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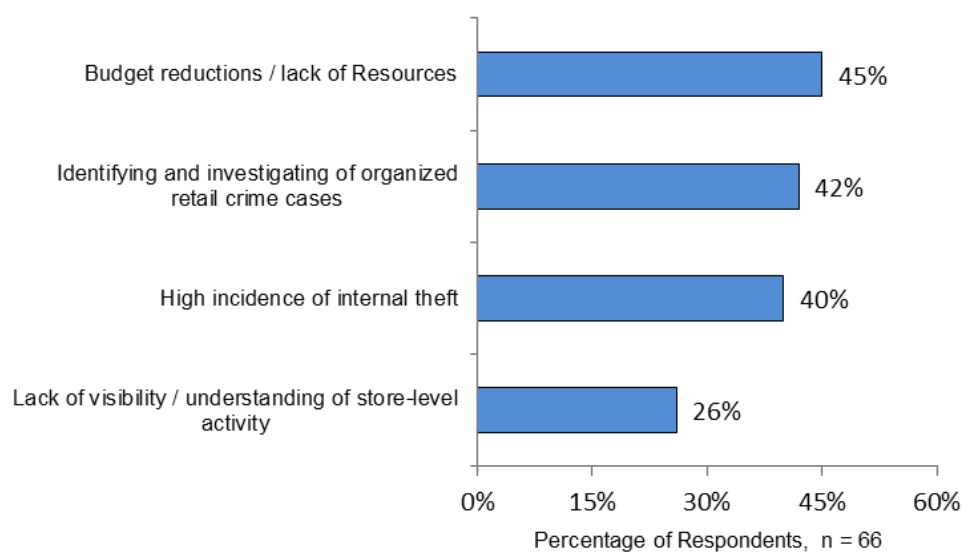
## Loss Prevention Technology: A View of LP in Tomorrow's Retail Store

The retail environment has grown more complex with the emergence of new sales channels and changing customer shopping behaviors. Additionally, the tight global economy has led to significantly reduced operating budgets, forcing retailers to “do more with less.” The entire retail value chain is under tremendous strain, which makes loss prevention (LP) a top-level issue for retail executives. In an effort to compensate for the additional strain, companies have turned to loss prevention technology. In fact, 56% of companies within a recent Aberdeen Loss Prevention survey were exploring technology solutions or enhancements. In this Analyst Insight, we will examine the pressures pushing retailers toward loss prevention technologies and the impact of a few of the fastest growing solutions.

### Pressures

Loss prevention continues to be an essential part of today's complex retail value chain. This momentum stems from four over-arching business pressures, including lack of resources (e.g., time, people, and money), the rise of organized crime, long-lasting effects of internal theft, as well as lack of visibility in the specific details surrounding enterprise- and store-level shrink.

Figure 1: Business Pressures



Source: Aberdeen Group, February 2013

### Analyst Insight

Aberdeen's Insights provide the analyst's perspective on the research as drawn from an aggregated view of research surveys, interviews, and data analysis.

### Demographics

- Job title: Senior Management (22%); EVP / SVP / VP (9%); Director (20%); Manager (28%); Consultant (13%); Other (18%)
- Segment: Apparel (26%); Specialty (14%); General Merchandise (8%); Luxury (6%); Food / Grocery (15%); Automotive, Health, Drug, and Telecom Retail (18%); Sporting Goods (2%); Department Stores (6%); Other (20%)
- Geography: North America (46%), APAC region (19%), and EMEA (35%)
- Company size: Large (annual revenues above US \$1 billion) – 30%; midsize (annual revenues between \$50 million and \$1 billion) – 33%; and small (annual revenues of \$50 million or less) – 37%

- **Budget reductions or lack of resources** — Current economic conditions within retail have made tightened budgets and reduced labor a universal theme. Many retailers must contend with fewer store-level associates, which can hinder loss prevention efforts. And the lack of staff doesn't stop at the store — the corporate level also feels the pain of less resources in centralized loss prevention departments. In fact, it is not uncommon for retailers operating hundreds of store locations to have fewer than a dozen LP managers and analysts in-house. Finally, retailers don't have the resources or budget for widespread technology upgrades, leaving them more vulnerable as criminal technology and techniques continue to evolve.
- **Identifying and investigating organized retail crime (ORC)** — Organized retail crime is one of the biggest loss prevention issues facing retailers today. Our research indicates that loss prevention teams spend anywhere between 30% and 50% of their time dealing with organized crime cases. Unfortunately, our data also indicates that nearly 80% of retailers surveyed feel that ORC will not decline at all in the next two years. And nearly a third predict ORC will increase during that same time period.
- **High incidence of internal theft** — Internal theft incidents (stemming from store-level associates) remains a serious problem for retailers. Every day retailers contend with internal theft cases, including missing merchandise, cashier shortages, and deposit discrepancies. In fact, the top two retail loss prevention risk areas in the stores were the point-of-sale (i.e., "sweethearting"), and the backroom.

Retailers struggle to navigate how to operate amid a tight economy, one that forces companies to "do more with less," whether that is capital, resources, or labor. Combine these factors with retailers' squeezed margins and the prospect of fraud and merchandise losses are more far-reaching than ever and, in some cases, incidents are increasing. From a positive standpoint, retailers are re-evaluating their approach in the battle against loss — a task that requires them to consider how they monitor business operations and how they use relevant business data to solve the problem.

## Loss Prevention versus Customer Service

As retailers stretch their resources to combat merchandise shrink, they must also maintain exceptional customer service. In an effort to juggle these two goals, retailers are adopting more retail touch points at store-level. The issue of balancing loss prevention and customer experience is top of mind.

The balancing act becomes more difficult with the addition of more digital solutions, including kiosks, mobile technologies, digital signage, self-checkout, and other automated customer engagement tools. These digital solutions create new (and massive) data streams that many retailers struggle with.

"Currently, we have exception-based reporting to help identify possible scenarios where associate or customer fraud might occur for individual analysts to research. As we are made aware of fraud events that occur related to internal — or external — theft, we examine the exception-based reporting to determine if it was sufficient to quickly identify the scenario or if modifications are required to prevent future loss. We have been moderately successful in capturing fraudulent activities based on this reporting and move fairly quickly to resolution."

~ Regional Manager, Large  
North American Consumer  
Electronics Company

The quest for stronger customer service is also a task handled behind the scenes, managed by separate operational solutions that can increase data volume. As retailers focus on delivering more customer-centric and value-driven experiences, their ultimate goal is to have the best merchandise and knowledgeable associates available at store-level when the shopper is ready to make a purchase.

As a result, retailers deploy task management solutions to ensure daily operations are complete in an effort to streamline the shopping experience; time and labor optimization to align the best associates at critical shopping times; as well as multi-channel order fulfillment solutions to ensure product is available for purchase, pick-up, or delivery at store-level or across digital channels. However, the more solutions retailers adopt to improve the customer experience, the more data they create — a factor that can impact any retailer's loss prevention strategy.

### ***The Role of Big Data in Loss Prevention***

The massive river of data resulting from these previously mentioned systems is a critical issue within loss prevention, and unfortunately many companies struggle to harness this information. In fact:

- 45% struggle with how to improve speed of access to relevant business data, and
- 28% of companies feel pressure to move beyond their current data integration stage into more frequent insight into business event data.

Not unlike a river in the natural world, this river of data poses both threat and opportunity for retailers. If it can be harnessed, this data can drive insights that greatly reduce retail shrink. And efforts are being made in the hope of solving this growing data problem:

- 54% are establishing data gathering and assembling guidelines, and
- 52% are adding guidelines for external data sharing with suppliers and trading partners.

The hidden issue is that all too often these systems, and their resulting data, are tucked away in operational silos. Yet, the only way that retailers can reach optimal service levels for its shoppers is to merge these data sources and disparate systems.

### ***Integration Sets the Tone for Successful Loss Prevention***

With a keen eye on taming these ever-growing data streams, retailers cannot lose sight of how to harness these incoming nuggets and learn from them to manage internal processes and simultaneously fight shrink. There is no longer time or resources available to manage multiple data sources and disparate systems. Instead, the priority must be to integrate systems onto a common platform. This move provides retailers with a single view of data required to support their LP hypotheses — a practice that used to come

“When managing this model with reduced employee coverage, we want to be sure we can still present a positive level of customer service, yet not take our eye off of protecting merchandise. We have a mantra: ‘to keep honest people honest.’ We are not trying to ‘catch’ people, but instead, use our loss prevention solutions and policies to better service our shoppers, while simultaneously cut down on shrink.”

~ Wayne McBrien, Director  
of Loss Prevention,  
Brookstone

straight from their “gut,” or personal experiences. For example, 88% of companies currently centralize the collection and storage of transactional data, and 47% of retailers have metrics in place to analyze this data and control loss.

As they make the move toward integration, retailers are establishing a centralized platform where they can add systems and drive data into a common repository. This integrated platform also enables retailers to add components that allow them to drill down to information about their specific retail segments. Following are a glimpse into a few of these options:

## Radio Frequency Identification (RFID)

Once an integrated platform is established, retailers are in a stronger position to monitor inventory movement and operational activity in real-time. And of course, retailers need to find a way to do so with the limited resources they have available. One of the key solutions to consider integrating here is RFID to gain real-time information access to make more strategic decisions and take more proactive measures.

While many companies have historically relied on electronic article surveillance (EAS) tags to deter shoplifting and use incident data to gain better visibility in complex business problems, savvy retailers take this concept one step further and move to more interactive solutions, such as RFID. Unlike EAS tags, which are passive solutions until they come in contact with a dedicated reader, RFID tags are typically active, giving retailers insight into ongoing product movement and activities.

Embedded with a chip that holds characteristics of the merchandise it is attached to, RFID tags identify the product and, along with the tag's unique electronic product code (ePC), allows the item-level tracking of merchandise throughout store, warehouse, and extended supply chain. As tagged merchandise is within the vicinity of dedicated readers, product data is transmitted to a database, alerting retailers to item movement in real-time.

This is significant as retailers fight the war against shrink — both intentional and operational. RFID can help retailers ward off external factors, including shoplifting, ORC, and vendor fraud, as well as internal sources of loss, such as internal theft and administrative error. And retailers are paying close attention to the benefits:

- Currently, 28% of retailers exploit the power of RFID specifically for item-level tagging, and leverage the wealth of data delivered through RFID across their stores and supply chains.
- Meanwhile, 35% of retailers are researching the power of RFID to improve loss prevention efforts, and another 17% of retailers plan to add the technology in hopes of refining their LP efforts within the next 12 to 24 months.

“LP has taken on more of a detective role, reviewing and researching transactional exceptions and follow-up on unusual trends. It is currently planning to become more proactive, by developing LP strategies and policies / procedures to help prevent theft and improve safety.”

~Director of Finance, Large  
North American Apparel  
Company

- Another 41% of companies are researching the value of RFID to pinpoint loss happening across store operations.

With more RFID event data filtering into centralized databases, retailers are sitting on a goldmine of information, including clearer visibility into shrink incidents, near-real-time identification of loss, and authentication of returns. The upshot is RFID data can help retailers quickly uncover highly coveted items, and achieve faster replenishment of stolen or misplaced merchandise; reduce internal theft incidents, and provide more accurate store-level vendor deliveries. These examples illustrate that by exploiting RFID data, retailers are in a prime position to slash ever-growing shrink rates and positively transform their LP efforts.

## Video Intelligence

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As pressures heat up around the need for more real-time insight into operational performance, retailers must step back and create a new formula to gain better visibility in complex business problems. That's why retailers are taking strategic actions, including the adoption of video intelligence to reduce the number of internal and external theft incidents.

- 59% of companies currently use video surveillance throughout store departments,
- 29% of retailers specifically use video intelligence software, and 26% use exception-based reporting to improve fraud management,
- 17% use video to ensure PCI compliance.

## Analytics

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A strong source of delivering event information, at both historic and real-time levels, video surveillance remains high on retailers' lists of process capabilities. However, as they strive for more accuracy when researching operational and merchandise-based shrink, retailers merge the power of analytics to understand how these incidents impact LP efforts and where improvements can be made.

Retailers that link video with analytics confirm that the technology takes on a much more important role in their LP strategies:

- 50% of companies rely on business intelligence exception-based reporting for their LP efforts, and another 31% will adopt these robust tools within two years;
- 36% of companies use closed-circuit television (CCTV) video surveillance integrated with video intelligence software focused on risk areas, and within the next two years, another 23% of retailers plan to implement similar video intelligence software, and
- 16% use video analytics, with another 22% making this move within the next two years.

## Key Takeaways

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The emerging retail paradigm makes it paramount for retailers to harness technology and the resulting data. The growing complexity of the retail environment sharpens the focus on the marriage of both new technology and the need for real-time data to optimize loss prevention processes.

Among the key areas of focus are:

- **RFID.** With more than one quarter of retailers still struggling to gain visibility into their strongest culprits of shrink, innovative solutions that deliver real-time item movement are key. RFID fits these criteria and more retailers are taking notice. Fifty-four percent (54%) of companies already tag merchandise to gain product movement visibility across the store and the supply chain. RFID continues to top LP wish lists, as 35% of companies are evaluating how to deploy the technology to combat shrink through LP efforts, and 41% are determining how it can help cut loss from store operations.
- **Video surveillance.** With a need for details regarding loss incidents, video intelligence is gaining traction. With access to digitally recorded media, 39% of retailers already use this solution to view specific details surrounding both operational and merchandise-based shrink.
- **Analytics.** Collecting the data is key, however analytics are critical to understand how to change and improve LP efforts, and win the fight against shrink. Since analytics can be applied to all LP tools, from EAS and RFID to CCTV and other video surveillance solutions, retailers expect to bolster their LP efforts. In fact, 45% of companies plan on adding some form of analytics within the next two years.

Armed with these innovative solutions, companies will work toward integrating these technologies and analytics beyond the walls of the retail store into other sales channels and other departments within the organization. Once completed, these retailers will be in a prime position to slash ever-growing shrink rates and positively transform their loss prevention efforts.

For more information on this or other research topics, please visit [www.aberdeen.com](http://www.aberdeen.com)

### Related Research

[\*The 2012 Self-Service Hand-Book: The Empowered Consumer\*](#); January 2012  
[\*The 2012 Omni-Channel Retail Experience\*](#); January 2012  
[\*Customer Centric-Retailing 101: Customer Intelligence and Engagement Strategies\*](#); October 2011

[\*The Customer Connected Store: 2011 Store Operations Automation Best Practices\*](#); March 2011  
[\*Effective Loss Prevention Methods: The Specialty Retail Story\*](#); December 2007  
[\*Real-Time Loss Prevention: Changing the Game in Store Fraud\*](#); December 2007

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