



White paper

Shrinkage and Loss Prevention: Evidence from the Global Retail Theft Barometer

(This is an updated version of the White Paper published in September)

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This paper draws together some ideas about shrinkage and security (loss prevention) spending produced along with the tenth Global Retail Theft Barometer (GRTB).

About the GRTB

The Barometer has grown from a study of 15 countries in 2001 to 42 countries with combined retail sales of US \$7,903,093 million (\$8 trillion) in 2010. It is a study, by country, of shrinkage and crime losses, the costs of loss prevention, and the methods used to inhibit crime and fraud. It includes what was originally called the *European Retail Theft Barometer*, now a chapter in the GRTB. Many people think that the most recent ERTB was 2007 (too much Google-watching seems to be the culprit). In fact it still exists in this new format, which has been valuable in showing trends in crime, shrinkage and loss prevention and drawing the attention of commentators and the wider public to retail crime issues.

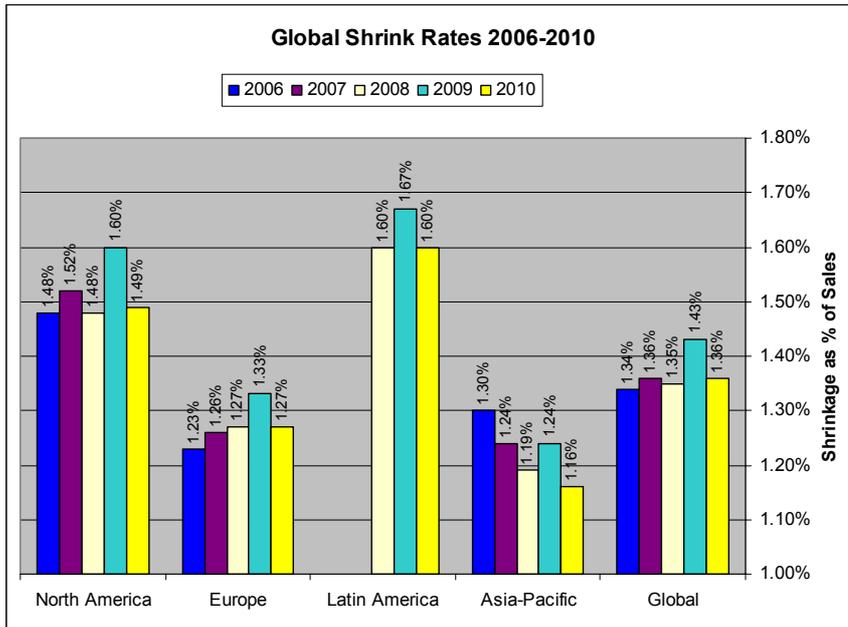
GLOBAL SHRINK RATES

Figure 1 shows how shrinkage rates have fluctuated since 2006, using the GRTB run of data. Latin American data is only available for 2008 and Middle East/Africa is excluded as it has been part of the study for only a couple of years.

In the last five years, shrink rates in North America have had a 'floor' (or minimum level) of 1.48% to 1.49% of sales, but there have been upward spikes in 2007 (to 1.52%) and in 2009 (to 1.60%).

Europe, as will be discussed in the next section, shows a five-year 'wave' from 1.23% in 2006 to 1.33% in 2009, and a drop to 1.27% in 2010. Shrink in Asia-Pacific seems to be marked by a downward trend in the average shrinkage rate from 1.30% in 2006 to 1.16% in 2010, with a discontinuity in 2009 when shrink spiked to 1.24%. There is insufficient data to comment on Latin American experience except to note the spike in 2009 in common with retailers in every other region.

Figure 1



In Figure 1, therefore, we see different regional levels in shrink rates and different trends over a period of time. The results by country vary even more significantly, which means that we cannot really talk in terms of 'a normal' pattern or rate of shrinkage affecting all retailers in all countries.

EUROPEAN SHRINKAGE RATES: A RETROSPECTIVE

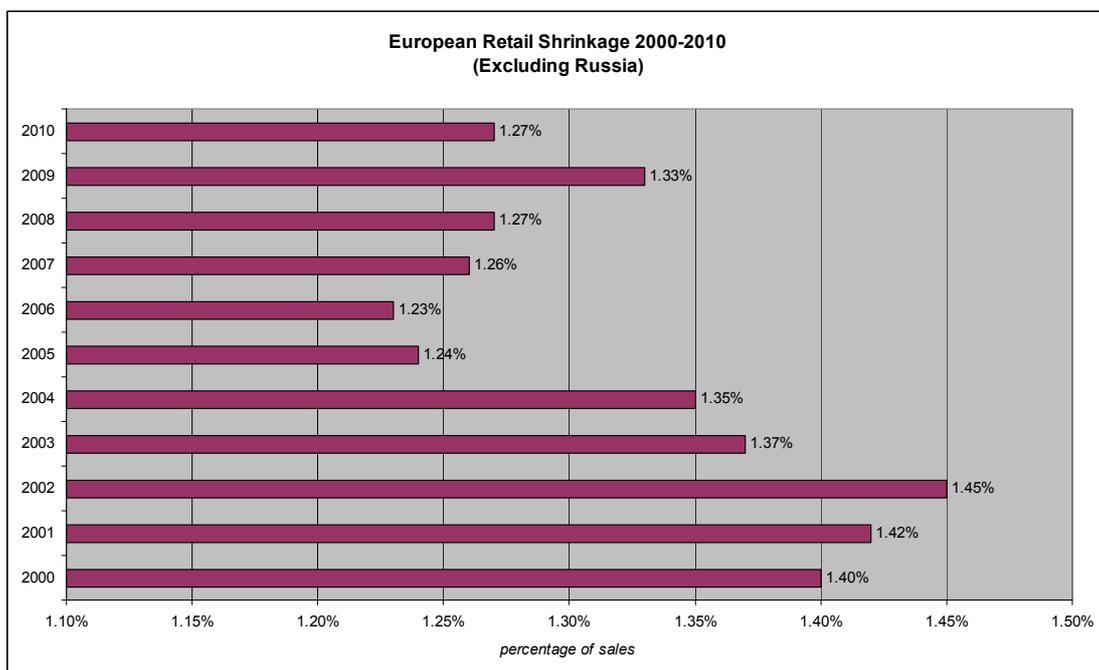
We now have eleven years of data for Western Europe (including the 2000 figures collected in the 2001 survey). Figure 2 shows the average shrinkage rate in Western Europe as a percentage of sales for the period 2000 to 2010. It would have been preferable to have included a much wider range of countries, but we only have full data for a decade in Western Europe.

It is possible to ascertain three main patterns, although there may be others.

1. Average shrinkage rates have fallen between 2000 and 2010 in Western Europe from 1.40% to 1.27% (Figure 2). This is good news and it is produced by the efforts and imagination of retail loss prevention departments and the investment in lower crime that retail businesses have made over the years.
2. The second pattern we see consists of five-year cycles; a two or three year increase in average shrinkage, a peak rate which may serve to highlight the importance of loss prevention to the retail corporation, followed by a sharp decline to much lower rates. The peak years of shrink, based on the 10 years of this study, seem to be periods of lower economic activity, although as noted in GRTB 2009 this can only explain part of the growth in shrinkage.

- The third pattern, which we see only in the raw data, is the variation between retail corporations. Even when percentage shrinkage rates are rising apparently universally, there are always between one-quarter and one-third of retailers that stand apart from this trend because their shrinkage falls or at least remains stable. There may be a number of reasons for this: good long-term strategy, superior management, consistent funding of loss prevention, good training and recruitment, an open approach to innovation, well-considered investment programmes, good fortune - or all of these – but the point is that for a proportion of retail corporations there seems to be nothing inevitable about the ebbs and flows of the shrinkage trade cycle.

Figure 2



Loss Prevention Spending and Shrinkage

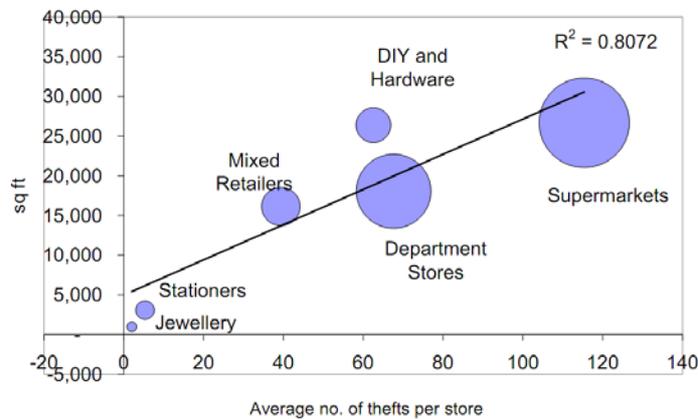
One of the most important loss prevention topics is, 'How much should I spend on loss prevention and security?' We know from the GRTB that retailers in different countries spend different amounts on loss prevention. At a country level loss prevention expenditure can be as low as 0.15% of retail sales (Japan), 0.29% in the UK, 0.39% in France or 0.46% in the U.S. There are a number of countries in Asia-Pacific that spend, in comparative terms, rather less on loss prevention (as a percentage of sales) than other countries, but have low levels of shrinkage. Similarly some of the countries that spend most on loss prevention experience above-average levels of shrinkage.

But it is no surprise that retail corporations that spend most of loss prevention are likely to be facing the biggest crime and shrinkage problems. If they spent less on loss prevention, their costs of crime and shrinkage might be even higher. Retail

corporations that manage to avoid high shrink losses naturally do not feel the urge to increase their loss prevention spending.

Figure 3 from the British Retail Consortium (*Retail Crime Survey 2009*) maps UK thefts per store by size against capital spending on loss prevention. Naively, it shows that the more you spend the higher the level of thefts. Naturally it does not show causation at all, but emphasises how difficult it is to disentangle LP spending levels from crime levels. It shows generally that the worse the problem the more you spend, although DIY/hardware (and mixed retailers to some extent) seem to do better than predicted from the model with comparatively low LP capital spending.

Figure 2.8. Thefts per store (average) against average sales area (sq ft) against capital spent on prevention (£)



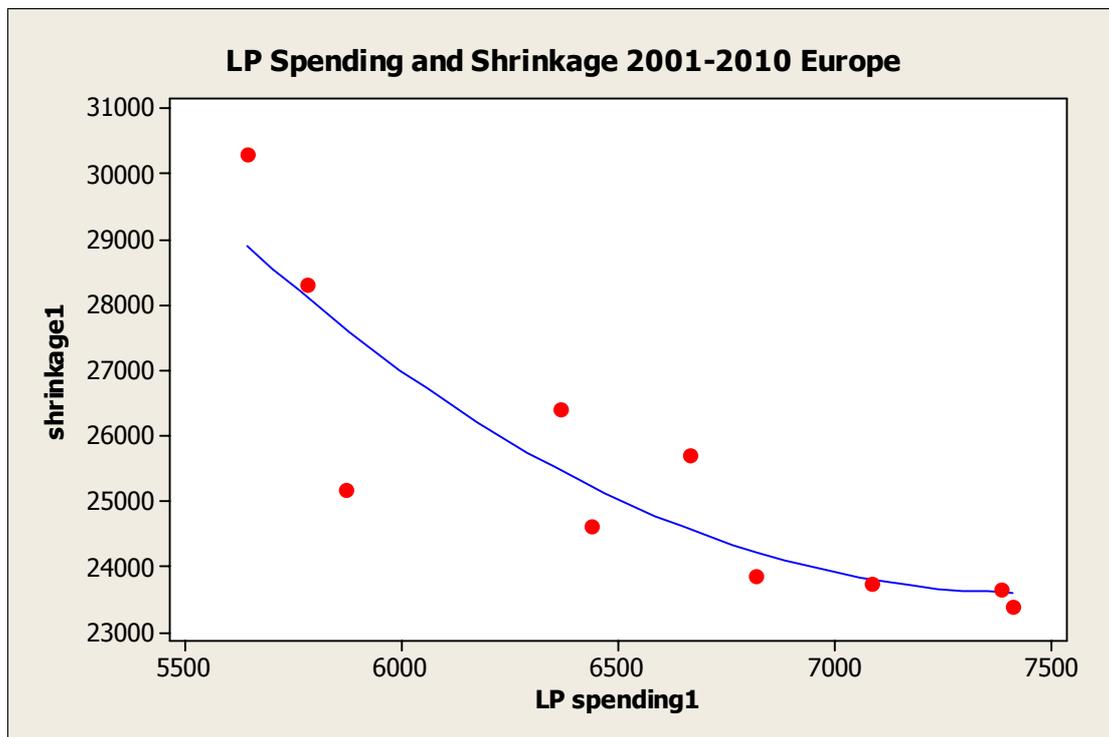
Note that bubble size (diameter) represents relative capital spend on crime prevention

The amount retailers have to spend on loss prevention is not unlimited of course and the amount available may be reduced when businesses are in difficulties, as we saw in 2009. It is obviously very difficult to prove the exact impact of retail loss prevention spending, because there is obviously not a simple relationship between high loss prevention spend and low shrinkage. In addition, we know that some high-spending companies may obtain mediocre shrinkage results from their loss prevention budgets and others seem to do better with much less. The differences between these types of impact are normally put down to 'good management' but there are other reasons as well.

So the Centre for Retail Research has studied not the absolute amount or percentage spending on loss prevention, but the *change* in spending. We wanted to examine whether retail corporations that expand their loss prevention spending reduce their shrinkage. In the same way, we looked at whether cutting spending on loss prevention allow shrinkage to rise?

Figure 3 is based on 10 years of data and shows that *changes* in loss prevention spending do have an impact on upon shrinkage levels. At this stage, this work is an exploratory exercise and in GRTB 2010, but it explains almost two-thirds of the change in shrinkage, although we caution that this so far only a preliminary study.

Figure 3



The analysis is not based solely upon Figure 3 of course. There has been much technical regression analysis, which is not published here. The regression line is downward-sloping from left to right showing that *increased* loss prevention expenditure is associated with *reduced* shrinkage. Note that we are not arguing that one *causes* the other, simply that there is such a relationship and that it is consistent with the evidence that we have.

There is evidence from the data that retailers look for very a fast payback on their loss prevention spending. We tested whether LP spending in one year reduces shrinkage in the following year; it does but the major impact is in the current trading year. The comments that one hears from retailers about needing required paybacks on investment of between four to eight months are not fictitious!

Obviously we are not arguing from this analysis that the essence of successful loss prevention is simply to spend a great deal of money. Loss prevention budgets have to be allocated well, decisions made carefully, and the process needs to be managed excellently based on current useable information about the business. Loss prevention spending is part of this process and we have shown that there is a statistically-significant relationship between *increases* in loss prevention spending and *reductions* in shrinkage.

The Role of Good Management

The last point is probably the most important point. Good management and great leadership that sets high standards based on a coherent strategy is fundamental to the work of loss prevention. Every country and area has regional and national differences that affect shrink rates, such as the local levels of

criminality, the legal/criminal justice system, crime opportunities, the quality of loss prevention investment, and the effectiveness of crime prevention. Good management and the random element that we call 'luck' need to be there, always attentive to growing problems, directing, leading and taking responsibility for overcoming the loss prevention problems facing the retail business.

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