

GROCERY HEADQUARTERS

August 2006

A close-up photograph of a hand reaching into a display of fresh broccoli. The hand is positioned on the right side of the frame, with fingers slightly curled as if about to pick up a piece. The broccoli is vibrant green and fills most of the lower two-thirds of the image. In the background, there are several bags of pre-packaged produce, including what appears to be cauliflower and other vegetables, some with price tags. The lighting is bright, typical of a grocery store.

EASY PICKINGS

THEFT RINGS THRIVE ON UNWARY RETAILERS.

BOOSTERS CLUBS

THESE ARE THE BEST OF TIMES FOR GANGS OF SHOPLIFTERS IN MANY RETAIL CHANNELS, AND SUPERMARKETS' DEFENSES ARE AMONG THE WORST.

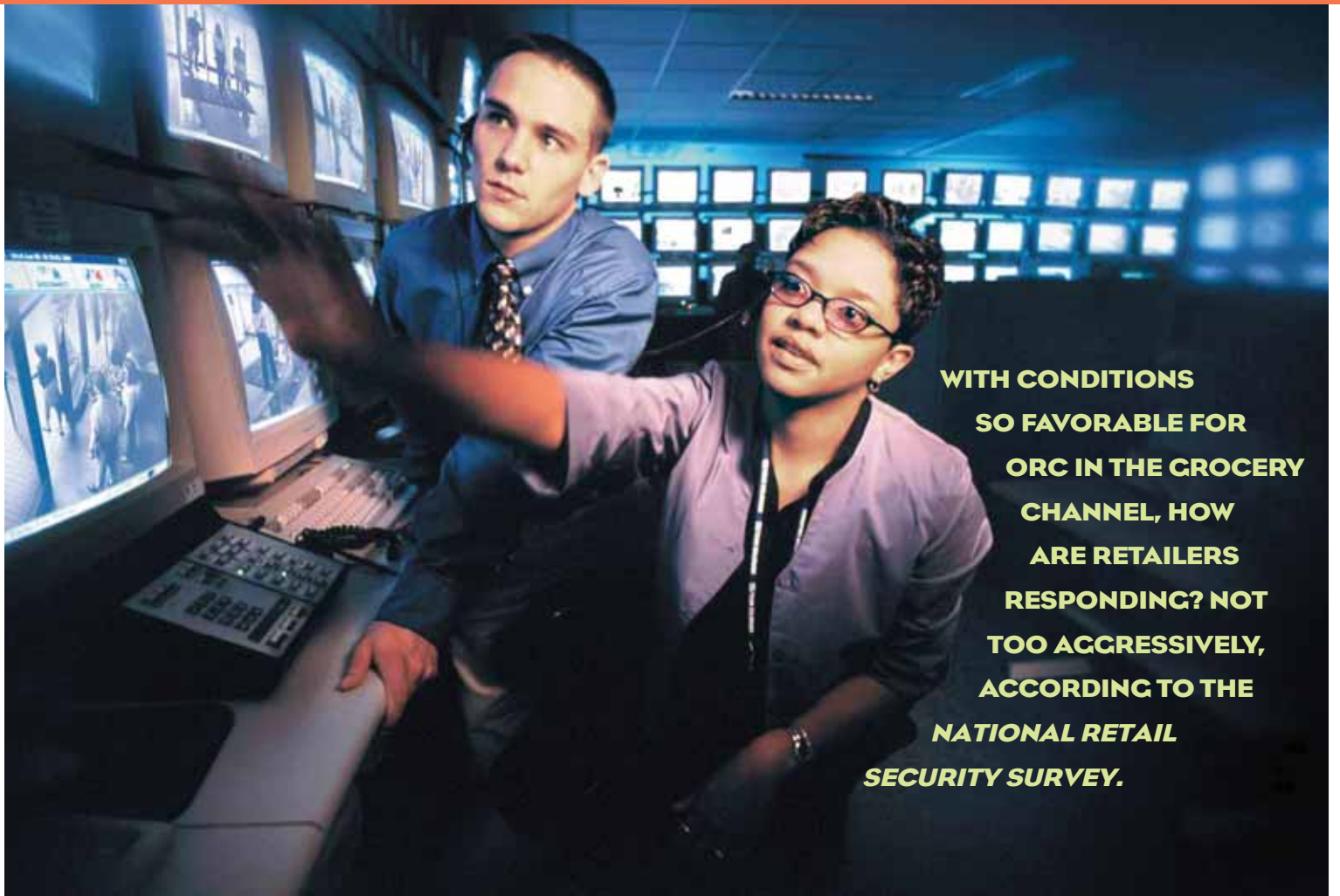
BY SUZANNE VITA PALAZZO

Officials at Safeway

were baffled by the numbers. Seven paper grocery bags contained a whopping \$6,500 worth of merchandise. A small handbasket carried over \$800 of product out of the store. One woman departed with nearly \$1,000 worth of health and beauty care items. And not a single one of those dollars was ever rung up at a register.

How could such things occur under the watchful eye of the giant retailer? All too easily, the company regretfully explained as officials talked about Safeway's status as a victim of organized retail crime at the National Retail Federation's Loss Prevention conference held in Minneapolis in May. "We knew it existed for years, but we thought it was someone else's problem," said Kathleen Smith, vice president of loss prevention at the Pleasanton, Calif.-based retailer. Now Smith, along with other





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members of the company's LP department, is eager to let other grocers know that it's their problem as well.

Statistics clearly show that organized retail crime, or ORC as it is commonly referred to across the industry, has taken center stage in stores' battle with loss prevention. According to NRF's second annual survey on the topic, conducted in April, 81% of senior loss prevention executives who responded indicated that their companies had been victims of ORC activity, while almost half reported seeing an increase in such behavior during the past 12 months.

And, according to the 2005 *National Retail Security Survey* conducted by the University of Florida, ORC averaged 23.2 reported cases per \$100 million in retail sales, with the average loss per case measuring a staggering \$46,353. A case is an inclusive measurement that can involve a number of individual incidents over a period of time. The study concludes that shoplifting now represents 32.6% of retailers' overall shrink, and the average loss per case last year was

more than \$200 higher than in 2004. Although employee theft is the No. 1 source of shrink, with a contribution of 47.6%, the average loss per case went down by more than \$700.

In addition to ORC and employee theft, the study reports that administrative error and vendor fraud continue to play a role in the loss prevention scenario, respectively constituting 14.6% and 5.2% of retailers' overall shrink costs. But the increase in the frequency and cost associated with shoplifting is what has caught many officials' attention.

VULNERABLE SUPERMARKETS

Observers note that the grocery industry is particularly susceptible to ORC due to the large number of stores and their well-stocked assortments of high-ticket items like razor blades and over-the-counter medications that can be easily stolen and easily resold. In addition, factors such as supermarkets' off-hours stocking, multiple entrances and exits, and high shelving systems that mask visibility have created an atmosphere of comfort for

organized rings of professional boosters.

"This is an issue that is not going away. In fact, it's worse now in what we're seeing and hearing than it has ever been," says Joseph LaRocca, vice president of loss prevention at NRF. "And in some cases we're seeing that these groups are becoming more aggressive, both in their numbers and in their tactics."

LaRocca notes that the development of eFencing—the sale of stolen, counterfeit or illegally obtained goods over the Internet—has only made things better for crooks and their ability to make money. "With eFencing you have this low-risk, high-reward theft on the front end, and on the back end you have an electronic way of selling goods, so you now no longer need to have face-to-face contact with your buyer, and you have a national audience that you can sell to," he says. "And the reality is that because you can remain faceless and in most cases nameless, the chances of getting caught are drastically reduced."

With conditions so favorable for ORC in the grocery channel, how are retailers responding? Not too aggressively, according

SAFETY IN NUMBERS

As organized theft rings intensify their focus on the grocery arena, retailers attempting to maximize their strategies to outsmart thieves may have to look no further than their local competitors. According to industry officials, chains that opt to pool their resources and experiences with ORC stand to benefit from a wider network of video footage, data and law enforcement assistance.

"We have to do it together. We can't do it by ourselves," says Kathleen Smith, vice president of loss prevention at Safeway. "There's not one company that can do it by themselves, because we don't have the resources individually. The criminals go from location to location to location. They're not exclusive to Safeway or exclusive to Walgreens or exclusive to Albertsons or exclusive to Wal-Mart. They don't discriminate.

"They go to all of us, and we have to join together," she continues. "Because without the joined forces, so to speak, we won't be able to attack it. One place may be able to identify a vehicle and the next may be able to identify the person, so we can give better information to law enforcement when we join together."

Joseph LaRocca, vice president of loss prevention at the National Retail Federation, agrees. "It's absolutely true that when you have multiple retailers pull together, there are big benefits. You get the attention of lawmakers and the public sector law enforcement side," he says. "And the only way to really help law enforcement understand is through pulling together and talking as a united industry."

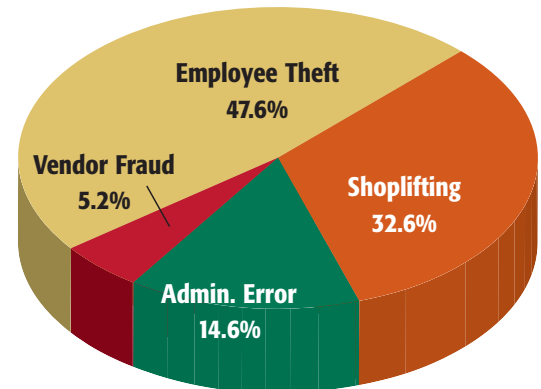
To this end, NRF has developed the Retail Loss Prevention Intelligence Network, a national repository of documented ORC cases that allows retailers to share information with each other and local law enforcement. According to LaRocca, the strength of the network is its ability to prevent crimes before they occur, since retailers can get detailed information about the methodology and preferred locations of particular ORC rings.

Similarly, the Industry Loss Reduction Team, a collaboration of retailers such as CVS, Walgreens, Food Lion and Kroger with suppliers such as Johnson & Johnson, Procter & Gamble and Pfizer, has been developed to create "industry-wide solutions to reduce shrink and increase sales, profits and customer service." The team operates on the premise that shrink has a direct one-to-one relationship with profit, and provides its members with decision-making guidelines, scorecards and comprehensive research to gain a better understanding of the underlying causes of inventory loss.

Ernie Deyle, vice president of loss prevention at CVS, the retail chair of the program, says it offers advantages to retailers of all sizes, especially regional players. "It would be more beneficial to them to not reinvent the wheel, but look at how do they get involved with the ILRT," he says. "Some of those retail players drive pretty good sales volume, and these manufacturers and suppliers have the same problems with the regional players that they do with the national players. So getting involved in forums and dialogs would be a big benefit to them."

—Suzanne Vita Palazzo

Sources of Shrinkage



Source: University of Florida's 2005 National Retail Security Survey

to the *National Retail Security Survey*, which says that only one-third of all retailers reported tracking ORC data, and just 10% cited the presence of a task force dedicated to combating the problem.

EVERYBODY GETS HURT

This lack of focus has many observers concerned, because the effects of ORC are having an impact on all players in the grocery industry, from retailers to manufacturers to the group that deserves it least—loyal customers. An increase in out-of-stocks coupled with prices that have been raised to compensate for the effects of loss has strong potential to cause consumers to divert from their preferred shopping locations, thus disrupting the competitive nature of the marketplace.

On a primary level, industry experts concur that the most practical solution for tackling ORC and loss prevention in general begins with a well-informed and attentive staff. "The No. 1 way to prevent losses from occurring is through good customer service," says LaRocca. "When a store has vigilant employees that are watching the sales floor, and they're interacting and communicating with their customers, we know for a fact that that has a deterrent value in stores."

Jim Sweeney, vice president at New York-based Capgemini, agrees that retailers should take the time to properly educate employees on the effects of ORC, because the workers may be involved with the crime themselves. "I think what you'll see over the next year or two is that as organized retail theft gets unbundled from shrink issues, you're going to find a lot of inside

RETAIL vs. STREET VALUE



Source: Safeway, Inc.

cooperation with these [booster] groups, especially in the perishable arenas,” he says.

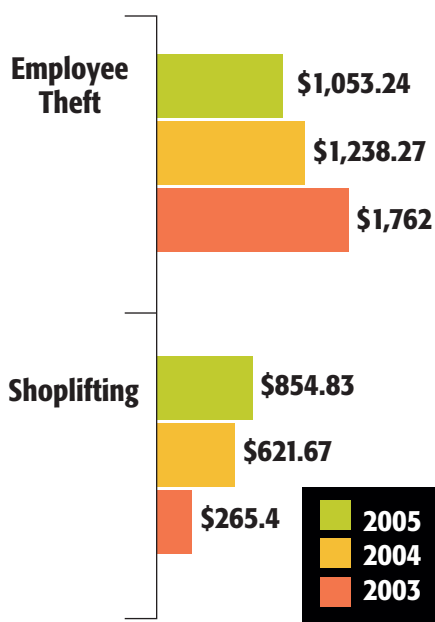
As a result, the use of employee background checks has increased and is being encouraged by industry officials. “A decade ago store owners didn’t think they needed to perform background checks on entry-level employees or even minimum-wage employees, but what has been discovered over time is that these employees make up the biggest segment of potential loss and shrinkage,” says Catherine Aldrich, executive vice president of Accurate Background in Lake Forest, Calif.

HELP FROM HOTLINES

On a defensive level, good employees have the potential to play an active role in reporting incidents of employee theft and sweethearting through the use of hotlines designed to accept anonymous calls, such as the service provided by The Network. According to Clark Bosley, vice president of the Norcross, Ga.-based company, retailers need to make sure that the hotline’s presence is properly and frequently communicated in order to maximize utilization.

But there is no doubt that whether it be ORC, employee theft or administrative error, the sources of shrink are becoming better developed, demanding solutions with a greater degree of sophistication to stop inci-

AVERAGE \$ LOSS PER CASE



Source: University of Florida’s 2005 National Retail Security Survey

dents before they occur. “Every time we build a better mousetrap, they’re out there trying to figure out how to get around it,” explains Lee Pernice, retail marketing man-

ager at Boca Raton, Fla.-based ADT.

Historically, grocers have been able to rely on closed-circuit television cameras and electronic article surveillance systems to serve their loss prevention needs, and while these technologies may remain part of the solution, they no longer suffice as the ultimate defense. “Everybody uses EAS systems, which are fine, but if you’re looking at them as your primary driver of your product-protection initiatives, you’re really going to miss the boat,” says Ernie Deyle, vice president of loss prevention at Woonsocket, R.I.-based drug chain CVS. “You’re not going to be able to get the full benefit of a true product-protection type of program. EAS is not at the heart of that. It might be the backbone, but it’s not at the heart of that product-protection program.”

HEADING OFF EXPOSURE

Deyle should know, considering CVS’ reputation as a leader in loss prevention techniques in the retail industry. “When you start to look at how we’re structured, we have a great deal of technology in place to help us understand trends, behavior patterns and things of that nature that will help us understand where we’re being exposed before we actually become exposed,” he says.

One such technology currently used at select CVS locations is that provided by IntelliVid, a Cambridge, Mass. company that specializes in digital video analytics. Its system is able to detect in traditional CCTV footage behaviors that have been predefined as suspicious and send a visual report in real time directly to a store employee’s hand-held device. Retailers have the capability of directing the system to monitor specific high-risk areas or shelves so that they are constantly aware of any activity occurring at those points.

Officials describe this technology as a trend, because this type of technique is quickly gaining appeal among many industry players. Nearly 40% of respondents to the *National Retail Security Survey* said they planned to increase use of digital video recording and video monitoring over the Internet. Observers note that since many retailers already have surveillance cameras in

place, the primary investment in this technology is spent on updating multiple ROI systems on the back end.

And as retailers like CVS that have deployed the technology are learning, the return on investment extends far beyond the costs associated with loss prevention. "There's also a very strong operational aspect that comes into play," says Andre Galligani, director of strategic accounts for West Des Moines, Iowa-based Westec Interactive. "By having the ability to review the system remotely and to audit the video, the merchant will also be able to check on employees' performance, to check on other aspects of the customer's experience such as proper greeting, possible altercations and things of that nature."

IMPROVING EFFICIENCY

In addition, industry officials note that digital video analytics has the potential to improve a company's operational efficiency by giving it a better understanding of behavior patterns related to certain promotions. Says Chris Buehler, chief scientist for IntelliVid: "Our system actually watches all the cameras and builds a database of all the activity in the store, so we can tell how many people have walked by an endcap, how many people stop at the endcap, how many people stay there for a certain period of time and how many of them pick up a product at the endcap."

Many top-tier retailers are opting to share their digital footage with local law

enforcement agencies in hopes of increasing awareness of the devastating effects of ORC. "We need law enforcement now, and from the private sector we're able to offer them some resources because we know they're strapped with the resources they have in their areas," says Smith. "So when we can share, we have an opportunity to go farther."

"We're starting with an education process and then doing a lot of the leg work on these cases for them," she continues. "That way we bring them a case that's well-advanced and then continue to offer our assistance throughout their investigation."

Moving forward, industry experts stress that in addition to educating both employees and local officials, retailers must keep themselves abreast of technological developments if they want to improve their loss prevention efforts. And they note that companies should have a keen sense of their particular predicament before shopping around for providers. "One of the things we see is that the customer doesn't always have a clear understanding of what their objective is," says Andrew Wren, president of Jefferson City, Mo.-based Wren, a provider of CCTV solutions. "Once they understand that, they can then start to at least understand what path to go down, which technology to deploy and which processes to change."

GROCERS ARE LAGGING

"There are very low adoption rates of anti-

shoplifting technologies in supermarkets. I think that out of all the retail segments out there other than furniture stores, supermarkets might have the lowest adoption rate of that type of technology," says ADT's Pernice, who stresses the importance of smart technology in the fight against ORC. "And it's not one answer that's going to stop shrink. It's going to be a combination of them."

Ed Jimenez, retail global marketing lead for San Jose, Calif.-based Cisco Systems, takes it a step further by urging supermarket retailers to think outside the box when it comes to deploying loss prevention techniques. "We would recommend that the grocery industry not only look at other retailers but the hospitality and casino industry in terms of truly understanding how this infrastructure can be used," he says. "The casino and hospitality industry is at the forefront of loss prevention and leveraging technology."

Regardless of the approach, industry experts agree that retailers must be proactive and not reactive if they wish to stay ahead of the growing number of retail thieves. "The very first step is being aware of the issue," says LaRocca. "The second is really talking to your people and making them aware of what their role is. And everybody has a role; whether you're the checkout person, the stock person, the store manager or you're the corporate executive, everyone has a role related to loss prevention or organized retail crime." □

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