

Issues Monitor

Sharing knowledge on topical issues in the Retail Industry

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Welcome to the August edition of *Issues Monitor – Retail*. Each edition pulls together and shares our firms' industry-wide knowledge to help you quickly and easily get briefed on the issues that affect your sector.

Mark Larson
Global
Head of Retail



Keeping up to date with the very latest and most pressing issues facing your business can be a challenge, and while there is no shortage of information in the public domain, filtering and prioritizing the knowledge you need can be time consuming and unrewarding. I hope that you find *Issues Monitor* useful and I welcome the opportunity to further discuss the issues presented and their effect on your business.

ISSUE 1: Evolving retailer–supplier collaboration

Driven by the need to better cater to customer demand and gain efficiencies in supply chain processes, retailers are now collaborating more with their suppliers. They are working with suppliers to fully utilize customer insights for improving marketing effectiveness and supply chain processes, following fair and ethical business practices. Further, opportunities for retailer–supplier collaboration will be enhanced by increasing innovation regarding how to gather customer insights.

ISSUE 2: Multichannel retailing

Consumers today prefer to browse through multiple retail channels in order to learn about products before making purchases. This trend has prompted retailers to broaden their mobile and internet retailing capabilities, open online stores and adopt other multichannel retail practices. While adopting such multichannel strategies may create bottlenecks in efficiently integrating various supply chains, retailers must invest in multichannel retailing, as consumer preference for multichannel options will only increase in the future.

ISSUE 3: Retail shrinkage

Retail shrinkage increased globally in 2009, as shoplifting was on the rise during the economic recession. To minimize losses due to shrinkage, retailers have adopted a variety of practices including training staff, adopting relevant theft-prevention technologies and carefully managing the goods receipt process. With retail shrinkage showing no signs of abating, even with the gradual recovery of the retail industry, retailers will need to continue looking for newer ways to tackle this issue.

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Evolving retailer–supplier collaboration

Driven by the need to better cater to customer needs and gain efficiencies in supply chain processes, retailers are now collaborating more with their suppliers. They are working with suppliers to fully utilize customer insights for improving marketing effectiveness and supply chain processes, following fair and ethical business practices. Further, opportunities for retailer–supplier collaboration will be enhanced by increasing innovation regarding how to gather customer insights.

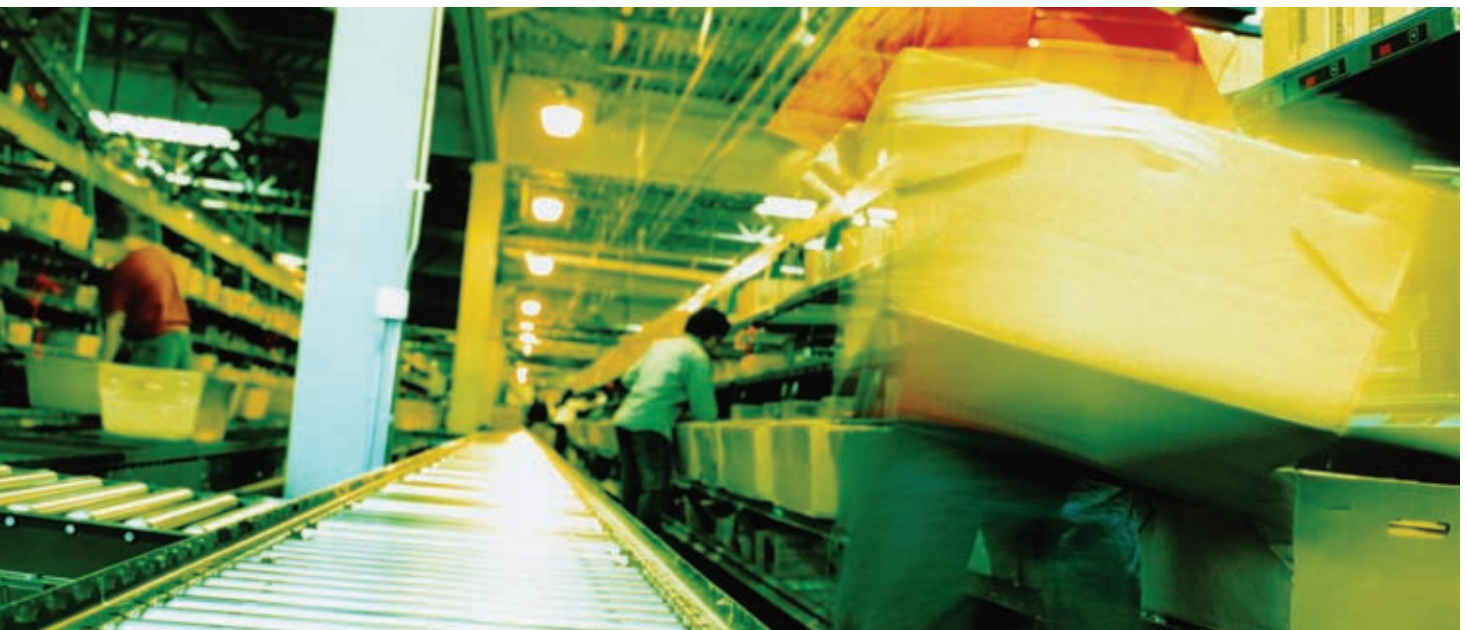
Retailers have been collaborating with their suppliers to improve supply chain efficiencies and serve the customer better. And they are using new and improved practices and tools to facilitate such collaboration initiatives.¹

Need for enhancement in retailer–supplier collaboration

While retailers have traditionally focused on improving the performance of their product categories as a whole, suppliers have focused on the performance of their own brands. This has occasionally led to adversarial trade relations and hurt sales. Therefore, in order to improve retail sales, retailers and suppliers need to collaborate on their merchandising and marketing activities.²



Retailers and suppliers can collaborate to fully leverage customer insights in order to improve customer experience to the maximum.



Are you correctly measuring your suppliers' service levels?



Another pressing need for retailers and suppliers to collaborate on is to be able to fully leverage customer insights in order to maximize the customer experience. Apart from enabling retailers and suppliers to improve the customer experience, customer insights can also help them revise their promotion strategies for new product launches.³

Due to the economic slowdown, retailers have begun placing increased emphasis on tightening costs in their supply chain by improving supply chain efficiency. Supply chain efficiency can be improved by adopting initiatives such as cost-effective product sourcing strategies and better managing the stock availability at store shelf during new product promotions.⁴ Such initiatives require close collaboration with suppliers. Moreover, suppliers are increasingly willing to work closely with retailers in order to find new avenues for cost reduction. This further enhances the need for an increased collaboration between the two sides.⁵

Retailer–supplier collaboration practices

Sharing customer insights for improved marketing initiatives

Retailers use technological support to gather and analyze customer data in order to identify shopper trends. In April 2009, Carrefour deployed a data warehouse and analytics solution by Teradata Corporation, US-based technology solutions provider, to gain real-time visibility into shopper data across multiple contact channels, such as its hypermarket and supermarket retail stores. The system enables the retailer to perform detailed analysis on data pertaining to consumer purchasing patterns. This helps Carrefour develop the right marketing strategies to better target its customers.⁶

Retailers then collaborate with their suppliers to work together on transaction-level shopper loyalty and behavior data in order to center their merchandising and marketing efforts around these insights. Many retailers are now increasingly sharing point-of-sale (POS) data, captured through technology applications deployed at the retail POS, and other shopper and transactional data with their key suppliers for furthering such collaboration initiatives.⁷

Tesco shares data on customer insights with its suppliers, which helps the suppliers to gain a better understanding of their market and customers. The suppliers use this data to

- Gain a better understanding of their market and customers
- Identify different customer segments in markets
- Plan customized marketing strategies to cater to the specific retail customer segments, wholesale customer segments or the end-customer segments.⁸

Also, Tesco and its suppliers work with Dunhumby, a technology solutions provider, to gather customer insights to help their product promotion processes in the US.^{9, 10, 11} In 1995, Tesco launched the 'Clubcard' scheme in the UK — with the help of Dunhumby (now owned by Tesco) — to gather insights into customer behavior. Under the scheme, customers can use the 'clubcard' to get monetary



Measuring supplier service levels helps retailers choose which partners to collaborate with.

benefits for shopping with Tesco. In turn, the ‘clubcard’ helps Tesco gather data on customer shopping habits, thus providing valuable insights into customer shopping behavior. Tesco uses this data to shape its business strategy to better cater to customer needs.^{12, 13, 14}

Collaboration for supply chain improvements

Retailers are adopting various techniques to collaborate with their suppliers to effect improvements in their supply chains.

- **Removing middlemen to tighten supply chain** – In January 2010, Wal-Mart announced its plans to set up global merchandising centers (GMCs) in order to increase direct sourcing of products for its private brands. Through the initiative, the company aims to save US\$12 billion during 2010 – 2014.¹⁵ The initiative is in line with the company’s strategy of leveraging its size to squeeze costs out of its supply chain.¹⁶

“By realigning our resources, leveraging our scale and restructuring our relationship with suppliers, we will enable our businesses around the world to offer even more competitive pricing on merchandise and to provide our customers a clear and compelling assortment of better quality products at lower prices.”

— Eduardo Castro-Wright, Vice Chairman, Wal-Mart.¹⁷

- **Collaborating with suppliers to make product recall process more efficient** – In April 2010, Kroger planned to implement Rapid Recall Exchange, an online system which helps retailers accelerate the product recall process in the US. The company asked all of its suppliers to subscribe to the system by July 1, 2010. By using the system, suppliers are able to conveniently share critical recall information with retailers around the clock. This, in turn, will help Kroger remove recalled products and inform its customers about recalled products quickly and efficiently.¹⁸

The Rapid Recall Exchange, developed by GS1 US in collaboration with the Food Marketing Institute and Grocery Manufacturers Association, provides the industry’s only online standardized recall notification system, according to GS1. Using consistent forms and processes, retailers receive the same complete information, including product images and handling instructions, when a recall is issued.¹⁹

- **Measuring supplier service levels** – Keeping track of supplier service levels drives greater collaboration between retailers and suppliers. Since the leading retailers normally have thousands of suppliers, parameters such as supplier service levels help them choose which partners to collaborate with. Also, suppliers are able to participate in collaborative programs with retailers only when they themselves are assured of being able to deliver consistently high service levels to their retail customers. Further, for suppliers that fail to meet the desired level of service, service level evaluation offers an incentive for them to improve their performance.²⁰ If the supplier consistently performs well, the retailer can run on low inventory with no adverse effects. On the other hand, if the supplier consistently performs poorly, retailers must always have contingency plans.²¹



Wal-Mart closely evaluates its suppliers' ability to ship products at the correct time. The company believes that late deliveries can result in monetary losses and cause damage to the company's reputation.²²

- **Ensuring supply chain security to establish better relationship with suppliers** – Retailers need to ensure that unauthorized products and people do not become a part of their supply chains, so that they can foster fair and transparent working relationships with all suppliers.

Home Depot requires its suppliers to comply with a security procedure plan that contains standards provided by Home Depot and the US Customs and Border Protection's program, named the Customs Trade Partnership against Terrorism (C-TPAT). The standards are mandatory for tier 2 suppliers (companies supplying raw materials to manufacturers that supply finished products to retailers), in case the tier 1 suppliers (manufacturers supplying finished products to retailers) are not responsible for manufacturing or transportation of goods to Home Depot. The plan helps the retailer collaborate with its suppliers to prevent unauthorized products or people from entering the supply chain, and thus ensure supply chain security.²³

Collaboration for ethical and sustainable practices

Rising consumer focus on environmental sustainability and ethical issues helps retailers to take initiatives to project a 'green' and 'fair' image. Collaboration with suppliers can assist retailers achieve this objective as well. For example, retailers have adopted practices to ensure decent working conditions at the supplier end. In 2010, Tesco launched the 'Trading Fairly Awards' for its suppliers globally. These awards are given to suppliers that improve the working conditions for their employees, thus promoting better working conditions at supplier locations.²⁴

Moreover, retailers can work with their suppliers — at times by signing legal contracts — to ensure ethical and sustainable sourcing of products. Carrefour Group, in compliance with UN regulations, is committed to sourcing diamonds from a legal source, rather than those that are produced through human exploitation in areas under political conflict. Each of the company's contracts with suppliers contains a clause mentioning this commitment.²⁵

Outlook

With the increasing innovation to gather customer-centric insights, opportunities for retailer-supplier collaboration will only increase in the future. New practices around utilizing customer data will benefit various aspects of retailing — recreating the in-store shopping experience, improvising upon marketing programs and finding new ways for online advertising.²⁶

Although retailers are already reaping the benefits of enhanced retailer-supplier collaboration, by using the right combination of processes, tools, data and technology, partners can help retailers fully utilize the potential of collaboration and use insights to make better customer-centric decisions.²⁷ Applied Predictive



Using the right processes and technology partners can help retailers fully utilize the potential of collaboration.

Are you working with your suppliers to develop the right marketing approach?

Technologies (APT), a technology solutions provider, provides user-friendly Software-as-a-Service (SaaS) solutions that assimilate data from different sources into a centralized data repository. The system then analyzes the data and allows users to interact with the data, thus helping in the development of shopper-centric initiatives.²⁸

With the retail industry now emerging from the recession, retailers need to look for ways to capture the customer spend that is up for grabs in the market. Customer shopping habits are undergoing a change as customers' willingness to spend increases. However, some of the shopping habits – such as focusing more on the value proposition of the products they purchase – developed by the customers during the recession, will stay even after a complete recovery. In such a scenario, it is critical for retailers to thoroughly understand customer trends in order to formulate the appropriate marketing strategies. This can be achieved by deriving relevant insights from the customer data, and working with their suppliers on using these insights to develop the right merchandising and marketing approach. This sharing of data between retailers and their suppliers allows the retailer to utilize the analytical resources in the suppliers' organizations.²⁹

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IT security and integrity

While technology presents major opportunities to improve efficiency and global reach, it also creates significant risks. Our firms' professionals advise our clients in using technology to help drive growth, improve business performance and to safeguard operational integrity, security and continuity.

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Multichannel retailing

Consumers today prefer to browse through multiple retail channels in order to learn about products before making purchases. This trend has prompted retailers to broaden their mobile and internet retailing capabilities, open online stores and adopt other multichannel retail practices. While adopting such multichannel strategies may create bottlenecks in efficiently integrating various supply chains, retailers must invest in multichannel retailing, as consumer preference for multichannel options will only increase in the future.

Multichannel retailing refers to the concept of selling goods through multiple channels rather than solely through one channel, such as traditional brick-and-mortar stores. The additional channels that can be used to reach out to consumers include the internet, mobile devices and catalogs, each of which present unique benefits and drawbacks. To succeed in multichannel retailing, merchants must optimally utilize the benefits of a variety of channels.

Why retailers should go multichannel

According to a consumer survey by commerce solution provider ATG, in the last quarter of 2009, 78 percent of US-based respondents used two or more retailing channels and 30 percent used three or more channels to research, and then finally make, their purchases.³⁰ Similarly, in Europe, the fraction of the population purchasing online increased from 32 percent in 2008 to 37 percent in 2009, according to IDC Retail Insights.³¹ And according to a survey conducted by a Chinese online media company, Sina.com, 89 percent of the respondents in the Asia-Pacific region used online shopping channels in 2009.³² These results highlight the need for retailers to utilize a combination of catalogs, mobile retail channels, e-mail marketing and social media to market and sell their products.

It is imperative that retailers combine the benefits of these different channels with the use of the brick-and-mortar stores, as many customers still prefer to touch and feel a product before making a final purchase. About 40 percent of the respondents in the aforementioned ATG survey who read product catalogs never actually made a purchase through them. Further, 39 percent of the respondents stated that they use only their mobile phones or online channels to browse products before eventually purchasing them in a store. Clearly, an efficient combination of different retail channels allows consumers to use various channels to make decisions before actually purchasing products at brick-and-mortar stores.³³



In Q4 2009,
78% of US
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 finally make purchases.



Nevertheless, many store-based retailers are still not leveraging these alternative retail channels to their fullest. In a 2009 holiday season survey of 40 major retail websites in the US, conducted by an international online customer satisfaction research firm, ForeSee Results, pure-play online retailers (e.g. Amazon) scored an aggregate customer satisfaction score of 81 out of 100, while retailers who were only store-based scored 77.³⁴

Therefore, store-based retailers at least need to offer customers better cross-channel shopping services in order to compete with their online competitors. They can do so by utilizing the best attributes of both store-based and online shopping channels. This can help them gain an edge over internet pure-plays, thus increasing their market share.³⁵

Selling through online channels can be one to two percent more profitable than selling through the traditional brick-and-mortar stores. Moreover, when selling through channels other than brick-and-mortar stores, retailers can avoid the risk of stocking inventory, since merchandise can be shipped directly from the supplier to the customer.³⁶

Retail sales through the online channel are growing across the globe. Online retail sales are growing rapidly in China, and are expected to reach US\$146.2 billion in 2013 from US\$37 billion in 2009.³⁷ Similarly, online retail sales in Europe are expected to grow from US\$83.2 billion in 2009 to US\$140.2 billion in 2014, at a compound annual growth rate (CAGR) of 11 percent.³⁸ US online retail sales are also expected to grow 11.4 percent, from US\$155.2 billion in 2009 to US\$172.9 billion in 2010. Further, they are expected to grow to US\$248.7 billion in 2014, at a CAGR of 10 percent during 2009-2014.³⁹ This makes it all the more lucrative for store-based retailers to go multichannel.

Multichannel retailing practices

Looking to increase sales by responding to the trend of multichannel surfing, retailers are adopting a variety of practices. These range from enhancing the capabilities of existing channels to establishing new ones.

Retailers are enhancing their mobile retailing capabilities. In May 2010, Marks & Spencer (M&S) announced the launch of a new version of its website, designed to be easily accessible from mobile devices. It is now possible to access the M&S website from mobile devices with no additional application or software. This will allow customers to conveniently browse and buy items by using their mobile devices.⁴⁰

Kroger, Safeway and ShopRite are sending Verizon Communication's Spend Smart electronic shopping coupons to their customers through wireless devices, televisions and computers. This option lets customers use these coupons to get discounts on their product purchases without going through the trouble of clipping and collecting paper coupons while helping retailers increase their distribution.⁴¹



Retailers are enhancing capabilities of existing channels and establishing new retail channels.

“Programs like Spend Smart provide a great opportunity for our customers to use their phones, TVs and computers to save some money on something they do every week, and give retailers and consumer packaged goods companies a great way to increase their distribution.”

— Deidre Mulcahy Hart, Spokeswoman, Verizon, New Jersey⁴²

Retailers are also trying to capture more market share by enhancing their online retailing capabilities.

- In May 2010, Australian retailer Woolworths’ discount department store BIG W launched its online store, offering customers more than 4,000 items, including 600 items that are available only through that channel. The online store will help extend the retailer’s reach to residents of rural and regional areas in Australia, such as the Emerald town in Queensland and Kalgoorlie town in Western Australia. It is troublesome for customers in these areas to travel long distances to the brick-and-mortar stores.^{43, 44}
- Sears Canada, an apparel and home improvement retailer, is working to upgrade its online capabilities, with new products and interactive features, in response to the decline in sales through brick-and-mortar stores. The company’s sales declined 9.2 percent annually in the quarter ended October 2009, to US\$1.3 billion. The company plans to target younger customers, who prefer to shop through the internet instead of going out shopping. Through its online channel, the retailer plans to offer products which are not sold in its store or through its catalog. Already, Sears Canada offers 350,000 products online, more than twice the number in its physical stores. Also, the company does not need to keep an inventory for those products sold online; instead, suppliers hold on to the merchandise until it’s purchased, at which point it’s shipped directly to the customer.⁴⁵
- Tesco plans to develop its online clothing strategy, after its clothing sales during the year ending February 2010 grew 7.3 percent annually, partly due to a strong performance in its online sales. The company has set up a consultancy named Task Retail, which will spend one week every month to advise the retailer on its online clothing strategy. Other areas on which the consultancy will provide its advice are expansion, restructuring and product development.⁴⁶
- Target is planning to enhance the consumer experience and interactivity of its retail website in the US, as per a project named ‘Project Everest’. The upgrade is aimed at drawing customers to visit the website more often and spend more time at the website so as to improve the product purchase experience and thereby enhance its online sales.⁴⁷

The company’s online retail website, Target.com, was launched in 2001 and has been operating on Amazon’s platform since then. The company aims to get ahead of its competitors in terms of the total retail sales, by leveraging the high growth offered by its online sales, which currently contribute less than 3 percent of the company’s total retail sales. The retailer plans to relaunch the website in the third quarter of 2010.⁴⁸



Do you have complete stock visibility across the supply chain for your different retail channels?



To effectively manage multiple supply channels, retailers must integrate different operational teams across channels.



Internet retailing through mobile devices offers a huge opportunity for growth, as growth in traditional online retail matures.

Operational challenges in multichannel retailing

Although multichannel retailing offers retailers an opportunity to increase their customer base, retailers face the challenge of managing these multiple chains. Multiple supply channels mean separate business units with disparate accounting processes, structures and reporting lines. Having separate systems for each supply channel is inefficient since it leads to duplication of resources — both human and physical.^{49, 50}

“The biggest thing we see is that where channels have been set up as individual business units; they have separate cost centers, often different Enterprise Resource Planning (ERP) and Warehouse Management System (WMS), and it makes consolidation and convergence very difficult.”

— Andy Murden, Business Development Manager, Manhattan Associates⁵¹

To deal with this challenge, retailers must break down any silos and integrate different operational teams across channels. Further, they must have complete stock visibility throughout the various supply chains in order to better manage their multiple channels. This will help them improve efficiency and cut costs.^{52, 53}

Outlook

Operational challenges notwithstanding, retailers must increasingly look to enhance their multichannel retailing capabilities, since customers are tending to purchase more and more through multiple channels. Also, customers are unlikely to shop solely online or in stores. The best performers in the retail industry will be those that optimally combine the brick-and-mortar experience with the electronic retailing experience, keeping in mind the interest of the customer.⁵⁴

“A successful multi-channel strategy translates into offering a seamless experience for the customer. This is achieved through using a single tone of voice and ensuring visual consistency, but mostly by putting the customer at the heart of the business.”

— Seb Villien, e-Commerce Manager, Kaleidoscope, an online retailer of women’s fashion products.⁵⁵

Further, multichannel retailers can endeavor to create more efficient supply chains for their online retailing channel by facilitating the transport of goods from the manufacturers directly to the consumer.

“In 2-3 years, all Internet sales could be shipped direct from manufacturer to consumer, and everything else on a just-in-time (JIT) basis. We are discussing, with the likes of FedEx and UPS, how we could achieve consolidation, single customs clearance and then straight to the consumer. So far, such firms have had the monopoly on international ‘freight costs,’ but someone will blink.”

— Jim Tennyson, Operations Director, Oakley UK.⁵⁶

Internet retailing through mobile devices offers a huge opportunity for growth, as growth in traditional online retail matures.^{57, 58} This can be primarily attributed to the expected global growth in mobile internet usage. In Asia, the number of mobile internet users is expected to grow 233 percent, from 423.6 million at the

end of 2010 to 1.4 billion in 2015.⁵⁹ In the UK, the number of adults using mobile internet is expected to grow 100 percent during 2010 – 2012, and 50 percent of the adult UK population is expected to use mobile internet by 2012. Further, by 2014, the number of UK users accessing the web via mobile device will exceed the number accessing it via desktop computer.⁶⁰ The growth in shipment of mobile internet devices in the US is likely to grow 231 percent during 2010 – 11.⁶¹ This reiterates the importance of investing in multichannel retailing capabilities for retailers.

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Retail shrinkage

Retail shrinkage increased globally in 2009, as shoplifting was on the rise during the economic recession. To minimize losses due to shrinkage, retailers have adopted a variety of practices, including training staff, adopting relevant theft-prevention technologies and carefully managing the goods receipt process. With retail shrinkage showing no signs of abating, even with the gradual recovery of the retail industry, retailers will need to continue looking for newer ways to tackle this issue.

Retail shrinkage refers to reduction in inventory — in absolute value or in terms of percentage of sales — due to factors such as theft, supplier fraud, paperwork and administrative errors, and shoplifting.⁶² This shrinkage is the difference between the value of stock as it features in the account books and the actual inventory available in the shop.⁶³



Global retail shrinkage amounted to US\$114.8 billion in 2009, 5.4 percent higher than in 2008.

Shrinkage affects retailers

According to a report by the Center for Retail Research (CRR), a retail research firm, the total retail shrinkage in 41 countries or regions across the globe — including China, India, Japan, the US and major European countries — amounted to US\$114.8 billion, about 1.4 percent of the total global retail sales in 2009. The percentage of global retail shrinkage in 2009 was 5.9 percent higher than that in 2008.⁶⁴

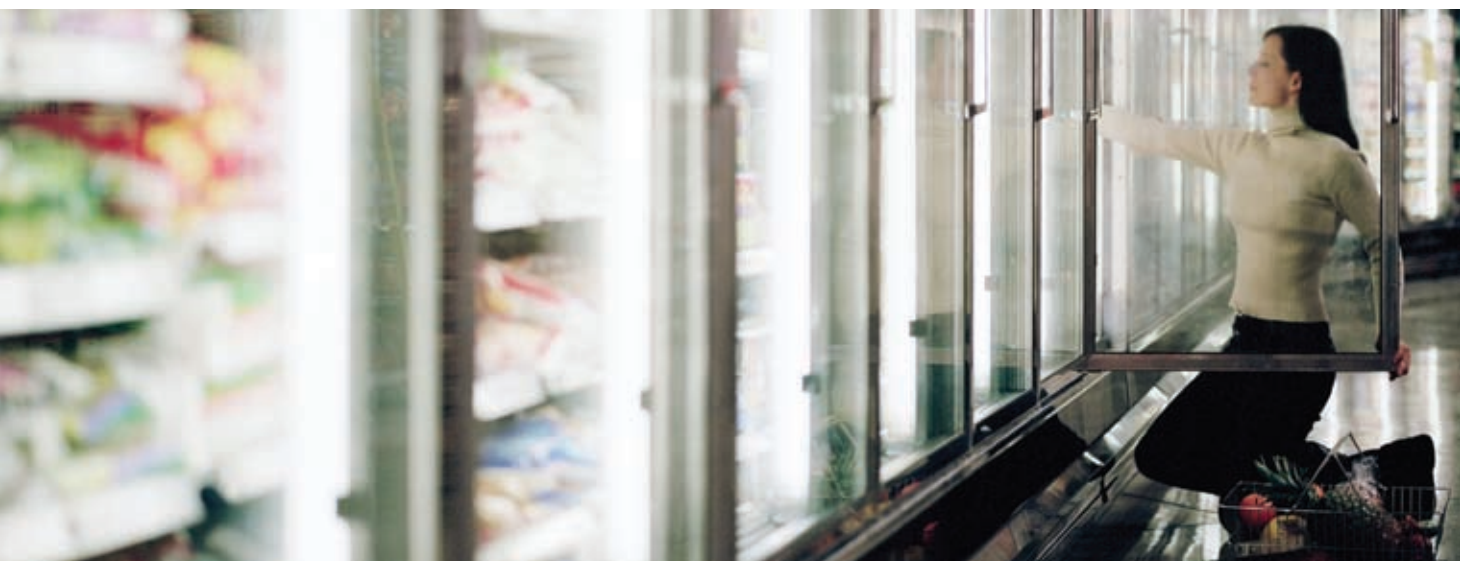
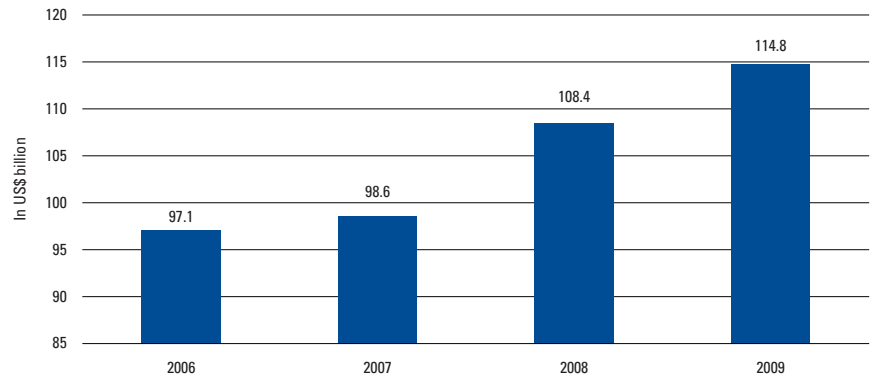


Figure 1 shows that global retail shrinkage has been increasing since 2006. The onset of the financial crisis in 2008 saw a significant increase in retail shrinkage, which reached US\$108.4 billion at the end of 2008, a year-on-year increase of 9.9 percent, as compared to just a 1.5 percent increase in 2007.

Figure 1: Global retail shrinkage values, 2006 – 2009



Source: The Global Retail Theft Barometer 2009, The Global Retail Theft Barometer Results 2007

According to the aforementioned report, retail shrinkage increased the most in North America (8.1 percent) and the Middle East and Africa (7.5 percent) during 2008-2009, primarily as a result of increased shoplifting. The retail categories that were the most affected by shrinkage in 2009 were clothing, fashion, apparel, auto parts, hardware and building materials. Off-trade alcohol retailing was the least affected.⁶⁵

The major reasons for the increased retail shrinkage across the globe were shoplifting, as experienced by 41.2 percent of the retailers surveyed by CRR, followed by employee theft, as reported by 19.5 percent. Moreover, retailers believed that 33.6 percent of the increase in shoplifting could be attributed to the recession and 22.2 percent of the increase was mainly due to employee crime.⁶⁶ Further, the recession forced retailers to reduce their spending on security and loss prevention by nearly US\$900 million globally in 2009. According to Professor Joshua Bamfield, Director, CRR, the correlation between increased retail shrinkage and decreased security spending is significant and this could be one of the major reasons that retail shrinkage increased in 2009.⁶⁷

Retail crime has continued to increase even after signs of recovery in the retail sector. During the second half of 2009, 78 percent of US retailers experienced an increase in amateur and opportunistic shoplifting, and 65 percent experienced an increase in organized retail crime (professional shoplifting in a planned manner by thieves acting in groups), according to a survey by the Retail Industry Leaders Association (RILA).⁶⁸

With this increasing retail shrinkage, there is a need for greater transparency in the supply chain and a more stringent — almost clinical — accounting of inventory. Further, retailers need to find innovative ways to tackle retail shrinkage, in order to ensure that their profits do not shrink unnecessarily.





To prevent shrinkage, retailers must institute effective loss prevention policies and procedures.

Are you carefully managing your goods receipt process to prevent shrinkage?



Steps to tackle shrinkage

In order to prevent shrinkage and remain profitable, retailers need to institute effective loss prevention policies and procedures as standard operational practices. Their loss prevention practices must focus not only on security against shoplifters and employees suspected of stealing, but also on any and all activities responsible for stock loss in retail stores. Apart from shoplifting and fraud by employees or vendors, other factors that could result in such store loss include damages and administrative errors.⁶⁹

Retailers adopt various theft-prevention strategies such as using mirrors, video cameras and closed circuit television (CCTV) and employing trained people and security staff. However, when adopting such practices, it is essential that retailers not publicize them, as doing so could allow potential shoplifters to find ways around such preventive measures.

“We do not disclose our loss prevention policies and consider this proprietary information.”

— Kristen Cunningham, Spokeswoman, Kohl’s, a US-based chain of department stores.⁷⁰

To deter potential shoplifters, retailers can focus on certain general areas of employee behavior. Retailer Bella adopts practices such as greeting all shoppers at the entrance and being friendly with shoppers in the US. Apparently, such behavior makes potential shoplifters feel as if they are being monitored.⁷¹

Using technology is another initiative that can help retailers tackle shrinkage. They need to find techniques that help detect and prevent theft, while creating a shopping environment wherein customers can shop freely. Moreover, the adopted methods must not only prevent thieves from getting away with the stolen product, but also discourage any attempts at theft.⁷² Technology companies provide software solutions that help retailers prevent or reduce retail shrinkage. Hicom, a UK-based technology solutions provider, sells software named Arena to prevent in-store theft. This software identifies the suspicious behavior of a customer and helps the owner identify customers who hide items in their shopping carts. The software has helped supermarkets to reduce thefts of common products such as batteries, razor blades and clothing.⁷³

The application of electronic article surveillance (EAS) security tags or radio frequency identification (RFID) tags helps detect retail theft. Further, these tags contain supply chain data, which leads to more efficient supply chains and, consequently, helps reduce damage, fraud and administrative errors.⁷⁴ For example, WinWare, a technology solutions provider, offers a retail loss prevention system. Its RFID retail display cases, RFID tags and robust software provide an effective method for accurately tracking the retailer’s inventory and reducing retail shrinkage. The system can track the removal of products by employees and purchases by customers.⁷⁵

Globally, several retailers have employed RFID technology in their supply chain and store operations. For instance, US clothing retailer American Apparel, which uses RFID technology in eight of its retail stores, has announced its



plans to install this technology at in its 280 outlets. Its retail stores will adopt Xterprise's clarity advanced retail solution (ARS) electronic product code (EPC) and inventory-management RFID software application. The company claims that its RFID-enabled stores have reported reductions in retail shrinkage, since data regarding the location of inventory becomes easily accessible to employees. Further, this technology will help the company in management of inventory and POS processes.⁷⁶

Some of the ways retailers can tackle employee theft include properly screening job applicants, not providing any single person with control of finances, running surprise audits and encouraging employees to reveal theft by coworkers while keeping the identity of the complainant confidential.⁷⁷

Retailers are increasingly becoming aware of the importance of vigilance in supply chain management and hence are adopting solutions to improve their supply chain activities. For instance, Metro expanded its Advanced Logistics Asia (ALA) initiative with Checkpoint (a global leader in shrink management and other activities) by adopting the third phase of the "Tag It Easy!" program to improve its logistic processes with its suppliers in Asia. This initiative helps suppliers to eliminate manual counting and enhance proof-of-delivery information by more accurately reporting the shipping data. Thus, the initiative helps prevent retail losses that occur through manual or administrative errors.⁷⁸

Vendor fraud can be prevented by carefully managing the goods receipt process, so as to stop vendors from either short supplying or charging extra. Retailers must ensure that the staff members in charge of receiving have complete knowledge of the products they are receiving and are well-versed in the technology to be used. Moreover, the receiving process must be regularly audited to ensure compliance with the company's policies.⁷⁹

It is important to provide only the designated people with authorized access to or control of the area where retail products are stored immediately after they are delivered by the supplier and before they are sent to the store. Also, it is necessary to have clearly written policies and procedures for the entire receiving process. Further, retailers should ensure that the stock in their backroom reserve area, where buffer stock for store inventory is kept, is not more than 8 – 10 percent of the total store inventory. This will help minimize losses due to damage, expiration or theft.⁸⁰



Retail crime is not showing any signs of receding, even after the economic recovery.

Conclusion

Although the primary reason for the increase in retail crime was the economic recession, this crime wave is not showing any signs of receding, even with the recovery of the retail industry. Therefore, retailers need to continue to find new ways to tackle shrinkage. Moreover, they need to be financially stronger than before, in order to be able to invest in initiatives — such as entering new markets and making strategic acquisitions — to capture any rising shopper spend. To that end, it is essential that they enhance their profitability by reducing retail shrink.

Retailers, in collaboration with third-party service providers, are using wireless warehouse technology to ensure accuracy of the inventory counts and to help avoid shrinkage due to in-house collusion. These service providers advise retailers on methods to avoid delivery discrepancies, stock losses, excessive damage and costs associated with holding extra inventory. The retail industry can benefit further from future advancements in technology to enhance visibility into retail inventory.⁸¹ This will make retailers more capable of tackling shrinkage.⁸²

Also, there are various new improvement areas in the current state of warehouse technology. These include technology improvements in inventory management and labor management. Since warehouse is a huge source of risk for retail shrinkage resulting from illegal usage of facilities, employing these new techniques for warehouse inventory management can help retailers reduce shrinkage.⁸³

FURTHER INFORMATION

Visit kpmg.com for the following related publications

- *“Procurement Fraud: Preventing, Detecting and Taking Action”, ConsumerCurrents - Issue 08*
- *Global Retail Loss Prevention Survey 2009*
- *“Winning the battle against loss”, ConsumerCurrents - Issue 03*

How KPMG firms can help IT security and integrity

While technology presents major opportunities to improve efficiency and global reach, it also creates significant risks. Our firms’ professionals advise our clients in using technology to help drive growth, improve business performance and to safeguard operational integrity, security and continuity.

Combating fraud

Fraud is one of the most difficult risks to detect but it is an ever-evolving and costly threat to the finances and reputations of many organizations. Operating in both developed and emerging markets, KPMG firms’ forensic specialists provide robust and practical advice on reducing reputational risk and commercial losses.

Revamping internal audit

As the role of internal audit evolves from score-keeper to value-maker, KPMG firms can help in the transition. We assist with the transformation of the internal audit function from its traditional, transactions-based model to one that delivers strategic business assurance and value. We help our clients adopt the structures, culture, procedures, controls, roles and communication processes that can improve business performance and shareholder confidence.

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Companies mentioned in this issue

Amazon	8, 9	Oakley	10
Bella	14	Safeway	8
Carrefour	3, 5	Sears	9
Home Depot	5	ShopRite	8
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