Despite a backdrop of challenging economic conditions and ever-persistent thieves — whether dishonest employees or shoplifters — retailers are maintaining a steady pattern of shrink reduction.

As retailers have identified effective loss prevention initiatives and LP executives have gained a louder voice in promoting solutions, overall losses as a percentage of sales have remained close to historic lows, according to Richard Hollinger, professor in the department of sociology and criminology and law at the University of Florida.

The most recent edition of the annual National Retail Security Survey found that the average shrink rate across all retail segments was 1.49 percent in 2010. While that figure represents an increase over 2009’s 1.44 percent, it remains a marked improvement from two decades earlier, when the average was closer to 2 percent.

As an industry, retail is “getting better at protecting merchandise, and LP departments are becoming more sophisticated,” Hollinger says, but recent results are also impacted by the fact that there were “some types of stores that blew our averages for shrink rates that are no longer in business.” He offered music stores, which sold easy-to-steal CDs, as one example.

**A bitter pill**

The four primary sources of shrink identified by retailers remain employee theft (45.8 percent), shoplifting and organized retail crime (32.1 percent), administrative error (14.8 percent) and vendor fraud (4.3 percent); the remaining 5.8 percent is categorized as “unknown.”

“Internal theft by employees is a bitter pill for retailers,” Hollinger says. “They have trouble accepting the dramatic impact of employee theft.” Various forms of “integrity screening” are gaining traction, however, especially criminal conviction checks and honesty testing.

Retail sectors and merchandise categories reporting the lowest shrink rates begin with consumer electronics, computers and appliances (0.36 percent), followed by jewelry and watches (0.38 percent) and men’s apparel (0.62 percent). The category hardest hit by losses was supermarket and grocery stores, with a shrink rate of 3.12, followed by off-price/outlet at 2.1 percent and furniture at 2.06 percent.
“We typically saw shrinkage for supermarkets and grocery stores at about half of what we see in this
year’s report,” Hollinger says. “I’ve talked with people at several of the largest supermarket chains and
they are not sure how to explain these numbers. One explanation is [that] it’s an anomaly. A number of
LP directors at major chains say they are not seeing these kinds of numbers.”

Increased gift card losses
When asked to compare gift card losses with the previous year, 26 percent of retailers said they were
increasing and 17 percent reported a decrease (a majority — 57 percent — did not respond).

“This is an issue retailers want to know more about,” Hollinger says. “It’s a concern that’s linked to ORC.
Twenty-five or 30 years ago we used to give cash when people brought merchandise back, but now,
without a receipt, the best they can do is a gift card. We’re now seeing gift cards being sold online at
pennies on the dollar.”

Additional findings in the report include:
• Nearly one in three retailers plan to increase POS exception-based reporting, and one in six will use
refund controls.
• LP systems generating the most interest include remote IP CCTV monitoring, POS exception-based
CCTV interface and POS data mining.
• Most LP budgets showed an increase (41 percent) or remained unchanged (40 percent) in 2011, while
19 percent showed a decrease.
• One in five retailers said there was an increase in apprehensions that led to violence.