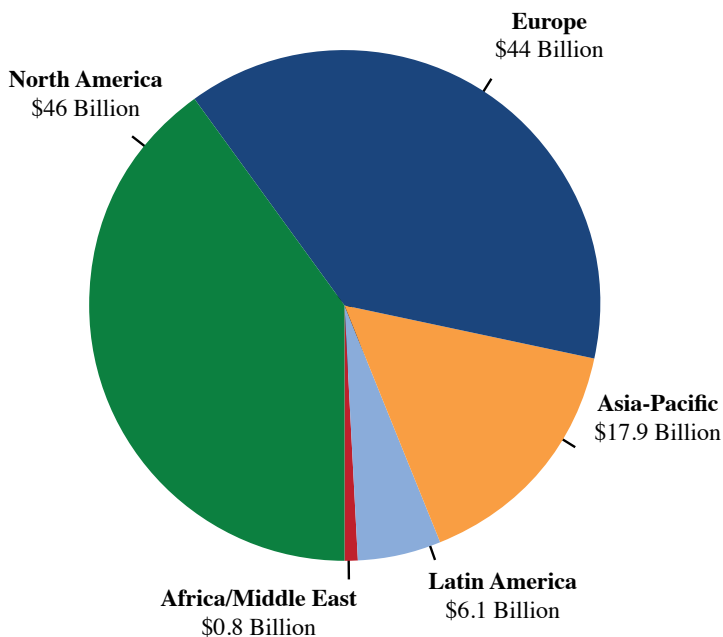
# Evaluating Shrink During a Recession

*It's not just how much, but what to do about it.*

In research, as in much in life and business, timing is everything. The significance of statistical results must be evaluated in the context of what was happening in the retail community at the time the Centre for Retail Research (CRR) conducted its one-of-a-kind industry survey on retail theft.

In mid-2009, respondents from 1,069 retailers across 41 countries around the globe answered an exhaustive survey on shrink trends in their companies. At that time, most regional economies were still mired in a depressed retail climate, with sales often down by double-digit percentages. Unemployment rates had yet to rebound from their lowest levels of the recession, creating an environment far more susceptible to

## 2009 Global Shrink by Region: \$114.8 Billion



Source: 2009 Global Retail Theft Barometer

### GRTB Fast Fact

*The 2009 study added seven new geographies to the respondent pool: China (Shanghai, Beijing, Hong Kong, Guangdong), Taiwan, Turkey and Morocco*

retail theft than at any time in recent memory.

So it's not surprising that data from the 2009 Global Retail Theft Barometer (GRTB) reflect a significant rise in shrink over recent years. During the 12-month period tracked by the survey, global shrink increased to \$114.8 billion, a rise of 5.9 percent over last year's report. This represents 1.43 percent of global retail sales, the highest percentage in the three years the GRTB has been conducted at a global level.

### Key Data Points

As in prior years, this year's report offers a rich array of statistical data to highlight the global shrink problems from many angles and perspectives. Among some of the key data points in this year's study:

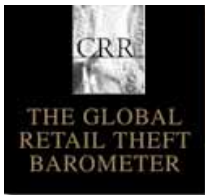
- Theft, as a percent of sales, rose by 8.8 percent in the United States during the past 12 months—more than any other major geographic market.
- Apparel retailers suffered the highest theft of any vertical market: 1.84 percent of sales.
- Merchandise theft amounted to a “tax” of \$208 on every family in the 41 countries where retailers participated in the survey.
- Shoplifting remains the number-one source of merchandise theft, accounting for 41 percent of all shrink globally.
- 5.8 million theft attempts were thwarted in

- the 12-month period studied, resulting in the recovery of goods worth \$6 billion.
- 28 percent of all products most susceptible to theft still are not protected, a slight improvement from a year ago.
  - The United States remains the country with the highest merchandise theft with \$42.2 billion, dwarfing the number-two country—Japan—by almost 350 percent.
  - Retailers in India lose more of their bottom line to

theft than in any other country: 3 percent of sales.

- Spending on loss prevention dipped by about \$900 million in the timeframe of the survey, an obvious byproduct of the economic downturn and retailers' tightening profits.

As important and substantial as these and the many other metrics in the study may be, it's crucial to understand what the numbers really mean, and how they impact retailers' shrink



## Costs of crime 2009

	MILLIONS				Total
	Shoplifters	Employees	Suppliers	Loss Prevention	
<b>North America</b>	<b>\$16,472</b>	<b>\$20,317</b>	<b>\$1,774</b>	<b>\$11,569</b>	<b>\$50,132</b>
Latin America	\$1,996	\$2,600	\$513	\$644	\$5,723
<b>Africa/Middle East</b>	<b>\$309</b>	<b>\$293</b>	<b>\$71</b>	<b>\$95</b>	<b>\$ 768</b>
Asia-Pacific	\$9,915	\$4,050	\$1,361	\$2,517	\$17,123
<b>Europe</b>	<b>\$20,920</b>	<b>\$13,453</b>	<b>\$2,704</b>	<b>\$9,723</b>	<b>\$46,800</b>
Total	\$48,862	\$40,713	\$6,423	\$24,548	\$120,546

### THE WORLDWIDE SHRINKAGE SURVEY

Source: Centre For Retail Research



management strategies for 2010 and beyond.

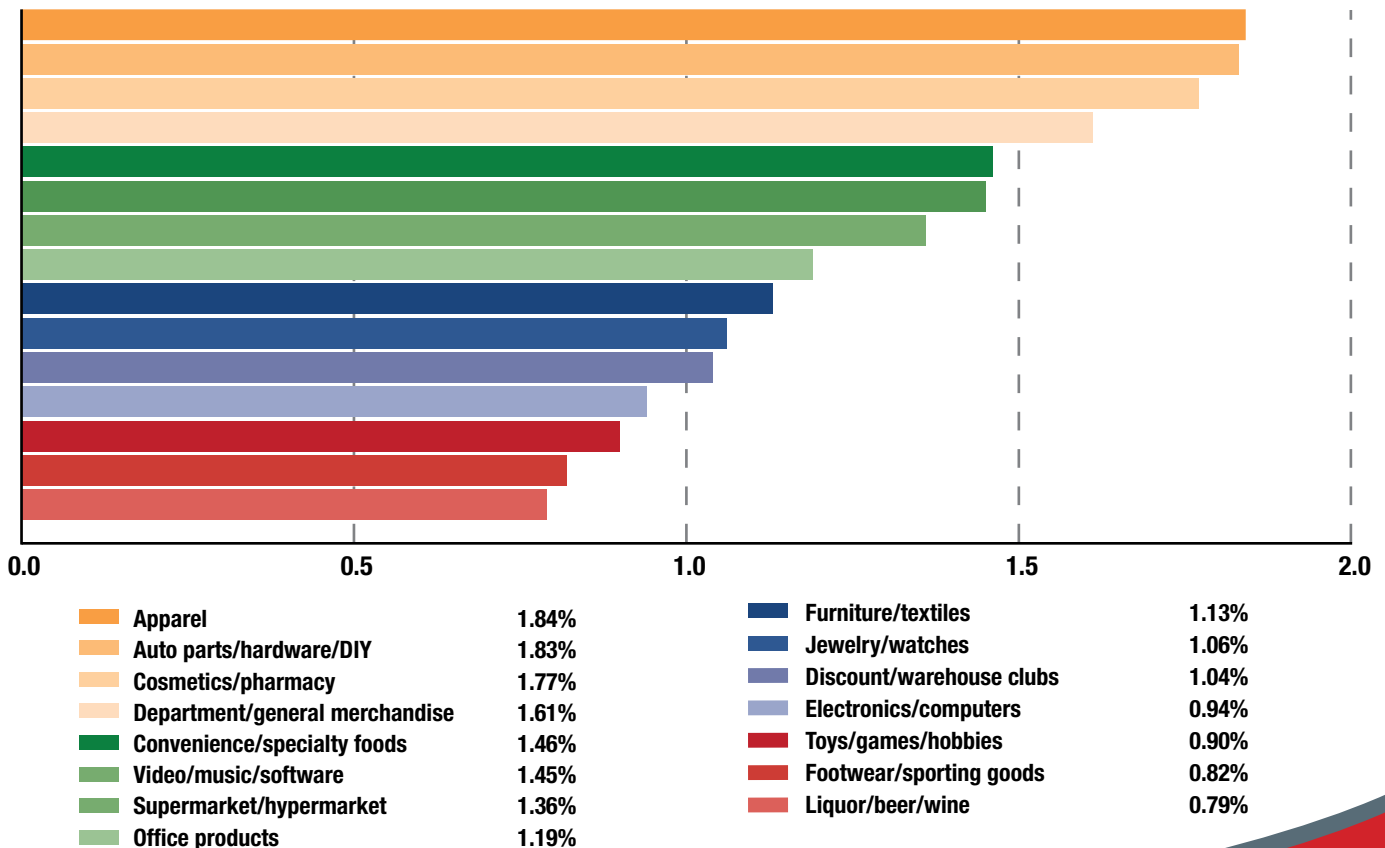
### The “Why” Behind the “What”

CRR—whose annual survey is underwritten by a grant from Checkpoint Systems—has a long-standing commitment to not only developing statistical data on retail theft trends but to helping retailers understand the “why” behind the numbers as retailers seek to develop smarter, more cost-efficient ways of dealing with shrink. When CRR published its findings in the 2009 Global Retail Theft Barometer, two important correlations stood out:

- The relationship between the global recession and merchandise shrink
- The relationship between shrink and spending on loss-prevention measures, particularly upon shrink management solutions

The report points out that there is significant third-party data indicating a link between economic downturns and the rise in retail theft. This may seem intuitive to many of us: After all, when people lose their jobs or just make less money, a certain percentage of people inevitably turn to antisocial behavior for any number of reasons, including the need to provide

**Shrink By Vertical Market (as % of Sales)**



for their families or for less-noble reasons, such as revenge or a feeling of entitlement. But the report's comments are straightforward: "The economic recession played a significant part in this increase (in shrink)....Retailers attribute one-third of the increase in shoplifting to the economic recession," according to Professor Joshua Bamfield, the report's author..

At the same time, there's little question that the economic downturn caused many retailers to reduce spending in most operational areas, including loss prevention. In fact, for the second year in a row, CRR's data indicates that retailers reduced their loss prevention spending as a percentage of retail sales: Retailers say they spent 0.31 percent of sales on loss prevention, compared with 0.33 percent a year earlier and 0.35 percent in the 2007 study. This translates into a reduction of about \$900 million in actual loss-prevention expenditures from 2008—the bulk of which came from lower spending on security equipment and systems.

Again, the correlation is clear, according to Professor Bamfield: "It is interesting to note that spending on security systems and equipment fell by a much greater amount than spending on outsourced security personnel," he notes. "While a combination of several approaches to security is most effective, there are definite advantages to increase the effectiveness of personnel by employing a comprehensive shrink management solution and strong loss prevention processes."

### **Vertical Market Trends**

One of the key issues retailers always want to learn more about is theft data within specific

vertical markets. This year's study has dug even more deeply into market-specific data, and has identified seven different markets with higher-than-average rates of shrink as a percentage of sales:

- Apparel: 1.84 percent
- Auto parts/DIY/hardware: 1.83 percent
- Cosmetics/pharmacy: 1.77 percent
- Department/General merchandise: 1.61 percent
- Convenience/specialty foods: 1.61 percent
- Books/newspapers/stationery: 1.46 percent
- Video/music/software: 1.45 percent

But what's even more interesting and important is the level of detail the study provides beyond these macro-market statistics. For instance, there are specific product areas within each vertical market where theft is disproportionately high—in some cases, remarkably so. Take the apparel market: Accessories are being stolen at the rate of 3.85 percent of sales, which is more than double the category average. Fashion and tailored clothing is another market segment within apparel that has suffered very high losses, measured at 3.64 percent of sales.

In the food/groceries vertical market, shrink

***Interested in a free copy of the entire 2009 Global Retail Theft Barometer report? Ask your local Checkpoint Systems representative about receiving a complimentary copy of the full research data.***



is actually slightly below the global retail average at 1.36 percent of sales. However, theft of fresh meat was measured at 3.38 percent of sales, and luxury cooked meats reached a rate of 2.72 percent of sales.

### **Differences Across Geographies**

Another key trend uncovered in the survey centers on regional geographic differences for a number of factors. Take sources of shrink, for example: Overall, shoplifting is the number-one source for shrink, particularly in Asia/Pacific and Europe. But in North and Latin America, employee and organized retail crime represent the top sources of theft.

Additionally, there are distinct regional differences in how much money retailers devote to loss-prevention solutions, both in actual dollars spent and, more importantly, as a percentage of retail revenues. In North America, retailers spent 0.40 percent of sales on loss prevention and security, making it far and away the region with the greatest emphasis on shrink management expenditures. Europe was

next with 0.29 percent, followed by Middle East/Africa at 0.20 percent, Latin America with 0.18 percent and Asia/Pacific with 0.17 percent.

Another area of geographic divergence: Among North American retailers, the economic recession was perceived to be a source of shoplifting nearly one-half (47.5 percent) of the time, compared with 28.5 percent in Europe and just 16.9 percent in Asia/Pacific.

The study also notes an important trend in where loss-prevention and security costs were expended in the 2009 survey timeframe, compared to the 2008 survey. For instance, retailers last year appeared to shift much of their spending away from security equipment, direct employees and armored car protection in favor of contract employees and other, less-specific areas. It would appear that this trend was heavily influenced by cost-reduction strategies, but it's important to note that this trend clearly coincided with a significant increase in shrink across all geographies, industries and store formats.