

Resolve Cases Faster With Exception Based Loss Prevention Tools

Loss Prevention Strategy That Works

Using an exception based loss prevention system is a strategy that is rapidly gaining popularity among retailers in all sectors.

These solutions use data mining technology to review register transaction data, and highlight any unusual activity on the part of store associates.

These systems work very quickly, eliminating hours of tedious, manual review. The result is that Loss Prevention Investigators have better, more up-to-date information to work with, which in turn leads to faster case resolution. Investigators are also able to manage a larger number of cases.

Executive Summary

Profit is enhanced in two ways, making money and keeping money. Making money requires hard work, daring, and innovation. So does keeping it. Combating shrink is becoming a higher priority among retailers of all sizes and product lines – and with good reason. According to the *2003 National Retail Security Survey* conducted by the University of Florida, the industry-wide mean average shrink is 1.65% at retail cost, and has ranged from 1.65-1.80% for the past five years. The study estimates that losses in 2002 due to shrink were \$33.6 billion.

Using an electronic, exception based loss prevention system is a strategy that is rapidly gaining popularity among retailers in all sectors. These solutions use data mining technology to review register transaction data, and highlight any unusual activity on the part of store associates. These systems work very quickly, eliminating hours of tedious, manual review. The result is that Loss Prevention Investigators have better, more up-to-date information to work with, which in turn leads to faster case resolution. Investigators are also able to manage a larger number of cases. Since the cases themselves tend to involve substantial sums of money, the ROI on an exception based LP system is typically faster than on other efficiency-building software.

Situation Analysis

According to the University of Florida survey, shrink level industry-wide was 1.65%. Different sectors of the retail industry are more at risk than others,

however. Retailers specializing in apparel cards/gifts/novelty, and auto parts/accessories reported above-average shrink (more than 2%). Conversely, retailers specializing in office supplies, stationery, liquor/wine/beer, or consumer electronics and appliances reported a shrink of less than 1%. (Note: Twice as many retailers in the high-risk group responded to the survey as responded from the lower risk group.)

62% Of Shrink Derives From An Internal Source

In the same survey employee theft is reported to account for 47% of the \$33.6 billion (\$15 billion). The other internal source of loss, administrative error, accounts for an additional 15% (\$4.7 billion). Together they incur approximately \$3 billion *more* in shrink than the combined, external causes: shoplifting (32% or \$10.8 billion) and vendor fraud (6% or \$2.0 billion).

Employee Incidents Much More Costly

Not surprisingly, retailers' search for loss prevention solutions includes an emphasis on internal loss prevention and

Avoiding Administrative Error

Cash shortages alone were .03% of sales in 2003. Software tools are available to help limit the administrative errors that lead to loss, though they are not typically considered "loss prevention." By automating deal pricing through the POS, automatically auditing t-logs using an exception reporting application, using price optimization software, and similar controls retailers can reduce these losses.

Average Value Of Incidents

Consumer
Related

\$265.30

\$1,762.00

Employee
Related

compliance. Investments made in this sector offer a faster return on investment. Although shoplifting is

prevalent, the average value of shoplifted goods is \$265.30 while the average employee-related incident is \$1,762 according to the University of Florida study. Furthermore, the number of incidents that a dishonest or careless associate incurs over the life of his or her employment can total tens of thousands of dollars.

The segments with the highest incidents of employee theft are furniture (85%), liquor/wine/beer (65%), cards/gifts/novelties (54.3%), shoes (54.2%), optical (52%), recorded music/video (52%), supermarket/grocery (51.3%) and consumer electronics/appliances (51.3%).

(Note: The 2002 leader, the convenience store segment, did not appear in the 2003 study.)

More With Less

Like all parts of business, senior LP management is being asked to make their budgets go farther. Some have reduced LP staffing both at store and management levels, saving money on the GL but risking increased shrink. Others are exploring technology alternatives that make it possible to increase workload, and therefore results, without increasing the number of Investigators per store or Managers in the home office. According to the University of Florida study, "By a wide margin the 'hottest' item remains POS exception reporting, with 36% of the respondents indicating that they plan to increase use of this technology in the coming year." Also high on retailers' lists for LP improvements are further use of digital CCTV in conjunction with exception reporting systems.

Benefits Of Exception Based LP Reporting

Shrink Reduction

The main benefit of integrating an exception based LP reporting system is a

reduction in shrink, which in turn means higher profits. Since employee-based losses are so pervasive, it is reasonable to expect all stores to benefit.

Increased Revenue

Stores often see an increase in revenue following an XBR-related notice or investigation. This can be attributed to two factors; one is that knowledge of the software's use acts as a deterrent to unauthorized discounting, sweethearting, and other infractions by infrequent offenders. Another is the increase in morale and attention to detail by honest employees. In both cases, more sales are recorded and more profit hits the bottom line. Store managers often report increases of several percentage points.

Faster Identification

One of the most noticeable benefits of exception based reporting is speed, states a 2002 survey of current users of the leading LP software application, XBR Store Analytics, conducted by Digibahn, an online market research company. Respondents said that before the installation, 8% of cases were identified in less than two weeks. After the installation of the application, 35% of cases were identified in less than two weeks.

Decreased Response Time

Hand in hand with faster detection is faster resolution. With employee incidents costing an average of \$1,762.00, and considering the frequency with which a dishonest employee can repeat the behavior, timely detection and correction are essential. Most of the respondents in the Digibahn study reported that half or more of their investigations are assisted by data from the LP program.

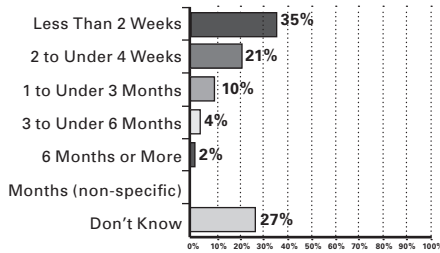
Leverages Other LP Technology

In the 2003 National Retail and Consumer Products Loss Prevention Survey by Ernst & Young, 13% of retailers surveyed already use their POS exception reporting software in conjunction with CCTV. An additional 32% plan to add that technology.

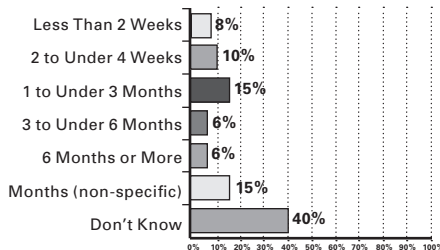
ADT/Sensormatic completed an interface between their electronic article surveillance (EAS) system and XBR software. The result is a broader application of exception reporting.

XBR "Timing" Examples

TIME IT TOOK TO IDENTIFY CASE AFTER YOU INSTALLED XBR



TIME IT TOOK TO IDENTIFY CASE BEFORE YOU INSTALLED XBR



Increased Workload Efficiency

Using exception analysis tools, one or two analysts may be able to cover as many as 400-600 stores. They forward potential case information to the appropriate investigator or store manager for follow-up. The LP investigator, too, can use the software to speed up the investigation process. Instead of decreasing the actual size of caseload per investigator, exception reporting increases it. It both detects more incidents and provides a means to handle them more efficiently.

Prioritizing Projects

Using exception based reporting, LP management can quickly identify which incidents are the most worthy of investigation. Over time, as the more egregious situations are resolved, the reporting tools can be adjusted to reveal new worst-case situations. This aspect is important in validating the activities of the LP department because the department is usually credited with the total amount of admissions involved in cases.

Changing Procedures

Half of those surveyed by Digibahn said that the use of the exception reporting system had caused procedural changes in the store including stricter POS controls, new policy cre-

ation, required supervisor approvals, and improved cashier training. By identifying and clarifying a policy on employee discounts, one chain saved tens of thousands of dollars during just one promotion. Changes like these have ongoing positive effects.

Return On Investment

How long does it take for the system to pay for itself? The only true answer is, "It depends." Company culture, enforcement processes, and shrink level all play a part. So does the amount of credit given to the department and to the system. Some chains credit the LP department for the total admissions involved in a case. Others use an estimate of the impact on sales, the amount identified by the system, or even a case multiplier. In order to establish a reasonable ROI, retailers need to account for:

- The existing shrink levels and the expected shrink reduction
- The percentage of the amount credited to the LP department that will be attributed to the new system
- The amount of time/salary saved by speeding resolution and avoiding false starts
- Increased restitution percentages
- Reduced travel expenses
- Reduced credit card chargebacks
- Reduced fraudulent commissions and sales contest entries
- The number of hours the IT department is needed to support the LP department
- Reduced bank charges due to less manual entry of credit card information (keyed entry costs an average of five cents more per card)
- Reduced incidences of fraudulent discounts
- Reduced telephone, postage/delivery, and photocopying costs due to communication through an IP connection

Alongside ROI in calculating value is also the effect of the tool on morale. Exception based reporting allows Investigators to get to the "interesting part" faster, and to complete more proj-

ects, thus instilling a greater sense of achievement. A system can also improve morale outside the LP department. Honest associates are often relieved when troublemakers are dismissed, and managers have fewer problems and higher profits. Improved morale has benefits ranging from fewer call-offs to better customer service.

Budget Comparison

Retailers average budget for security and loss prevention was .51% of 2002 annual sales, according to the University of Florida study.

The Industry's Leading System

Datavantage XBR Store Analytics is the leader in exception based loss prevention reporting applications with more retail installations than any other. The average shrink reduction among XBR users is 19.6%, and most of them report 100% ROI within one year. There is no need for retailers to base their decisions on these numbers, however. Unlike other developers, XBR offers potential customers an interactive estimating tool that enables them to project their ROI based on their use of the system in their environment. This unique tool helps establish reasonable expectations prior to purchase.

XBR is written "open," enabling it to interface with any of the major POS systems, and provides data to other home office applications. XBR also works with digital CCTV and EAS systems, bringing the power of exception reporting to

these LP tools as well. The application even has built-in case management portfolios that allow Investigators to maintain case notes and links without switching programs.

Though XBR is a robust application, initial training requires only a couple of days; additional training in customizing the system or developing advanced reports is available from training and support consultants who all have both retail LP and analytical backgrounds.

Summary

Faster Detection Means Greater Savings

Shoplifters come and go, but an associate is on site for hours at a time. With a robust system like XBR, dishonest employees can be identified, tracked, and prosecuted, and theft deterrent policies can be instituted.

Not only can deceitful associates be found, but compliance problems can also be detected in a fraction of the time. For instance, associates who misunderstand the employee discount policy can cause significant losses, as can associates who do not perform all the steps in a return verification process. Whether the loss is caused by poor training, miscommunication, or carelessness, problems can be identified and changed, thus reducing losses.

As an added benefit, the system creates a more stable, safe, and productive work environment in which associates devote their time to sales rather than stealing, frequently improving overall store performance. ■

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