TACTICS FOR REDUCING RETAIL SHRINK
Some studies put the industry-wide average annual shrinkage rate at 1.38%—meaning retail losses top $45 billion a year. Another study puts the total cost at more than $60 billion.

And with about two out of every three stores reporting an increase in shrinkage in 2015, it’s clear that the problem is not going away.

But how effective are typical shrink prevention tactics—both at a store level and organization-wide? And is there anything that can be done to make them more effective?
Shrinkage, of course, isn’t just about shoplifting. According to the National Retail Federation’s 2016 National Retail Security Survey, shrink comes in four flavors:

**SHOPLIFTING/ORGANIZED RETAIL CRIME**

External theft is the biggest source of shrinkage industry-wide, accounting for 39% of losses a typical store experiences.

Theft in your stores is problem enough, but consider the follow-on effect that shoplifting has on the company as a whole. Organizations often raise prices to account for profits lost to shrinkage; paradoxically this can slow sales and cause further losses.

**EMPLOYEE THEFT**

Theft from internal sources was responsible for a further 35% of shrinkage. This number is consistently high—in fact, until recently, internal theft topped the NRSS list every year for almost a decade and a half.

First place or second, employee theft still costs the industry $15 to $20 billion a year.

**ADMINISTRATIVE AND PAPERWORK ERRORS**

These may not account for as much shrinkage as internal and external theft, but the number is still sizeable—the 2016 NRSS puts it at nearly 17% of losses.

Markup and markdown errors, inventory gaffes, careless paperwork, accounting errors—all of these cause what Loss Prevention Media calls “paper shrink”—and they cost the industry at least $2.5 billion a year.

**VENDOR FRAUD**

Vendor fraud, the last of the NRF’s four major sources, was responsible for just under 5% of industry-wide shrinkage in 2015.

What does vendor fraud look like? Imagine a vendor shorting an invoice, or vendor staff in one of your stores stealing other products, and you’ll get a good sense of how vendor fraud adds up to nearly $1 billion in losses across the United States.
You may know many of these shrink reduction techniques, but a refresher never hurt anyone—especially when so many dollars are at stake.

**EXTERNAL THEFT**

Shoplifting may be the easiest source of shrinkage to deal with, simply because many tactics for preventing it are so low-tech.

Keeping your store organized is one such tactic—a clean store makes it easier for your staff to notice when something’s amiss. Good lighting helps too, as does training your staff to be friendly and welcoming. Somebody with criminal intent does not want to be seen.

Higher-tech solutions such as electronic article surveillance (EAS) tags and CCTV cameras are required, of course, to fight the always-increasing threat of organized retail crime. But even organized thieves can be combated with non-technological solutions. Consider, for example, moving high risk inventory away from exits and to locations that are better monitored by staff.

Also required is a way to roll up all that data—for example, loss prevention software—that allows store-level staff to feed information up to the organization’s loss prevention function. The proper analysis and pattern recognition at headquarters can have a measurable impact on theft in your stores. That’s why it will also be important to arm your workforce in your warehouses and physical stores with the data-reporting tools to help you identify trends and create more effective policies based on data and observances ‘on the ground’.
INTERNAL THEFT

A Jack L. Hayes International survey reports that one in 38 employees stole from their employer in 2015. How can you improve the odds of weeding out those bad apples across your organization?

Security experts indicate that employees with drug use problems are more likely to steal to feed their habits. Careful employee screening is of upmost importance when it comes to combating internal theft.

Another easy-to-implement tactic is to avoid scheduling employees to work by themselves. Policies and controls related to using POS systems and handling cash will also cut down on theft and fraud at the till.

Lastly, paying attention to things like the way trash is handled in stores can help reduce the amount of product stolen. Clear garbage bags, locks on dumpsters, controlled access to garbage rooms—all of these can deter employees from trying to smuggle inventory out.
Administrative Error

Paper shrink can be harder to get a hold on. Addressing it effectively requires collaboration between loss prevention and finance, accounting, inventory control, IT, HR, and more.

That said, by establishing accountabilities for stamping out the problem—and then carefully and methodically training store-level employees on proper procedures—you can eliminate much of the shrinkage that stems from admin errors.

Vendor Fraud

Intentional theft or fraud by vendors is another area of shrinkage that may be harder to address. Remember, since much vendor fraud involves the delivery or return of merchandise, physical solutions such as truck searches on your receiving docs, or delivery audits, can help here.

If vendor fraud is a problem for your organization, consider also taking a close look at your receiving procedures. At minimum, there should be a division between staff receiving goods, staff processing invoices, and staff handling payments.
Looking to improve your loss prevention results? Even the most well-known tactics can be made more effective when they’re linked to data, metrics and controls that you manage with software.

Consider video game consoles priced $100 cheaper than they should have been. To most observers, it’s a random administrative error, right?

Until software helps you realize that at another one of your stores 50 miles away, the same thing happened to some televisions, and to a group of stereos at another location. And that each incident happened on the third Thursday of every month.

Clearly someone is fraudulently manipulating prices, perhaps with fake bar codes. The third Thursday is ten days away—what will you do?

That’s a decision that would be impossible to make without software tying together an otherwise unmanageable amount of data.

When you use software to track your tactics as loss prevention controls—such as, in this case, comparing POS prices to prices assigned at the inventory level—you’re then able to better manage those controls. And you’ll more easily see patterns in the data that you would have otherwise missed.

Not to mention, you’ll be able to instantly measure their effectiveness and make better decisions about where to allocate resources.

Document key tactics and controls, link those controls to risks, and then proactively address them. You can do all of this—and more—with retail loss prevention software.

Want to learn more? Let’s talk.

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