

# Effective Retail Loss Prevention

10 Ways to Keep Shrinkage Low

**Adrian Beck**  
Department of Criminology  
University of Leicester

February 2007

## **Effective Retail Loss Prevention: 10 Ways to Keep Shrinkage Low**

### **To contact the author:**

Adrian Beck  
Reader in Criminology  
University of Leicester,  
Department of Criminology,  
154 Upper New Walk, Leicester LE1 7QR  
United Kingdom

Email: [bn@le.ac.uk](mailto:bn@le.ac.uk)

The comments expressed in this report are of those of the author and do not necessarily represent the views of any of the companies that agreed to take part, nor of Procter and Gamble who very kindly supported this project.

All rights reserved. This report, or parts of it, may not be reproduced without the prior written permission of the author.

# Contents

<b>Introduction</b>	<b>5</b>
<b>Executive Summary</b>	<b>7</b>
<b>Research Methods</b>	<b>9</b>
<b>Findings</b>	<b>12</b>
<b>Strategic Level Factors</b>	<b>14</b>
Establishing Senior Management Commitment	14
Ensuring Organisational Ownership	15
Embedding Loss Prevention	16
<b>Cultural Level Factors</b>	<b>20</b>
Providing Strong Leadership	20
Generating Barometer Management	21
Prioritising People	23
Organisational Level	23
The Loss Prevention Team	24
Prioritising Innovation and Experimentation	25
Talking Shrinkage	27
Emphasising Procedural Control	28
<b>Operational Level Factors</b>	<b>32</b>
Creating Store Management Responsibility	32
<b>A Difference of Opinion</b>	<b>36</b>
<b>A Noticeable Omission</b>	<b>38</b>
<b>Summary</b>	<b>40</b>

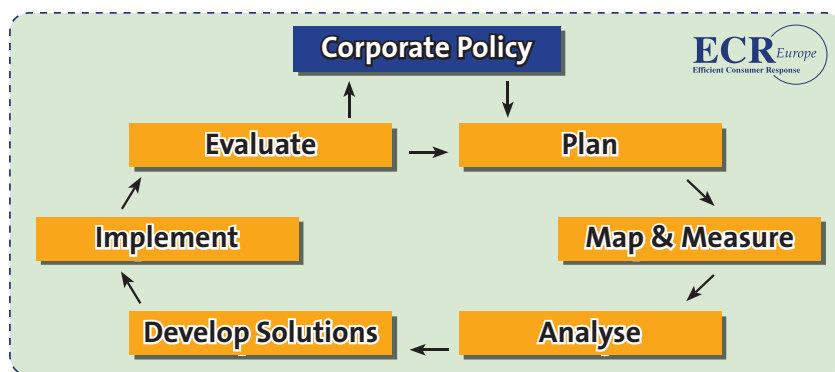


# Introduction

A 2005 ECR Europe Shrinkage Survey concluded that there were 6 steps to successful shrinkage reduction: having a written company policy; high levels of intra-company co-operation; prioritising the problem; incentivising staff; conducting regular shrinkage reduction projects; and making use of the ECR Europe Road Map<sup>1</sup>. All of these factors were correlated with lower levels of shrinkage – those companies that employed these strategies had lower levels of loss than companies that did not.

It is widely recognised that over the past 20 years or more, the retail industry has for the most part failed to adequately deal with the problem of shrinkage. Reviews of numerous surveys show that the underlying rate of loss continues to be high, with a recent estimate suggesting that globally retailers operating in the Fast Moving Consumer Goods Sector (FMCG) lose €46.8 billion (\$61.5 billion) to crime alone, ignoring the losses due to process failure<sup>2</sup>, which conservatively may account for a further €10 billion a year (\$13.1 billion). However, recent work by ECR Europe has shown that retailers (and their suppliers) who have made use of the 'Shrinkage Road Map' have achieved not only impressive reductions in stock loss, but also increased sales volumes as well<sup>3</sup>.

## The ECR Europe Shrinkage Road Map



Moreover, there is growing evidence, some of which has been captured in various ad hoc studies carried out by researchers around the globe, that certain retailers continually succeed in having lower rates of loss than others – they seem to have an 'approach' that

works in terms of achieving low shrinkage. The recent ECR Europe Shrinkage survey went a little way in beginning to synthesise what the characteristics of this 'approach' might be, albeit at the macro level, although the nature of the methodology adopted meant that other more qualitative organisational factors could have been excluded.

The purpose of this study was to begin to identify the key characteristics of low shrink retailers – the policies, practices, procedures, approaches and indeed philosophy of those companies that are continually regarded as being successful at keeping shrinkage low. In theory this should be a relatively straightforward task, but the difficulty is in identifying the 'good' companies. It is notoriously difficult to benchmark shrinkage figures across the retail sector – there are many variables that can make it impossible to compare one company with another. For instance one company may decide to measure their shrinkage at retail prices while another might record them at cost prices – one shrinkage figure will be decidedly bigger than the other but the difference between the two can be accounted for (in large part) by the method adopted to measure shrinkage. Similarly, whether a company decides to include known and unknown loss within their overall shrinkage figure can have a dramatic effect upon the total cost of the problem. For some companies known loss can be more than double the total value of unknown loss. And so simply taking the shrinkage figure alone as an indicator of the success or otherwise of a company can be misleading in identifying those that are the 'best' at managing shrinkage.

<sup>1</sup> Beck, A. (2004) Shrinkage in Europe 2004: A Survey of Stock Loss in the Fast Moving Consumer Goods Sector, An ECR Europe White Paper, Brussels: ECR Europe.  
<sup>2</sup> PRCI Ltd (2004) The Illicit Market in Stolen Fast-Moving Consumer Goods, Leicester: PRCI Ltd.  
<sup>3</sup> Beck, A, Chapman, P. and Peacock, C. (2003) Shrinkage: A Collaborative Approach to Reducing Stock Loss in the Supply Chain, Brussels: ECR Europe.

This study adopted a more qualitative approach to resolving this problem, using a 'reputational' method to identify those companies that are considered to be especially good at dealing with the problem of stock loss. This method relies upon the knowledge and experience of a group of recognised 'experts' in the area to identify those companies that they consider to be the best at managing shrinkage.

Initially, the focus was to be in Europe and the US, but problems in synthesising a European list of 'good' companies meant that the study became more narrowly focussed on US retailers only as there was far greater consensus from the panel of experts for this region. This is interesting in itself in terms of recognising the complexities and challenges that European retailers continue to face and it may be very worthwhile repeating this process in the future to identify whether greater consensus can be achieved in this region. Undoubtedly the issue of language and regional expertise will have played a major role in restricting the ability of the 'experts' to identify their top five low shrinkage retailers in Europe, but it provides much food for thought that the European picture appears to be much more complex and unclear when compared with the situation in the US.



This report is structured in the following way. The next section provides an executive summary. This is then followed by a short section outlining the methodology used and detailing the limitations of such an approach. It is then followed by the findings section which details the data collected from the interviews carried out with the heads of loss prevention and their staff from the 5 companies

that agreed to take part in this study. It will then conclude with a brief chapter summarising the key findings from this study.

In addition, it is also important to recognise the role of the panel of experts who agreed to offer their help with this project and assiduously responded to my nagging emails. Finally, my greatest thanks go to those who agreed to take part in this project: Ernie Deyle from CVS, Paul Jones from Limited Brands, Paul Stone from Best Buy, Brad Brekke from Target and Keith White from The Gap. They all provided me with a considerable amount of their time (and that of their staff) and answered my questions in an honest, open and thoughtful way. Their willingness to share their experiences and approaches speaks volumes about why they have seemingly been so successful at reducing shrinkage within their organisations.

# Executive Summary

## Purpose and Approach

The aim of this study was to identify the key characteristics of retail companies in the US that are perceived to have a track record for delivering low levels of shrinkage. It is based upon interviews with the head of loss prevention<sup>4</sup>, a selection of their staff, analysis of company documentation and visits to stores. The five companies that took part are: The Target Corporation, Limited Brands, Best Buy, CVS and The Gap.

## Findings

The study identified 10 key factors which were considered to be influential in creating a low shrinkage environment in the companies taking part in this research. They can be grouped under three headings: Strategic, Cultural and Operational:

### Strategic Level Factors

- Establishing Senior Management Commitment: making sure that senior executives are aware and supportive of the need to prioritise loss prevention.
- Ensuring Organisational Ownership: making sure that all of the functions within the organisation recognise the importance and value of prioritising loss prevention.
- Embedding Loss Prevention: making sure that loss prevention is part of the fabric of the business and acted upon by all departments.

### Cultural Level Factors

- Providing Strong Leadership: generating energy, direction, focus and a vision for loss prevention in the company.
- Generating Barometer Management: creating and analysing data to enable decision making to be based upon an evidence-based approach.
- Prioritising People: making sure that the company employs the right people and motivates them accordingly to take shrinkage seriously. Also concerned with creating a loss prevention team that is multi-faceted and forward thinking.
- Prioritising Innovation and Experimentation: recognising that retailing and loss prevention is a dynamic arena that requires new thinking and a willingness to change.
- Talking Shrinkage: keeping shrinkage on the agenda through a range of communication strategies.
- Emphasising Procedural Control: ensuring that process adherence is a key part of what loss prevention does but also recognising a balance has to be struck between service and control.

### Operational Level Factors

- Creating Store Management Responsibility: without the active support and engagement of all store staff, but particularly managers, loss prevention will not be properly controlled and minimised.

<sup>4</sup> The study recognises that this is not the title used by all the companies taking part in this study and is merely used here for convenience.

## Summary of the Key Factors in Effective Shrinkage Management

All these factors were found in the majority of the case study companies and taken together, offer a useful framework for developing a more effective loss prevention strategy.





# Research Methods

This project adopted a multi-case study approach, focusing on 5 retail companies based in the US. This approach was considered the most applicable and has been described as an umbrella term for a family of research methods that provide a rich source of data<sup>5</sup>.

A multi-case study approach was chosen because it enabled a greater degree of generalisability and is considered to generate evidence that is more compelling<sup>6</sup>. What is particularly attractive about this approach is that it uses a variety of data collection techniques – indeed no approach is excluded. Multiple sources of evidence allow case studies to present more rounded and holistic accounts of social issues and processes and makes the case study one of the most powerful research designs available to researchers<sup>7</sup>.

The project utilised 'sequential analysis', in which the researcher is constantly checking the data against interpretation until satisfied that meaning has been grasped – in other words the analysis process is an integral part of the data collection phase enabling further data collection to take place as a consequence of initial interpretation<sup>8</sup>.

The method used to select the companies to be case studies was the 'reputational' approach<sup>9</sup>, whereby a group of experts, key practitioners and academics made recommendations based upon personal and experiential evidence. They were selected on the basis of personal experience of the author, a degree of 'snow ball' selection whereby other experts made suggestions for further additions to the list and a trawl through recent articles published in the trade and academic press. Of the 20 who were approached, three did not respond, only one refused and did not agree to take part and four others declined because they did not feel they had sufficient experience to draw up their list of the top five low shrink retailers in the US. The following individuals were contacted (a \* denotes those that made a contribution to the project):

Rhett Asher	Retail Industry Leaders*
Paul Chapman	Cranfield School of Management*
Dennis Challenger	Australian Professor
Nicole DeHoratius	University of Chicago, Graduate School of Business*
Robert Di Lonardo	Retail Consulting*
Marshall Fisher	University of Pennsylvania
John Fonteijn	Ahold/Co Chair ECR Europe Shrinkage Team*
Read Hayes	Loss Prevention Council*
Richard Hollinger	University of Florida
Lawrence King	ORIS*
Joe LaRocca	National Retail Federation
Jim Lee	Loss Prevention Magazine
Colin Peacock,	P&G/Co Chair ECR Europe Shrinkage Team*
Walter Palmer,	PCG Solutions*
Ananth Raman	Harvard Business School
King Rogers,	King Rogers*
Walt Salmon	Harvard Business School
Doug Smith,	PRCI*
Mike Schuck,	British Retail Consortium*
Kelby Woodard,	Trade Innovations*

<sup>5</sup> Burns, R. (2000) Introduction to Research Methods, London: Sage.

<sup>6</sup> Ibid.

<sup>7</sup> Bartlett, L. et al (1983) Case Study Methods, Geelong: Deakin University Press.

<sup>8</sup> Yin (1993) Application of Case Study Research, London: Sage.

<sup>9</sup> Burns (2000) op cit.

Panellists were requested to select their top 5 retailers in Europe and the US, in terms of levels of shrinkage, innovation in the approach adopted and recent success in dealing with the problem. As mentioned above, because of problems in generating any form of consensus on the European retailers, this part of the study was ended at this stage.

From their responses, a composite list was generated, and a ranked table was produced listing all those retailers mentioned by more than respondent.

This table is presented below:



**Table 1** Initial Ranking of US Retailers by all Respondents

Name of Company	Rank
Target Corporation	1
Wal*Mart	2
Limited Brands	3
Best Buy	4
Lowes	5
The GAP	6
CVS	7
The Home Depot	8

However, a number of the non-US based respondents expressed great difficulty in identifying their 'best' companies in the US (this was also the case for US-based respondents reflecting upon European retailers). It was thought prudent given the new more narrow focus on only the US, to therefore use only US-based respondents.

This generated the following ranked table:

**Table 2** Revised Ranking of US Retailers

Name of Company	Rank
Target Corporation	1
Limited Brands	2
Best Buy	3
The GAP	4
CVS	5
Lowes	6
The Home Depot	7

As can be seen, Target were consistently given the highest score in both tables, although Wal\*Mart did not feature whatsoever once the non-US respondents were excluded. Both Limited Brands and Best Buy remained in the top 5 rankings in both tables while The Gap and CVS moved upwards when only US-based responses were used.



The next step in the research was to contact the companies that featured in the revised table. In addition to the top five (Target, Limited Brands, Best Buy, The Gap and CVS) Both Lowes and Wal\*Mart were approached as well. The former as a reserve and the latter because it had featured so highly in the first table and the researcher wanted to check whether the decision to exclude it had been correct. The approach to the companies was through email and phone call, although the majority of this work was initially done by Walter Palmer, a well regarded loss prevention consultant, who knew most of the heads of security/loss prevention within these companies. The researcher is extremely grateful to Walter for providing these introductions – without doubt this research would not have been possible without his assistance. Of the 7 companies approached, 5 agreed to take part, while both Lowes and Wal\*Mart declined the offer to become involved. It was not possible to find out why this was the case.

For each company that agreed to take part, data was collected in three ways: interviews with key members of staff, particularly the head of loss prevention but also other staff within the loss prevention team and employees working in the stores; where it was made available, secondary analysis of company documents and data; and finally observation through visits to one of the stores to talk to staff and look at how policies, procedures and approaches were operationalised. All five companies agreed to this methodology and were extremely generous with their time and gave the researcher access to all the staff he was interested in meeting.

The interviews and visits were carried out in January and May 2006. All the interviews were recorded and subsequently transcribed, while extensive notes were taken when visiting the stores. It was possible to collect some company documents from some respondents including strategic plans and information on particular strategies being used.

As with any research methodology, the approach adopted is not without its problems. Using an expert panel to select the 'best' retailers can be problematic – have the right experts been chosen, on what basis are they making their selections and is there a danger of past history selection ie they were good in the past but are they still high performing retailers? To overcome this, two strategies were adopted: the first was to get as many experts as possible to participate to reduce the effect of any single respondent, and the second was to purposefully exclude those 'experts' that did not have sufficient experience of the retail environment in the US. Problems can also arise when collecting information through semi-structured interviews as they can be open to interviewer bias and interpretation. In addition, there is a danger that the rhetoric spoken by senior managers may have little connection with what is actually done on the ground in the stores and the distribution network. Both of these problems were addressed through the use of a relatively detailed interview schedule that took each respondent through a series of questions, but at the same time allowed for new topics to be raised by the respondent if they considered them important. Secondly, by undertaking a store visit and talking to staff who worked there, it was possible to do some form of 'reality' check against the comments made by senior managers.

Given these issues, and given the complexity of trying to understand how five different organisations go about tackling the problem within their own retail environment, it is felt that the approach adopted was the most appropriate and valid.

Throughout this report the terms shrinkage, stock loss and loss prevention will be used interchangeably to refer to the losses that organisations suffer from four generic areas: internal and external theft, process failures and inter-company fraud. While there is not any international consensus on what these four terms include (or indeed exclude), the researcher took time with each case-study company to explain what they meant in terms of this particular project. All five companies agreed that they did indeed cover the areas of most concern to them, although as might be expected, this in itself generated some lively debate, not least whether known losses should be included or not. For the purposes of this research, known losses were considered to be part of the overall shrinkage problem.

# Findings

Presented below are the findings from the five case study companies. The data has been organised into a series of themes rather than looking at each case study in turn. Each of the themes was not necessarily present in all the companies and where there is divergence this will be highlighted in the text. However, the themes represent for the most part the picture found in most if not all of the companies taking part.



Throughout, examples will be used from the different companies to elaborate on the point being made. It has been decided to anonymise the quotes and examples so that no particular company or individual can be identified. At the end of the main findings section, there will be two further subsections that will look firstly at where there was significant disagreements between the case study companies on particular policies and approaches, and secondly where the researcher identified key gaps compared with his experience of retailers in Europe.

The data has been organised into 10 themes which in turn can be grouped into three key areas:

## Strategic Level Factors

Establishing Senior Management Commitment

Ensuring Organisational Ownership

Embedding Loss Prevention

## Cultural Level Factors

Providing Strong Leadership

Generating Barometer Management

Prioritising People

Prioritising Innovation and Experimentation

Talking Shrinkage

Emphasising Procedural Control

## Operational Level Factors

Creating Store Management Responsibility

# Strategic Level Factors

# Strategic Level Factors

Three areas were present and highlighted by all five companies as critical to creating the organisational environment within which shrinkage control could take place: getting the full commitment of senior management, ensuring that all parts of the organisation feel that they own the problem, and making sure that shrinkage control is embedded throughout the business.

## Establishing Senior Management Commitment

At a retail security conference held in London in 2005 a CEO of a major retail clothing company in the UK made a presentation which not only highlighted the importance of taking shrinkage seriously, but noted it was essentially the last free money on the table – growing profits through increasing the number of outlets, or streamlining business functions such as reducing stock holding, were not as beneficial to the organisation as getting to grips with shrinkage. In itself, this was not a new or particularly innovative idea. What was different was that it was a CEO of an organisation making the case. A perennial problem for many loss prevention specialists has been the difficulty of getting the rest of the organisation to take the issue seriously – shrinkage is perceived as a peripheral part of the overall business not warranting the attention given to other functions such as marketing, sales or distribution. But, without the support and attention of all parts of the organisation, developing solutions to the problem of shrinkage will remain piecemeal, partial and problematic. The key question is how do you get the business to take shrinkage seriously? The consensus answer is that you need senior management (board level) to first of all buy into the importance of the problem to the business, secondly to ensure that the loss prevention function is empowered (through resource and access) to deal with the problem effectively, and thirdly that the rest of the business is 'persuaded' that it should be a key and continuing part of their agenda.

In all five cases studies, the commitment of the board to the problem of loss prevention was profound, clear, sustained and genuine: 'we have an awful lot of senior executive support – without it, we couldn't have done what we did'; 'the support from the Board is tremendous – they recognised early on that sorting out shrink could make a real difference to the business'. However, what was also very interesting was that for four of the five companies an event or tipping point had occurred in their recent history that put shrinkage on to the agenda of senior management – a defining moment such as a new high in losses, the need to radically change some form of technology or the acquisition of a new business that tipped the shrinkage balance too far into the red:

*'I remember our tipping point very well, 25th March 1995 ... budget review with the Board ... shrink had been running at 0.5% but then went to 1.2% ... it was announced to the Board and then things began to happen....'*

*'Yes there was a tipping point. It was around a technology investment ... a tagging technology. Required a philosophical change in mindset of the leadership team. Had to put money into the technology and make sure that the staff were well trained to use it.'*

Similar events had occurred in two of the other case studies – the shrinkage figure had 'exploded' when one of the companies had taken over a rival company that had a poor record on loss prevention management combined with a work force that was low on morale and high on procedural deviance. For the other, rapid expansion of the business and an historical organisational segmentation had led to shrinkage growing massively within the business:

*'We were so bad as a company ... leadership needed to come from the top ... without that buy-in things will not happen.'*

So the appearance of a 'crisis' or tipping point was undoubtedly a key moment in enabling/persuading/forcing a loss prevention team to go to the Board (or be summoned by them) and make a case for shrinkage to become a key business priority:

*'Shrinkage became a top priority from 1995 until 1998. By that point it had become ingrained in the culture.'*



However, two things were also clearly important for the case study companies in this process. First, the head of loss prevention had a well defined and usually innovative plan to take to the Board – the tipping point created a one-time opportunity to propose a new strategic approach for the business on shrinkage (including changes in the financial support for the loss prevention department). This



should not be underestimated - getting the right message across to the Board was clearly pivotal in enabling these companies to make a step change in how the problem of shrinkage was to be addressed in the business. Secondly, in all cases the Board was capable of understanding not only the importance of addressing the problem of shrinkage, but also the value it could bring to the bottom line. Generating this understanding is more problematic but for some of the case study companies this was achieved through the use of external and respected consultants being involved in the problem assessment and planning process, and for others through extensive benchmarking exercises with other companies in the market.

So the foundation for all the case study companies in developing a low shrinkage environment was the securing of genuine senior executive support for the prioritisation of the problem. Without this, none of the other component parts of the organisational strategy to manage shrinkage could be introduced, operationalised nor sustained.

## Ensuring Organisational Ownership

The second part of the broader organisational environment in these companies was the extent to which they had ensured that all parts of the company had a sense of ownership of the problem of shrinkage. Traditionally the functions of security, loss prevention, risk management and other crime-related activities such as guarding have been seen as the sole preserve of one department – security or loss prevention. Other parts of the business were not involved or indeed interested because such activities were often viewed as simply an inevitable yet regrettable part of doing business. What was different in the five companies taking part in this study was that they had not only ensured that shrinkage was not just the responsibility of one department, but also that the rest of the business genuinely recognised that they had a role to play in its management. How this was achieved varied between the companies and all were quick to note that it was and remains a difficult task. One respondent highlighted the way in which it happened in their organisation:

*'For the first 6 months [after the tipping point] we tried 49 different programmes – most failed. We realised that we cannot do it ourselves – it's about retail owning shrink, it's about logistics owning shrink, it's about the organisation saying shrink is important. So we went to the business and asked for help. It worked and shrink has now become part of the culture of the business.'*

In this example senior staff quickly realised that simply implementing new shrink 'solutions' would be wholly ineffective unless the parts of the business that interacted with the 'solutions' understood why it was being introduced, how it would affect the rest of the business, and most importantly, who had responsibility for ensuring compliance. In another example, the importance of showing how shrinkage reduction and the loss prevention team can add value was critical in creating organisational ownership of the problem:

*'We are big on integration and partnership within the business – how can I help get other parts of the business working better? How can we do things that will drive the success of the other business units?'*

This respondent went on to describe how they had engaged a particular part of the business with the problem of shrinkage:

*'[We] work closely with merchandising – they have a huge amount of data. We took merchandisers round stores to show them the challenges that store staff face in merchandising particular products.'*

What is interesting about this comment is not only the fact that they were able to get merchandisers to visit the stores to think specifically about shrinkage issues, but it also shows that the relationship can benefit both parties – loss prevention get hold of valuable data while merchandising begin to recognise the consequences of some of their decision making.

So making sure that all parts of the business have a sense that they too are responsible for shrinkage management is a fundamental part of creating the environment in which losses can be minimised. Indeed, as one respondent put it: 'it is difficult to think of any part of the business that shouldn't be thinking shrink'.

## Embedding Loss Prevention

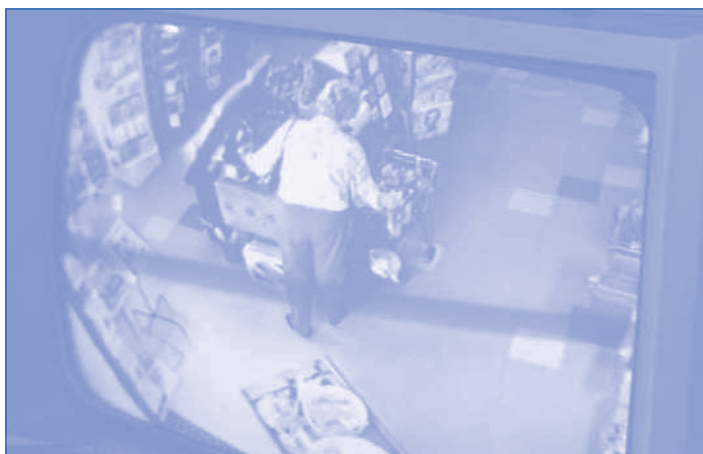
While senior executive support and getting all parts of the business to think shrink are undoubtedly vital, both can arguably be seen and interpreted as merely window dressing – yes, it's important but we have other things to focus on as well that are more pressing. This is where the third component part found in the case study companies becomes really very important – ensuring that loss prevention is embedded in the organisational structure and culture. It becomes very difficult to ignore shrinkage when it has become part of your everyday duties, tasks, thinking and strategic development. Once again how this was done varied extensively between the companies, but all highlighted the absolute importance of making sure shrinkage management was ingrained in the business:

*'We created SOPs [Standard Operating Procedures] for all departments and made modifications to the bonus plan – each store has a share of the savings in shrink at that location.'* (emphasis added).

*Shrinkage is incorporated into the overall philosophy of the business ... mirror up to the company's direction – fast growing innovative company that is willing to try out new things – we are apart of that.'*

*'Getting a seat at the table is the difference between the retailers that want to win on shrink and the retailers that don't care. You got to get a seat at the table. For instance, I interview any VP coming into the business.'*

Each of these examples offers an interesting insight, for instance the first highlights the way in which the loss prevention team went through the entire business creating SOPs for how each part should be thinking and dealing with shrinkage in their environment and sphere of influence.



It also showed how the embedding and ownership process had been reinforced through incentivisation – reduce shrinkage and you will personally benefit. The issue of incentivisation cropped up in all of the case studies although its use varied considerably. In one, all store staff were bonused on sales and losses: '... it personalises the problem with the staff – losses will impact directly on their bonus'. For others only the store managers



and the loss prevention teams were bonused based upon their performance relating to shrinkage management.

Many of the respondents noted how they had ensured that shrinkage was an agenda item in most meetings and the third quote above highlights how it was felt important that loss prevention was represented at and able to influence key decision-making meetings. Indeed, having the opportunity to influence was a recurring theme: 'We are invited along to meetings we never knew existed before! Store planning and design, new product launches, you name it we get a chance to have our say.'



For another respondent, keeping it embedded and on the agenda was initially a real challenge but they had eventually succeeded:

*'It was always a battle with other departments to keep it on the agenda, sometimes it was given lip service. In [name of retailer], they have crossed that threshold where everybody really is buying into it. They have made the connection.'*



So ensuring that the process of loss prevention was firmly embedded into the culture and working practices of the business was seen as a fundamental part of the successful shrinkage reduction strategy in the case study companies. All three of the elements

described in this section can be seen as part of the foundations of a successful loss prevention strategy: senior executive support to ensure the business prioritises the problem and the loss prevention department gets the resource and capability to influence; all parts of the organisation feel that they own the problem; and finally, loss prevention is embedded in the practices, procedures, processes, culture and strategic planning of the entire business. All three are intrinsically linked and vital to creating the organisational climate within which shrinkage management can be successfully fostered.



# Cultural Level Factors

# Cultural Level Factors



The previous section focused on the three fundamental elements which seem to underpin the approach adopted by all five of the case study companies. This section now focuses on the next layer of strategies that this research identified. They are a series of factors that can be directly influenced by the loss

prevention department and affect not only the way the business operates in general but also more specifically the way in which the shrinkage management team functions and interfaces with the rest of the organisation. They are: providing strong leadership; generating barometer management; prioritising people; prioritising innovation and experimentation; talking shrinkage; and emphasising procedural control.

## Providing Strong Leadership

Much has been written about the concept of leadership and what this means – some suggest leaders are born and not made, while other hold the entirely opposite view<sup>10</sup>. The purpose of this section is not to begin to enter this debate, but merely to reflect upon the qualities, attitude and importance of the role of the characters who provided leadership within the loss prevention teams in the case study companies. This is based upon personal interviews with each of them and with interviews with the staff who reported directly to them. Many of the characteristics present can be categorised under the heading of transformational leadership<sup>11</sup> and were not only particularly apparent in the case study companies, but would seem important more generally in the development and delivery of a low shrinkage strategy. These included:

- The ability to develop and communicate a vision that others can follow.
- The ability to manage people individually and understand the contribution they can make and therefore maximise the use of their particular skills and qualities.
- Ensure that staff are trained to challenge the status quo.
- Show genuine interest in their team.
- Recognise the importance of setting stretch goals to maximise team performance.
- Communicate clearly with each member of the team about how they contribute to overall business goals.
- Create a climate of trust that is perceived to operate in both directions (from the organisation and from the individual).

A number of other personal and professional attributes were also very apparent in those that were interviewed. First, all had a genuine passion for dealing with the problem of shrinkage; it was something that was undoubtedly important to them and came across in the way in which they discussed the challenges they face and their desire to succeed. Secondly, they exuded energy that was palpable in the way they talked about the problem of shrinkage and something which could be seen in the staff that reported to them. Thirdly, there was a high degree of commitment to the organisation and their loss prevention team. This was reflected in many ways, not least in ensuring that shrinkage was recognised by the Board and the rest of the

<sup>10</sup> See Bamfield, J. (2006) 'Management', in M. Gill (ed) *The Handbook of Security*, Basingstoke: Palgrave Macmillan, pp. 485-508; Bryman, A. (1999) 'Leadership in Organisations', in S. Clegg, C. Hardy and W. Nord (eds) *Managing Organisations: Current Issues*, London: Sage, pp.26-42; George, J. and Jones, G. (2006) *Contemporary Management: Creating Value in Organisations*, London: McGraw-Hill Irwin.

<sup>11</sup> See the edited collection by Avolio, B. and Yammarino, F. (2002) *Transformational and Charismatic Leadership: The Road Ahead (Monographs in Leadership & Management)* Volume 2, Oxford: Elsevier Science.



business as important, but also that their team got the support and rewards for meeting targets and delivering results. Fourthly, there was a real sense that the loss prevention leaders were offering direction and vision to the business and their team.

Creating strategic plans and yearly targets are undoubtedly the overt expression of these qualities, but it was more than this, it was a sense of trailblazing a path that others would want to follow

and help create. In this sense they were extremely good at creating focus and direction for the organisation on shrinkage. Fifthly, they all came across as team builders, who were willing to listen to the ideas and concerns of their staff, but also willing to fight on their behalf with the rest of the business to ensure that shrinkage remained on the agenda and was, where possible, given the appropriate prioritisation. Finally, there was a real sense that each of the heads of loss prevention had a considerable amount of experience of the problem of shrinkage. Their backgrounds and career trajectories were all relatively different, but each had accumulated an impressive degree of understanding.

Much of this was summarised by two of the respondents:

*'I never want to be a follower, I want to be a trailblazer and refuse to be second place on anything – technology, tactics, thought leadership, anything ....'*

*'It's about making bold commitments, engaging others about what is possible, and creating challenges, while giving people permission to step forward and contribute.'*

Whether these attributes and qualities can be made or not is not the purpose of this paper. What is important is that the people who were responsible for leading these organisations on shrinkage had some if not all of them. They provided direction that generated commitment from their immediate staff while at the same time acted as a respected conduit with senior executives in the company.

## Generating Barometer Management

One of the most revealing parts of the research process for this project was understanding how the case study companies went about collecting and using information to inform their strategic development and monitor the performance of the business in general and more specifically the stores and supply chain and their shrinkage management team. Traditionally, loss prevention departments have been seen as data desserts, bereft of information and relying upon anecdote and gut instinct to drive the shrinkage agenda<sup>12</sup>. Where other parts of retail businesses such as marketing, buying and store layout have for a long time been driven by the imperative to make decisions based upon detailed analysis of all available information, loss prevention departments have been operating with the bare minimum of data, which has often been incomplete, usually significantly out of date and for the most part incapable of measuring the real problems faced by the organisation.

In all five case study companies, the absolute importance of collecting and analysing a wide range of data was recognised and prioritised: 'The company philosophy is to rely heavily on data and shrink mirrors this and taps into all the existing data systems'. How this was done varied between the companies with some relying solely upon the broader organisational data sources to inform their work, while others did this and also had additional bespoke systems designed for their particular needs:

*'We try to build all our reporting into the POS [Point of Sale] ... [we] don't have a separate loss prevention database ... [we] cannot warrant a data mining package because the existing systems provide the data we need. [We] link into inventory and cycle counts – can measure shrink down to SKU [Stock Keeping Unit].'*

<sup>12</sup> Beck, A. (2002) Automatic Product Identification and Shrinkage: Scoping the Potential, An ECR Europe White Paper, Brussels: ECR Europe.

*'We have two sources of data – EPOS [Electronic Point of Sale] data to help us identify outliers and a store-based database where staff can enter incidents of shrinkage. LP staff also download incidents into the database – enables us to identify hot spots in real time.'*

All five companies relied extensively upon some form of system that enabled them to 'data mine' their electronic point of sale (EPOS) data. This was seen as an extremely important part of not only identifying incidents of deviance by store employees, but also providing a viable deterrence to staff. Data mining software has been available for many years although early incarnations of these systems were inflexible, difficult to programme and required high levels of computing power and memory storage. Today these problems have largely been resolved and they now offer loss prevention practitioners the opportunity to monitor transactional data in real time and quickly identify exceptional incidents at the till.

One of the companies in particular also highlighted the way in which they used inventory data to help them monitor the stores and keep a close check on the movement of goods:

*'LP own inventory management in the stores ... [we are] experts at receiving trucks, transferring products, all the processes around billing. That's what my team does. Data integrity is our job and not just shrink control. Got to do cycle counts – stay on top of all the data that tells me I have a problem. Understanding what the barometers are telling us. Accuracy in inventory is about 90 per cent. Get your hands dirty – go and unload a truck, follow stock through the supply chain. Make the processes evolve as the business evolves. Control what you can control.'*



This quote is instructive for a number of reasons. First, that LP clearly recognises the value of 'owning' inventory management, something which may not necessarily be seen by some as their responsibility. However various studies have shown the significant contribution process failure can make to the overall shrinkage figure<sup>13</sup>, and ensuring inventory accuracy can play a critical role in

reducing its impact. Secondly, that the loss prevention team are 'experts' in understanding the various steps in the movement of stock and are willing to go and get their 'hands dirty', again a skill perhaps not traditionally associated with people who are often seen as merely thief catchers. Thirdly, recognition of the importance of data integrity to the business as a whole and their responsibility for getting it right – the old adage of garbage in, garbage out is becoming even more pertinent as more data becomes available throughout the business.

What was also clear from all of the case study companies was that they not only prioritised the collection of data, but that they ensured it was analysed and used to guide not only the strategic planning of the company, but also the day-to-day work of the loss prevention team and store staff: '... keep a close eye on shrink ... weekly monitoring ... [we] watch the numbers very closely'. How this was done varied, but all continually stressed the importance of being guided by the numbers and not relying upon guesswork and hearsay. What was also stressed was the need for properly trained analytical staff whose exclusive role was to ask questions of the data:

*'We also have a shortage analytics team comprised of three people ... do deep dives on the data to identify trends locally and nationally. They [the analysts] are new – recruited in the last 10 months. Business was very supportive of this move because they recognised that it enabled them to understand the risk to the business much clearer.'*

<sup>13</sup> See Beck (2004) et al; and the regular Annual National Retail Security Surveys carried out by Hollinger and others, which also highlight the cost of process failures to retailers.



This respondent went on to explain why analysts were vitally important to ensure that the right people got the data that they needed and in the right format:

*'You ask for a drink of water and you go to a fire hydrant and you get blown away – you can have the data but what do you do with it – you can get blown away with it all. The challenge is training and developing people to match the speed with which the data and analytics element is moving along ... danger that the horse will get too far ahead of the carriage. Make sure the people are not blown away with the data – they can get a glass of water from the refrigerator rather than be blown away by the fire hydrant.'*

It cannot be underestimated the value all five of these companies placed on the role of collecting and analysing as broad a range of data as possible. It enabled them to move away from guesswork and intuition and adopt an evidence-based approach to decision-making. It created credibility with the rest of the organisation as it could see the 'evidence' for engaging with loss prevention on particular issues. It enabled them to identify trends and develop a more strategic approach to shrinkage management, and it provided a rich source of information to guide the loss prevention team and store staff in their quest to reduce shrinkage.

## Prioritising People

Any retail organisation can make substantial investments in systems, technologies and highly creative strategic plans, but without the right people who are properly motivated and trained to use and implement them, they will ultimately fail. Getting the right people engaged in shrinkage control was seen by all the companies as critically important. This was reflected in their approach to two broad areas: staff operating across the organisation and staff employed directly within the loss prevention team. The extent to which they could influence the former varied in degree, while for the latter all stressed the pre-eminence of getting a team that was multi functional, highly motivated and clearly focused on delivering the strategic plan. Detailed below is the approach of the case study companies in these two areas.

### Organisational Level

Much of the focus for the case study companies was on getting the right people in the stores as this was seen as the most vulnerable part of the business in terms of staffing and shrinkage. Three of the five companies particularly emphasised the need to create stability



in the stores and to try and reduce the churn and turn of managers. One had a strategy they called '216', whereby they tried to have stores where a manager had been in place for at least 2 years, an assistant manager for at least 1 year and supervisors for 6 months. This was seen as a key way to keeping store shrinkage low: 'these stores [the 216s] tend to have low shrink ... it's about stability in the store ... they get a chance to know the staff and the environment'. Similarly, other case study respondents reflected upon the need to keep the turnover of managers to a minimum as this was often a bigger determinant of shrinkage than the location of the store:

*'[we] believe it is all about the people and not where the store is located. Stop churning managers through high shrink stores – give them the support to deal with the problem. Our Los Angeles stores are an example of low shrink stores in difficult areas where we have stability in store management.'*

This approach was tied into a policy of listening to store staff to make sure that they were given the help that they thought they needed, subject to improved performance on shrinkage: 'listen to the staff and meet their needs, such as extra labor ... but we then expect them to show it made a difference'.



A number of the companies talked about the value of incentivising store staff although this was not a policy universal to all of them. One in particular had a policy whereby any reduction in store shrinkage was shared amongst all store staff, and this was seen as a particularly good way of keeping shrinkage on everybody's agenda. Other companies had tried out policies similar to this

but for a number of reasons had decided to move away from it for all staff (store managers tended to remain incentivised on shrinkage and sales).

Three of the five companies had relatively recently moved towards the use of pre-employment screening for all staff joining their organisations. This was seen as a valuable way of reducing their exposure to risk, particularly in the stores:

*'We have brought in a screening process for all staff ... [a] filter to help reduce the amount of poor staff coming into the business. We use the Esteem Database as well which eliminates some previously dishonest staff from entering the business. We have rejected 8,000 applicants so far .... Turnover has stabilised after introducing this system.'*

*'We use pre-employment screening to work hard up front to make sure that person really wants to be in the organisation ... they have a predisposition to service and selling ... that they are not violent and so on.'*

The Esteem database is national contributory data source where participating organisations share information on staff who have been dismissed and/or prosecuted for acts of dishonesty. It currently holds more than 14 million criminal records<sup>14</sup>.

The final area where the loss prevention respondents felt they had an impact on store staff was in education and training. Once again all five companies pointed to a range of ways in which they had developed programmes to ensure that store staff were kept aware of the current issues relating to shrinkage, and this was seen as important in building a 'culture of integrity' – a phrase that was used by four of the five companies.

## The Loss Prevention Team

Each of the heads of loss prevention spent a considerable amount of time explaining how they had gone about building their loss prevention team and the importance of getting the right people focused on the challenge ahead and playing to their particular strengths. This has already been covered to a certain extent in the previous section on providing strong leadership, however, a number of key themes emerged. First, all five companies stressed the importance of creating a highly multi functional team with a high degree of diversity:

*'Our approach to recruiting is based around diversity ... like to have people on the team whose experiences are not related to LP ... have people at director level who used to run a store, worked in operations, audit. [They] bring the gift of really knowing the business ... understand how stores operate.'*

*'We've developed a team that brings different skills to the table. Operations and HR [Human Resources] know how, supply chain experience.'*

*'Developed a multi faceted team that has a range of skills including those with responsibility for safety and risk management ... most are not ex policeman but have experience in retailing or marketing or long term LP.'*





While they all recognised that they undoubtedly needed some members of the team who could offer a 'policing' function, particularly in terms of interviewing and carrying out investigations, they were seen as but one part of a broader more multi-skilled team. Awareness and experience of the retail environment, especially stores and the supply chain were considered highly important

prerequisites for many of the posts within the loss prevention team. There was also a strong emphasis on staff who were capable of thinking beyond what were perceived as the traditional boundaries of loss prevention:

*'We are looking for staff with an enterprise wide mindset – operate with a big screen TV set in their head – capable of looking at multiple channels simultaneously. We want people who can see the entire field and know what their role is at any point in time to have an impact on the problem.'*

Some of the respondents had set up specialist groups within the loss prevention department to deal with particular problems. For example, four of the five had set up organised retail crime (ORC) groups to respond to this seemingly growing problem. In addition, and as mentioned previously (see Generating Barometer Management), the setting up of specialist analytical teams was also seen as a particular priority: 'we set up an analysts team to monitor data, dig into the data, carry out evaluations on new initiatives etc ... provide granularity to the data analysis'.

The final part of the picture was an emphasis on providing training for loss prevention staff and giving them the resources they need. This was seen as especially important in terms of retention and organic growth:

*'They [the loss prevention team] are well resourced ... I believe that people are critical to dealing with the problem. Training is a high priority for the AP [Asset Protection] staff – helps with retention of staff.'*

*'[It can be] tough to get the right people – best way to get them is to grow them organically – hire well at lower levels ... provide a good development programme ... more likely to get people who know the business and are well motivated.'*

These points were reinforced with interviews with a range of staff in the different loss prevention teams. The importance of being part of a team made up of people who brought different skills to the table was seen as highly beneficial. Access to training programmes was also seen as a key determinant in persuading staff that this was a good career opportunity and that the organisation valued their contribution.

Finally, a number of the heads of loss prevention stressed the critical importance of building a new team when they first joined the organisation, and how this, along with getting in place the mechanisms for barometer management, were the fundamental foundations for the success they had achieved in bringing shrinkage under control.

## Prioritising Innovation and Experimentation

As anybody who has worked in loss prevention will quickly testify, the threats faced by organisations are rarely static and unchanging. Indeed, the field of loss prevention accurately mirrors the modern retail environment which can best be described as dynamic, evolutionary and increasingly challenging. Retail organisations that do not innovate and adapt are highly likely to quickly become footnotes in the history of commerce. The five companies taking part in this study can all be regarded as success stories in the retail sector – they have all grown



dramatically both in terms of the size of their turnover and number of outlets, with some having many thousands of stores located across the US and in countries across the globe. Managing these rapidly expanding retail goliaths is undoubtedly a considerable challenge to those with responsible for distribution, sales and marketing. Arguably, it is even more of a challenge for those tasked

with securing them and ensuring that increased growth does not necessarily correlate with increased losses from shrinkage.

A key feature of all of the loss prevention departments studied in this research was their appreciation of, and commitment to, embracing innovation and experimentation. This often took the form of using cutting edge technologies<sup>15</sup>, but it also related to trying out new process and procedural approaches or a willingness to change strategies and think 'outside' the existing loss prevention box:

*'We are an aggressive innovator willing to try things out ... [we] are benchmarking worldwide. Trying to keep improvement moving forward through innovation. [Got to] keep reinventing yourself over and over – keep modifying what is hot and what is not as the bad guys move focus.'*

For some of the respondents, but not all, being at the cutting edge of technology was very important to them. They want to be trailblazers and early adopters so that they will remain 'ahead of the game'. Views varied of what technology they adopted and supported. The role of EAS was considered very variable although all five used it in some way or other. One of the companies had recently made a significant investment in source tagged EAS, moving away from a mixture of soft and hard tags to almost exclusively soft tags. They recognised that this had been a real challenge and it had impacted negatively upon their short term shrinkage figure. This was partly due to staff getting familiar with the new tags and the way they should be deactivated, but also the loss of the overt visible deterrence traditionally offered by hard tags. All five companies were quick to stress that while EAS had many limitations, not least because of the crying wolf syndrome (systems constantly being set off accidentally because of faulty tags, a failure to deactivate the tag, or exit gates being activated by non-tag devices or tags from other retail environments), they felt that it was important to be seen to be using it because virtually all other retailers had it – a sense that not having it would make them a 'soft' target on the high street. But they also agreed that their shrinkage strategy should not stand or fall on one approach (be it technological or otherwise) but that it should be seen as part of a broader multi faceted approach where a combination of 'solutions' were used to meet the challenge.

All five companies made use of Closed Circuit Television (CCTV) although again, its coverage, type and purpose varied significantly. None felt that its sole purpose was necessarily to catch incidents of shop theft, indeed maintaining a monitoring presence was unrealistic for some of the case study companies given the size of their stores and the limited presence of security staff. There was consensus that it did have a powerful role to play in ensuring that stores were perceived to be safe and that the organisation was acting responsibly in trying to ensure the safety of staff and customers in and around the shopping environment. One of the respondents noted how they used CCTV:

*'Primarily use CCTV for safety – not a lot of shrink reduction with CCTV. It is good for procedure compliance and exception reporting which can impact upon shrinkage ...remote monitoring is used to check on compliance.'*

<sup>15</sup> For a review of security technology see: Smith, C. (2006) 'Trends in the Development of Security Technology, in M. Gill (ed) The Handbook of Security, Basingstoke: Palgrave Macmillan, pp. 610-628.

In terms of radio frequency identification (RFID) technologies all were very aware of its potential and some had carried out limited trials, but there was a sense that at the moment a watching brief was all that was necessary: 'keeping an eye on RFID at the moment – it is not affordable at the present time'.

While three of the five were highly committed to being early adopters of technologies, all five recognised the value of performing experiments and undertaking relatively rigorous evaluations of newly introduced interventions to ensure that future roll out decisions were based upon good quality test data. This links back to an earlier section on barometer management and the belief in having high quality data to inform decision making. These companies were very willing to innovate and experiment, but they also wanted to make sure that the impact of this was carefully measured and evaluated.

## Talking Shrinkage

A thread that runs through virtually all the other aspects mentioned in this report is the need to communicate about shrinkage, be it with store staff, the loss prevention team, supply chain logistics or the CEO; keeping the organisation informed is a vital part of an effective shrinkage strategy. The five companies taking part in this study recognised this and had developed a series of mechanisms to achieve this, which can be categorised under a number of different types of communication. The first is the need to generate awareness of the problem of shrinkage, particularly with store staff who may have just joined the organisation. This was done in a number of ways such as with videos and specific shrinkage information as part of the staff induction programme. Awareness was also created through the use of newsletters (one company had the wonderful title of 'shrink rap' for their newsletter), notice boards in staff areas, regular campaigns and focus days, competitions and so on. The degree of innovation amongst the companies was very high in terms of trying to keep the company aware of the problem.

Secondly, the loss prevention team communicated information about shrinkage to influence decision-making in other parts of the organisation. This would often take the form of regular statistical updates on the extent of shrinkage and the way it is impacting on particular parts of the business. For instance, store planners may be provided with information on levels of shrinkage as they affect particular types of product, while broader trend data might be shared with the Board.

Thirdly, the companies communicated about shrinkage to direct and steer the work of particular specialist teams for instance regional loss prevention staff, auditing teams, ORC groups and so on. This might take the form of comparative data or information about specific incidents that need further investigation. The use of bespoke databases for this purpose was used by some of the companies which enabled staff to access the data directly and run reports specific to their particular needs. One respondent described this process:

*'We have monthly reports for the management team ... [we] have empowered regional loss prevention managers to use the system and run their own queries ... developing an EIS report [External, Internal and Safety] that examines the risk of each store and*





*develops an index for each store. It [EIS index] enables us to compare stores and allocate resources – this data is viewed by store managers as well.'*

The link between barometer management and communication about shrinkage was clear and explicit in all the companies. The sense that there is no point in collecting high quality fine grained data if it is not subsequently communicated to those that can use the information to help

them impact upon the problem was very apparent. There was a sense that creating strategies and conduits to talk about shrinkage with the rest of the business was a priority and that it required innovation and energy to sustain it. It was also linked very closely with the process of embedding shrinkage management into the culture of the business. For instance, one respondent offered an interesting example:

*'Every day the manager of the store gets the staff together for a huddle to discuss the things that are happening. We make sure they have information in the right format at the right time so that they can keep staff up to date with their shrink problems and give them some direction. It's a good way of keeping shrink on the agenda and making the staff keep thinking about it.'*

For this company it was simply a case of making sure shrinkage was on the agenda for the store huddle and also that the manager had timely data made available to them about what was happening specifically in their store.

So establishing and maintaining a series of mechanisms and methodologies by which shrinkage was communicated throughout the business was an important part of the overall strategy of these companies. They recognised the absolute value it could bring to keeping staff informed and aware of the problem, which in turn acted as a mechanism for creating focus and deterrence. They also highlighted the need to communicate with the rest of the business to try and influence the decision-making process as well as the need to steer the work of the staff directly employed by loss prevention. Keeping people thinking about shrinkage is not easy – it can quickly slip down or off the agenda – creating innovative and embedded means of communication is extremely important in ensuring that any organisation remains fully aware of the value of focussing on loss prevention.

## Emphasising Procedural Control

The final part in this section focuses on the way in which each of the case study companies emphasised the importance of ensuring that procedural control was a high priority. The link between high levels of shrinkage and poor processes and inconsistent procedural compliance has been recognised in a number of recent studies<sup>16</sup>. Indeed, poor processes and procedures can be seen as a significant opportunity enhancer for deviant staff and dishonest customers. Staff in particular can quickly become aware of the opportunities that are presented for theft when parts of the organisation either no longer function properly, or existing processes become out of date or comprised by changes in the way in which the company operates. For instance, lax stock control processes can be exploited by staff who want to steal goods, while till operators who want to steal cash could be facilitated by managers no longer checking the level of cash in the till at the end of a particular employee's shift. Either way, the way in which the business is organised and operated can have a significant impact on the extent to which losses can occur, the likelihood of the incident being discovered in a timely fashion, and the ability to identify the perpetrator. Getting the balance right between sales and security – service and control – was highlighted by all the companies:

<sup>16</sup> Beck et al (2003) op cit.





*'[There is] a delicate balance between good service and proper amounts of control in your supply chain. Controls must compliment the service requirements of the business. Big priority is putting controls in place ... [this is] why it is important to have a diverse team because you have people who like doing auditing and examining processes. You can never apprehend your way out of a shortage. Cannot recover from a collapse in operational discipline – it is like the spine of the business breaking – all of a sudden we can't walk, we can't get motor function.'*

As can be seen, this respondent recognises the absolute value of having robust controls that are fit for purpose and compliment the overall functioning of the business. They also reinforce an earlier point about the need to build a loss prevention team that is multi faceted. Another respondent noted how poor process adherence could be an indicator of a greater underlying malaise:

*'[We] emphasise the importance of getting shrinkage right – poor process adherence tells you something else may be going on as well. Senior management has signed in to this.'*

Another company explicitly stated the importance of making sure that procedures were followed: '[name of retailer] is focused on execution above anything else', while another used stock control procedures:




*'They [store staff] track all the units as they come in to the store ... check all the boxes as they come into the store. [We] have good data to check what stock should be in the store. Organisationally, [name of retailer] is very strong on process and have reduced failures to a minimum.'*

So the final part of the second tier of factors identified in the case study companies was their strong belief in making sure that the company not only had robust and well designed processes and procedures, but that there were clear and auditable mechanisms in place to monitor the performance of the stores and the supply chain in adhering to them.

This second section has focused on a range of factors that can be seen as more or less under the direct control of the loss prevention team. The importance of a strong leader who can provide direction, focus and commitment; the development of a series of mechanisms for measuring the way in which shrinkage impacts upon the business; the need to get the right people involved within the business and the loss prevention team; the value of being innovative and willing to experiment, the importance of communicating about shrinkage; and ensuring processes and procedures are well designed and followed by all staff within the organisation.





# Operational Level Factors

# Operational Level Factors

The final theme identified by this research was the emphasis upon empowering the stores to take responsibility for their own shrinkage management, in particular the managerial level staff within the outlets.

## Creating Store Management Responsibility



The 2005 ECR Europe shrinkage survey identified that over 75% of all shrinkage occurred in stores, perhaps not surprising given that this is the place where customers are allowed to interact with the product and staff have the greatest degree of autonomy and latitude in what they do and how they do it<sup>17</sup>. For all the companies taking part in this study, the scale of their retail operations was breathtaking

– many thousands of outlets scattered across an enormous geographic area employing tens of thousands of people. Keeping direct centralised control of such giant retail colossus is unrealistic on a day to day basis. These organisations rely upon the fact that for the most part the routine monitoring and control of all retail functions, including shrinkage management, is delegated down to store teams. All five case study companies identified the importance of creating the right framework for ensuring that store management and their staff take responsibility for monitoring and controlling loss prevention at the micro level (the store): '[We] believe that the leadership in the stores is critical [to sustaining low shrinkage] together with clear rules and roles and appropriate rewards'. Another respondent identified how their role (loss prevention) was very much to support and guide the store staff in what they were doing:

*'Store managers execute the plan at store level. Every day they have a meeting with all staff and shrink is a standing item. They have weekly data in shrink and talk to staff about this. We also monitor the numbers as well. We post the numbers on shrink in the staff areas. Field LP teams talk to managers and provide training, but it is very much hands off – give them the numbers.'*

Another respondent highlighted the need to provide support to store managers to control shrinkage, particularly those that might have above average levels of loss:

*'Managers in "target" stores<sup>18</sup> get increased training. [There is] heightened expectations that they will follow procedures etc. I have seen too many stores in horrible areas have fabulous shrink levels – what was the difference, it was the management's level of engagement.'*

<sup>17</sup> Beck (2004) op cit.

<sup>18</sup> 'Target' stores refer to those outlets that have above average levels of shrinkage. In other companies they are often referred to as hot stores. For further information about the hot store phenomenon, see Beck, A. and Chapman, P. (2003) Hot Spots in the Supply Chain: Developing an Understanding of What Makes Some Retail Stores Vulnerable to Shrinkage, An ECR Europe White Paper, Brussels: ECR Europe.



While creating support for the store management team was seen as important, for some of the case study companies there was also a clear sense of creating a climate of responsibility through potential sanctions: 'a store manager knows that they can get sacked if they don't take shrink seriously – two over budgets and then they are in real trouble'; 'store managers are held directly accountable for their shrink, they are bonused on shrink'.



So the case study companies recognised and prioritised the training and support of store staff to deal with the problem of shrinkage on a day to day basis. For some companies this included having a visible security presence in the store, such as a security guard or a loss prevention operative. But what was seen as critical was getting store management to 'buy in' to the shrinkage plan and to ensure that they became the devolved representation of the loss prevention department. All the companies were also united in creating mechanisms by which the store manager was sensitised to the problem particularly through incentives (bonus schemes) and potential sanctions (possible termination of employment). In a minority of cases this approach was adopted for all the staff in the store, and not just the store managers.



# A Difference of Opinion



## A Difference of Opinion



As can be seen from the preceding sections, there was a remarkable degree of consensus among the five case study companies, indeed the identification of the 10 thematic areas was relatively straightforward. However, there was one key area where one of the companies was completely at odds with the other four, to the extent that it is worth mentioning in this report. This was concerned with retail organised crime (ORC). There has been considerable

coverage of this issue in the US in the past few years, to the extent that lobbying of legislators is currently underway to try and get changes to the law to bring in a specific offence of ORC. Estimates vary widely on the cost of this to the sector and indeed what actually constitutes ORC. Four of the case study companies taking part in this study had established ORC units to respond to this problem, with one organisation having as many as 25 people working on this across the US. Another was heavily involved in training police departments to help them respond to ORC while another had established a sophisticated forensic laboratory, which was frequently used by the local police. One respondent had a clear view on this issue:

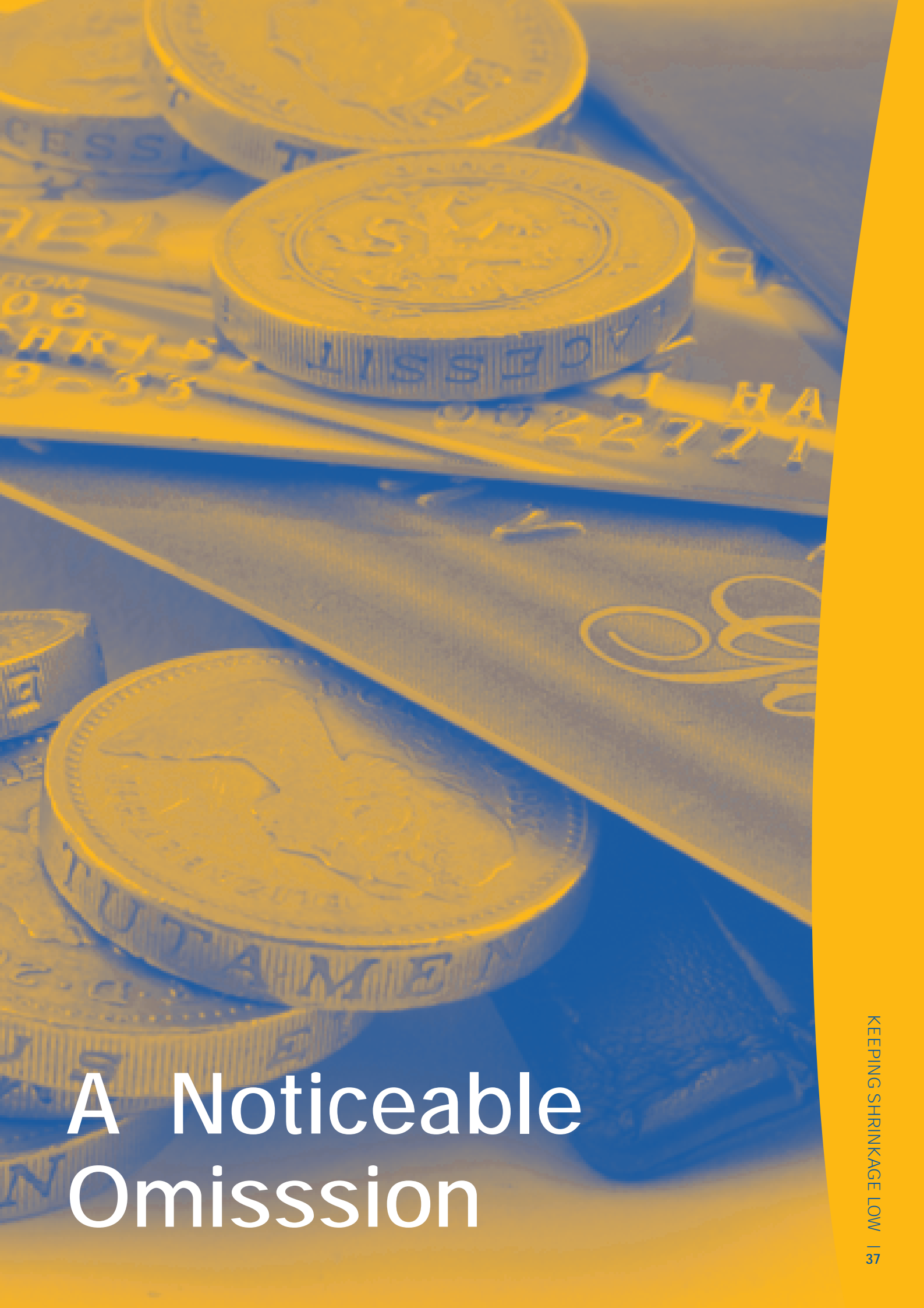
*'We do have an organised retail crime function. We reckon it costs more than internal theft. We have seen with our new flow products [the next season of items] that offenders turn up very soon after launch. We make sure the stores are prepared for higher loss when new flow goods are coming in. We have been analysing data to suggest where offenders will hit next.'*

However, one company disagreed with this approach and felt that the problem of ORC had been overstated and that the extremely involved and elongated joint retailer/police investigations that this entailed were not something that they would or should be involved with:

*'In Loss Prevention, we tend to search for ways to prove that we are adding value to the organization. ORC is the newest attempt to add value in my opinion. ORC has been in retail for years and I would simply describe it as external theft. Why would I spend my resources on a dedicated team when it is one aspect of the overall program which I do not see as the top priority. I am going to spend my resources on things we can control and I do not see that ORC is in my control. I know that we are impacted by these groups, but if we take care of the people and the processes, ORC will likely not be the top factor in putting a store or Company over budget in shrink. We spend very little time on ORC today and I do not see this changing anytime soon.'*

It could be that this retailer has a product range that was not prone to the types of theft suffered by the other four companies, although they certainly stocked high value, easily concealable and re-saleable goods. For this retailer, their focus was exclusively on what they felt they could control within their own environment (the stores and distribution network). To spend time and money on anything else was seen as a waste of effort and resource.

This is not an issue that can be resolved in this report, indeed it was never the intention. But it is worth flagging up as an issue that warrants further critical research as it was the only area where the five companies did not have a degree of consensus.



# A Noticeable Omission

## A Noticeable Omission

When this project was first being designed, it was partly premised on the findings from the ECR Europe 2004 shrinkage survey, which found that there were a number of indicators that seemed associated with the retailers who were reporting low levels of shrinkage. These were: incentivising staff on shrinkage; prioritising the problem; having a written company policy on shrinkage; developing high levels of intra-company cooperation; conducting regular shrinkage reduction projects; and using the ECR Europe Road Map. Apart from last category, which is a European-specific initiative, the five companies taking part in this project possessed all of these characteristics. However, further ECR Europe work has identified the importance of inter-company collaboration in tackling the problem of shrinkage, particularly between retailers and their suppliers. Numerous case studies have been completed under the auspices of the ECR Europe Shrinkage Group which have documented the successes of this approach, particularly relating to product and packaging design, supply chain logistics, data sharing and problem identification, and technology-based solutions such as source tagging and RFID<sup>19</sup>. As part of this study each of the companies were questioned on the extent to which they collaborated with other organisations when dealing with the problem of shrinkage.

Across the board, all the companies identified this as a real weakness and quickly recognised this as an area where they could be doing much more. Two respondents had made an attempt to deal with some of their suppliers but with mixed success. One of the key issues has been around source tagging and the apparent reluctance of suppliers and manufacturers to accommodate the needs of the retailer:

*'... had some success with suppliers but not others. Pushing source tagging with games suppliers. 70% of product is source tagged. DVD/CD suppliers have been co-operative but not the gaming sector.'*

Another identified the problem as partly to do with a reluctance by manufacturers to deal with single retailers rather than representative associations or groups of retailers:

*'Think that you often have to combine with other retailers before a supplier will begin to listen. Need to have a dialogue with them, try to take steps ahead of time of product launch.'*

The latter quote is particularly interesting as new product launches can often be a vulnerable time for shrinkage as illicit demand can be high, promotional displays can make stock even more vulnerable, and staff can be unused to dealing with the new items. New product launches would seem an ideal opportunity for retailers and manufacturers to work more closely together to reduce potential risk in advance of launch while not compromising sales.

This is certainly an interesting area and again, worthy of further investigation. It would be interesting to look at whether particular manufacturers would be willing to work more closely with US retailers along the lines of the work described in the case studies undertaken by the ECR Europe Shrinkage Group. This could perhaps be focused on the launch of new products and how they are designed, marketed, transported, displayed and protected in the retail environment. Certainly the view from the five case study companies was that this was an area where they should and hopefully would be doing much more in the future.

---

<sup>19</sup> Beck et al (2004) op cit.

# Summary



# Summary



For retail loss prevention practitioners across the globe, trying to find the 'best' solution to tackling the perennial problem of shrinkage has been a long and largely frustrating journey. Partly they have been victims of retail organisational cultures that have seen them as an inevitable yet regrettable part of doing business<sup>20</sup>. This has caused them to be perceived as peripheral to the core activities of the

organisation and primarily responsible for arresting thieves and installing alarms. But they have also been makers of their own destiny with a penchant to be seduced by technology providers offering yet another quick fix technological panacea to the problem of stock loss. In addition, until relatively recently they have largely operated in a data desert, often making decisions based upon gut instinct and guess work rather than solid data and informed analysis. Finally, the loss prevention world has traditionally looked to the military and police for recruitment, leading to generations of managers who are more adept at adopting a reactive rather than proactive approach to the problem, and feel more comfortable trying to catch thieves than analysing whether retail processes are fit for purpose and designed to maximise sales and minimise losses.

Despite all of this, there have been some companies that have bucked the trend and become particularly successful at keeping their losses well below what the industry identifies as the norm. These 'success' stories can be found in most retail sectors around the world and their representatives can often be heard making presentations at loss prevention conferences and seminars highlighting particular approaches and shrinkage 'solutions'. While this is invaluable in itself and the industry can undoubtedly learn from this, rarely do you get a sense of the broader picture of how these companies have organised themselves and managed to make shrinkage a priority for the business. This piece of research has set out to try and synthesise in a more systematic fashion the traits, approaches, methods and perhaps more importantly, the organisational culture of these high performing companies. It is based upon detailed case studies with five of the most successful US-based retail companies, which were selected by a panel of 'experts' with detailed knowledge of the loss prevention world.

This research has identified 10 key areas that were found to be present in most if not all of the case study companies which can be associated with their above average performance on controlling shrinkage. It is possible to group them into three key factors: strategic, cultural and operational.

## Strategic Level Factors

The bedrock for the success found in these companies was their ability to create, sustain and embed an organisational awareness of, and commitment to, dealing with the problem of stock loss. This started at the very top of the company with senior management being fully committed to the concept of loss prevention being an important priority for all parts of the organisation. How this commitment was achieved varied between case studies, although the impact of a 'tipping point' or moment of crisis concerning shrinkage was clearly very important for some of them in gaining the attention of the Board. Without this level of commitment, the rest of the business will not be persuaded that shrinkage matters nor will the loss prevention department receive the mandate or resources necessary to implement new approaches to tackle the

<sup>20</sup> For an excellent review of how loss prevention departments can be viewed see: Challinger, D. (2006) 'Corporate Security: A Cost or Contributor to the Bottom Line?', in M. Gill (ed) *The Handbook of Security*, Basingstoke: Palgrave Macmillan, pp. 586-609.





problem. What was particularly clear from all the case study companies was the extent to which the senior echelons of management had been persuaded of the contribution effective shrinkage management can make to the overall profitability of the company.

The second strategic factor was the way in which the case study companies had developed mechanisms to ensure that all parts of their organisations were persuaded to take ownership of the problem. To paraphrase one of the respondents in this

research: 'I can't think of any part of the business that shouldn't be thinking about shrinkage'. This is a particularly important point as many organisations have traditionally viewed their loss prevention departments as the sole arbiter on all issues relating to security and shrinkage. What was interesting about the case study companies was that they often viewed themselves more as advisors on shrinkage to other parts of the business (particularly the stores), which would then take responsibility for operationalising that advice. This seems a far more realistic and sustainable approach given

the limited resources available within most loss prevention departments. But it is also based upon the obvious reality that without sustained commitment to address the problem of shrinkage from across a company, then so called solutions will remain piecemeal, partial and largely unproductive.

The third strategic factor was ensuring that this organisational commitment was embedded within the business practices, policies, procedures and strategic thinking. Each of the case study companies had examples of how they had formalised a commitment to tackling shrinkage from all parts of the business. For some this took the form of creating SOPs for departments to follow, for others it was about getting shrinkage as a standing item on agendas across the board. Either way, the case study respondents stressed the importance of this embedding process otherwise the potentially ephemeral nature of organisational commitment would quickly become apparent. Getting people to not only think about shrinkage but to take responsibility for it was a recurring theme in all of the companies taking part in this research.

Without these three strategic level factors it is clear that any form of loss prevention approach will founder on the rocks of diffidence, marginalisation and under prioritisation. Getting a broader organisational framework that is conducive to taking loss prevention seriously is an absolute imperative. The key to this is ensuring that senior management are attuned to the benefits of putting shrinkage high up on the agenda, and making sure that the rest of the business realise it is something that must be addressed as part of their overall responsibilities.

## Cultural Level Factors

The second group of identifiable themes from the case study companies related to the way in which the loss prevention department influenced the functioning of the business through: strong leadership; the creation of high quality data and data management systems; ensuring that the right people worked within the business as a whole and more specifically within the loss prevention department; the prioritisation of innovation and experimentation; keeping shrinkage on everybody's agenda through various communication strategies; and emphasising the importance of procedural control.

What was striking about all five of the heads of loss prevention that agreed to take part in this study was a sense of their ability to offer direction and leadership to their respective teams and more broadly across the organisation. As mentioned in the previous section, gaining the support of senior executives is vital to a successful shrinkage strategy, and the role of the heads of loss prevention in attaining this support should not be underestimated. What was also apparent was their genuine passion for the subject, and their desire to be pathfinders in the world of security management.



They were also very good at creating effective loss prevention teams and this was another key component of these companies. Creating a multi-functional team was apparent in all five loss prevention departments. Undoubtedly they saw a role for the traditional former 'police/military' personnel, but this was seen as a small part of a much more cosmopolitan team that incorporated staff with experience in operating stores, working in

the supply chain, experts in auditing and so on. For a majority of the companies taking part in this research, this multi-faceted approach to teambuilding was necessary in order to address the complexities of shrinkage within modern retail companies, and recognition of the range of vulnerabilities that exist across supply chains. Loss prevention was not just about catching thieves, it was also about ensuring that stock arrived on time, at the right place and at the right price.

Prioritising people could also be seen in the way in which the loss prevention team influenced the selection and training of company staff more generally, but particularly in the stores. Once again a range of strategies were adopted, including pre-screening, use of external databases to identify previously dishonest retail staff, and innovative training strategies. What was also very clear was the appreciation of the need to try and create a sense of stability within the stores, particularly at the management level. Churn and turn of managers has been seen as a factor in explaining why certain stores in a retail estate have higher levels of loss than others (hot stores)<sup>21</sup>. The thinking goes that if a manager has the time to understand the local context and get to know the store staff, then they are able to respond more effectively to the particular shrinkage challenges present in that environment. A common strategy used by most of the case study companies was to incentivise staff to take the problem of stock loss seriously. For one of the companies this meant all store staff shared a portion of any savings they made on shrinkage in their store. For the majority of companies taking part in this study, incentivisation was on the agenda for loss prevention staff and store management. A key message from these companies was getting the right people and ensuring that they were well motivated and trained to deal with shrinkage.

Another key factor within this group of 'cultural' themes was the way in which the generation and analysis of data was prioritised by all the companies. The need to be led by numbers and not by intuition was a clear message. How this was achieved varied between the companies, but all had invested heavily in ensuring that they could not only monitor the rate and extent of shrinkage at a highly granular level (almost always SKU level), but also that they could analyse data to seek out trends and deviant behaviour (usually through some form of data mining technology or software). What was particularly interesting was the way in which the loss prevention teams relied extensively upon inventory data to monitor performance in the stores – tracking the movement of goods was seen as an important part of their work. Finally, they had all invested in employing data analysts to get the most out of the available data and to ask 'difficult' questions and perform 'deep dives' on the data. Again, this was vitally important in enabling the loss prevention teams to move away from decision making based upon guesswork and intuition and move towards a more evidence-based approach.

The prioritisation of a culture of innovation and experimentation was also very apparent in the case study companies. These are organisations that are not afraid to try new approaches and technologies if they think they will help to tackle the problem of stock loss. Indeed, most of them wanted to be seen as trail blazers and thought leaders in this field. All were using a range of technologies, including CCTV, EAS, remote monitoring, data mining packages and so on, although most recognised that they were not the fabled loss prevention panacea but merely

<sup>21</sup> Beck and Chapman (2003) op cit.

tools to be used in the battle against shrinkage. All were clear that any new intervention needed to be carefully piloted and measured before any subsequent decision on estate wide roll out was made. The ethos of innovation and experimentation was not only focussed on technologies – the case study companies were also very willing to look at new processes, procedures and practices both within the stores and more broadly within the supply chain if they thought they might improve the way in which the company operated. There was a strong realisation that retailing in general and loss prevention in particular is not a static environment – it requires a company to be constantly evolving to meet (and hopefully stay ahead of) new challenges as they arise. Having a culture that positively encourages innovation and experimentation was seen as a vital part of this process.

The penultimate theme in this section looked at the importance placed upon communication strategies by the case study companies. All five had developed a range of methods by which the company as a whole was kept informed of the way in which shrinkage was not only affecting the business, but also the opportunities for different parts of the organisation to be part of the solution. How this was done varied tremendously between the companies, but the overarching need to raise and maintain awareness was striking and clearly apparent. The loss prevention teams were also very good at using communication to influence different parts of the business, particularly through the provision of statistical data on a regular basis. This significantly helped a range of functions such as stores, merchandising, logistics and so on to adjust their approach to particular processes, procedures or products, and was also a key part of the institutional embedding of shrinkage (as discussed earlier). Keeping shrinkage on the agenda can be a real challenge, especially when other priorities emerge and interest begins to wane. All the companies taking part in this study recognised the need to keep innovating to ensure the shrinkage message continued to be heard across the organisation.

The final component in this section was the way in which the case-study companies emphasised the importance of procedural control. Very often issues of process and procedural compliance can be seen as a non loss prevention issue – something to be dealt with by logistics or store operations. However, the impact of process failure on a business can be profound and costly<sup>22</sup> and the loss prevention teams taking part in this study all recognised the need keep it high on their agenda. Partly this was achieved by ensuring that the loss prevention department was made up of a multi-faceted team, so of whom had detailed experience of how stores and the supply chain operated, but it was also done by keeping a close watch on the inventory data and looking for signs of deviance or lack of compliance.

This second group of 'cultural' factors that have been identified within this study are broad ranging in nature, but they are only possible if the organisational factors listed above are in place. It would be difficult for a loss prevention team to achieve them without the commitment of senior executives, the realisation by the rest of the company that shrinkage matters, and the embedding of loss prevention into the fabric of the business.

## Operational Level Factors

The final theme that emerged from this work was the importance of empowering store staff to take responsibility for dealing with the problem of shrinkage. The scale of most retail concerns is breathtaking – tens of thousands of SKUs being distributed on a daily basis by a similar amount of people to thousands of retail outlets. Keeping control of this is impossible unless clear processes and procedures are in place and responsibility for ensuring adherence to them is delegated to supply chain and store staff.

The companies taking part in this study recognised how critical it was to make sure that store staff in particular were given the data, training and support to be able to deliver and maintain the strategic plan on shrinkage control developed by the loss prevention team. Partly this was achieved through incentivisation (staff bonuses be predicated on shrinkage performance) but also through a process of responsabilisation enforced with potential sanctions (managers losing

---

<sup>22</sup> See reference 13.

their job or being demoted). Either way, the case study companies had created an environment where operational managers (particularly store managers) were expected to take responsibility for the day to day monitoring and control of shrinkage.

## Concluding Thoughts

As mentioned in the findings section, there was one area where there was considerable disagreement amongst the five case study companies – the issue of organised retail crime (ORC). For one of the companies this was perceived as something they neither recognised as a concern to their business nor felt they should be putting any resource into whatsoever. It was simply felt to be beyond their sphere of influence and that their work should be focused



on elements that they could directly affect within their own business. The other four companies felt very different about this issue and were allocating considerable resources to tackle this problem. The purpose of this research is not to enter this debate but to merely note that a major difference of opinion existed on this issue. It is undoubtedly the focus of much attention within the US at the moment although the extent to which it is diverting resources away from core but

perhaps seemingly more mundane loss prevention activities is a moot point and worthy of further research.

Also noted within the findings was what the researcher considered to be a notable omission based upon his research and experience in Europe. That was the area of inter-company collaboration, or rather the lack to it. All five case study companies were asked about the extent to which they collaborated with manufacturers and suppliers on the problem of stock loss and for the most part this was seen as an area where they could do better. Certainly in Europe, particularly through the auspices of ECR<sup>23</sup>, there have been a number of significant case studies showing the value that can be achieved in lower levels of loss and increased sales through adopting a collaborative approach to problem identification and solution development and implementation. This may be an area of focus for the future in the US loss prevention community.

This research set out to identify what it is about certain retailers that enable them to be consistently regarded as 'best in class' when it comes to controlling shrinkage. It has identified three interlinked group of factors that characterise their approach: the absolute necessity of having a strong organisational commitment to recognising and responding to the problem; a range of cultural factors that create the environment for delivering low shrinkage; and the operationalisation of a shrinkage plan across the company. The first enables the second which then creates the third.

Whilst it was never the intention of this research to create an operational 'plan' for reducing shrinkage in US retailing, it is hoped that it will at least stimulate debate and perhaps offer a framework that will enable others to learn from those who seem to be getting it right.

<sup>23</sup> For further information on ECR Europe visit: [ecrnet.org](http://ecrnet.org).

# Effective Retail Loss Prevention 10 Ways to Keep Shrinkage Low

**Adrian Beck**

Reader in Criminology  
Department of Criminology  
University of Leicester  
154 Upper New Walk  
Leicester LE1 7QA UK

**Telephone:** 44 [0]116 252 5702

**Fax:** 44 [0]116 252 5992

**Email:** [bn@le.ac.uk](mailto:bn@le.ac.uk)

**Website:** [www.le.ac.uk/criminology/](http://www.le.ac.uk/criminology/)