

Enterprise-wide loss prevention efforts can help grocers regain lost sales.

# Fighting Shrink

BY DEENA M. AMATO-MCCOY

Unwilling to part with even a small percentage of sales caused by shrink, some supermarket chains are making smarter decisions regarding their loss prevention efforts. By deploying an enterprise-level loss prevention strategy, grocers can gain better control of their shrink levels.

Inventory shrinkage, a common problem in retail, is defined as a combination of employee theft, shoplifting, vendor fraud and administrative error. While retailers make strong efforts to fight shrink, they are still prone to losses. It is a serious problem. Inventory shrinkage is costing retailers 1.54% of their total annual sales. Even worse, these losses cost the nation's retailers close to \$31 billion last year, according to a National Retail Security Survey.

The study was conducted by the University of Florida and funded by Boca Raton, Fla.-based ADT Security Services, a division of Tyco Fire & Security. This report analyzed theft incidents from 107 of the largest U.S. retail chains.

"Since the retail industry has grown, dollars lost to inventory shrinkage has actually increased," University of Florida criminologist Richard Hollinger, Ph.D., said in a statement. "Loss incidents are costing the industry more than \$30 billion. This translates into higher consumer prices for all of us."

Grocers are uncovering these incidents in one of two ways. "Some chains discover these incidents. They uncover fraudulent activities and learn about people who are stealing from them," says James Sweeney, vice president, consumer products and retail service, Cap Gemini, based in New York. "Grocers also ward off front-end shrink through prevention methods. The greatest challenge today is how to add the ideal methods that will keep good



people from doing bad things."

Since front-end shrink takes many forms, grocers need to stay on their toes. For example, grocers are fighting customer theft, employee theft, and unintentionally, accidental losses. Interestingly, the latter two points comprise one-third of all grocery store shrink.

"This includes both cashiers' intentional sweethearting, as well as non-intentional events like cashiers' forgetfulness or their lack of focus when capturing and recording all items in a shopping order," says Alec Hudnut, CEO for Evolution Robotics Retail. The Pasadena, Calif.-based company provides technologies and personal robot products.

Retailers have many tools at their disposal. Closed circuit television (CCTV), digital recording systems, exception reporting tools and electronic article surveillance (EAS) systems are commonplace in every chain's loss prevention arsenal. "Since we first began conducting this study 15 years ago, the percentage of inventory loss has declined in a fairly significant way. That's the good news," Hollinger said.

However, there are other barriers that need to be overcome.

"You can own a NASCAR race car, but that does not make you a champion racecar driver. Similarly, owning loss prevention tools does not make you an expert at controlling shrink," Sweeney notes. "The mistake that retailers make is they think that buying a tool will magically control shrink. They need to be taught to drive at that high level," and maintain results.

As the percentage of inventory shrink declines, this causes other challenges for loss prevention teams. "Improvements in loss are prompting top-level management to allocate smaller loss prevention budgets for the year ahead," says Addison J. Chan, vice president of business development, loss prevention, for Triversity. The Toronto-based company provides customer-centric retail solutions. "It is a huge pressure to retain or improve loss prevention efforts with less [resources]."



While it is difficult, chains cannot lose sight of their long-term loss prevention goals. To keep up the momentum—and results—companies should refocus their shrink-fighting tactics. That said, retailers are changing corporate cultures to reduce shrink levels.

At the core of this change is a combination of IT-based loss prevention programs and human intelligence. Further, efforts need to become a business operation like real estate, marketing or information systems.

"Since research indicates that 90% of employees are inherently honest, supermarkets are in a stronger position to fight loss," says Larry Miller, president and CEO of Trax Retail Solutions, based in Scottsdale, Ariz. "They should strive to change the behavior of store-level associates to work smarter and be part of the shrink-control culture."

### The Big Picture

These efforts cannot be conducted in a vacuum, however. Retailers that are successfully reclaiming lost profits are positioning their loss prevention strategies from an enterprise-wide perspective.

Sometimes this task is easier said than done. For example, retail-

ers need to be armed with quality data to make valuable business decisions regarding loss. "A key complaint among retailers is that they require a higher level of quality information," says Tony D'Onofrio, vice president of EAS, RFID and emerging technologies for ADT. "They need quality data to help them highlight the key areas to focus on."

Many retailers are consolidating store-level loss prevention data in a centralized data warehouse at their corporate offices. By adding business intelligence and exception reporting tools to the mix, chains are gaining an enterprise-level view of their chains and more control over loss prevention efforts.

"Supermarkets used to approach loss prevention on a store-by-store basis. Yet, few stores have the ideal store-level staff to handle these issues," says David Johnston, XBR product manager for Datavantage. The Cleveland-based company provides data mining solutions. "Retailers need to take a holistic approach to managing shrink," he says.

By pulling data into a central location and adding reporting tools, supermarkets can access a multitude of reports, including incidents of detected fraud, loss prevention efforts that increase profitability, even productivity of cashiers. Of course, some retailers are hindering efforts by taking a linear approach to business intelligence.

Rather than investing in individual business intelligence tools that solve single issues, "chains need to synthesize all data into a common repository," Trax's Miller says. "Store-level data needs to relate to operations across the enterprise. Business intelligence data needs to synthesize into meaningful knowledge to run stores better."

More specifically, chains are aggressively adding transaction-monitoring software that can expose failure points at the front end. "This sophisticated tool used to be a 'cool' thing to have. Now it is a necessity," says Cap Gemini's Sweeney. "It is too costly to react to conduct visual monitoring or react to hotline calls. Transaction-monitoring software

allows executives to scientifically identify potential losses from the corporate office."

Triversity's FraudWatch is one application that analyzes enterprise point-of-sale transactions. By using the Web-based application, historical POS data is pulled into a central repository. Next, retailers input their business-rule parameters into the software.

FraudWatch analyzes data for each region or store location, and flags exceptions that could suggest front-end shrink or theft. The application creates weekly reports that are emailed to each store's general manager, as well as each region's loss investigator.

### Bundling Shrink

Along with centralized data, retailers are looking for bundled solutions. By adding open solutions, they can maximize tight loss prevention budgets and capitalize on previous investments.

For example, Farm Fresh Supermarkets, a 40-store chain based in Virginia Beach, links its CCTV system to a digital video recorder. Further, the chain integrated the ShrinkTrax DM2 data mining tool with its POS system. DM2's analytics apply more than 1,600 "expert rules" to automatically pinpoint otherwise unde-

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tectable losses and sales data abnormalities.

The Web-based ShrinkTrax for CCTV solution automatically identifies suspect POS transactions as they occur. Then it directs CCTV systems to watch the most suspect transactions. The solution stops theft and employee dishonesty, and helps chains to conduct efficiency investigations.

"As ShrinkTrax identifies anomalies and points out cashier errors, we can proactively train them in specific areas," says Ron Dennis, president and CEO for the chain, which is a wholly owned subsidiary of Supervalu. "Our diligent efforts have dramatically reduced our actual shrink. We are able to plow these cost savings back into our business and remain competitive in the marketplace."

Felpausch Food Centers, based in Hastings, Mich., also uses the ShrinkTrax suite to minimize sweethearting, understand coupon fraud and stay on top of front-end training. "We have been using the technology for more than 10 years. It is just a mode of our operations," says Michael Hubert, Felpausch's vice president of information systems (IS).

When managers apply the technology and strategies properly to their data conditions, on average, they can achieve between 7% and 11% increases in cashier productivity, and between 10% and 18% reductions in storewide shrink, Miller adds.

ADT and Datavantage are bundling their solutions as well. Retailers can link their ADT CCTV system and Intellex recorder with Datavantage's Proact XBR loss prevention POS data mining software. The combination enables retailers to track events revolving around POS data and link those events to video clips captured on CCTV systems.

Similarly, retailers are merging their EAS system and Intellex digital recorder with Datavantage's data mining and exception reporting tools. This combination helps the retailer to tackle shrink and grow sales enterprise-wide. By merging their EAS system with digital exception reporting software, retailers can easily inspect internal responses to alarms. ADT makes the task even easier with its new, mobile SmartEAS program.

No longer mounted on a wall, ADT's UltraLink keypad device is now a handheld unit "that collects more data than before," says D'Onofrio.

When an EAS alarm sounds, the handheld's touch screen prompts the manager to enter data about the event into the unit. The screen also tracks and displays the employee's identification number and response time.

The retailer's DSL (designated subscriber line) network electronically delivers all input data into the grocer's corporate database. Then users can tap this intelligent EAS data via an exception reporting module developed by Datavantage.

The system creates scorecards that assess better training methods, more accurate merchandise tagging, equipment repair and identification of high-theft products. The solution is currently being tested at supermarkets and general merchandise retailers, D'Onofrio adds. ❖

## BOTTOMS UP

Incidents of shoplifting are on the rise, and some crooks are using old-fashioned shopping carts to inconspicuously walk out with merchandise. Two technologies are helping grocers to identify these incidents and cut their bottom-basket losses.

Shoplifting is so rampant across the industry that it jumped from 30.8% of retail losses in 2000 to 34.0% in 2004. This equates to nearly \$10.5 billion in lost sales, according to a National Retail Security Survey.

"Dishonest employees and shoplifters tend to go the path of least resistance. They target retail locations that do not invest in technology to prevent theft," Rex Gillette, vice president of retail national accounts for ADT, said in a company statement.

Some of these thieves are robbing stores simply by storing merchandise in the bottom basket of a traditional shopping cart. On average, a typical grocer loses between \$10 and \$15 per lane, per day, based on items that leave the store via the cart's lower basket.

"That translates to between 10% and 15% of a retailer's annual net corporate income," says Alec Hudnut, CEO for Evolution Robotics Retail, based in Pasadena, Calif. "If chains can get rid of this shrink, they can increase their profitability."

Evolution Robotics' LaneHawk object recognition technology is helping retailers cut these losses. The camera-and-software solution uses visual pattern recognition to distinguish merchandise, alert the cashier to the item and add the item to the point-of-sale transaction.

"Grocers have tried many methods to ward off this shrink. They have used mirrors, infrared sensors, even video," he says. "None of these concepts recognizes the object or automatically add the merchandise to the order."

Grocers are also opting for the B.O.B. (Bottom of the Basket) system from Scottsdale, Az.-based Store-Scan. The eBOB system, which is installed in the checkout lane, uses infrared technology to alert the cashier that items are present on the bottom of the cart. With the addition of vBOB, digital video technology snaps pictures of the shopping cart and delivers images to the cashier as the cart passes through the checkout lane.

The company's Cartvu+ product takes the concept one step further and stores those digital images in a database along with the check stand number, date and time. Managers can access this data and compare information to transaction logs to ensure that merchandise was paid for.

"As many as 2% or more of all customers leave with unpaid items on the bottom of the basket. Even the best cashiers do not check the bottom basket 25% of the time," says Ed Meyer, Store-Scan's president and CEO. "These tools are specifically tied to cashier accuracy," and improving retailer profitability.