Shrinkage and Loss Prevention: Evidence from the Global Retail Theft Barometer

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As we look forward to the publication of the tenth in this series of annual retail theft barometers (due out in Autumn 2010), it seems timely to draw some conclusions from the surveys. This White Paper looks at some of the patterns of retail shrinkage and concludes by discussing the impact of loss prevention spending on shrinkage.

The Global Theft Barometer
The Barometer has grown from a study of 15 countries in 2001 to 24 countries by 2006; it now covers 42 countries with combined retail sales of US $7,903,093 million ($8 trillion). The Barometer, originally called the European Retail Theft Barometer, ‘went global’ in 2007 and covers all inhabited continents. It is the largest and most comprehensive survey of retail theft and crime in the world. The GRTB has been valuable in showing trends in crime, shrinkage and loss prevention and drawing the attention of commentators and the wider public to retail crime issues.

Retail Crime in 2009
Last year (2009) saw global retail shrink rise to a total of $114.8 billion. As a percentage of retail sales it increased from 1.35% to 1.43%. Attempted shoplifting rose massively as 41.2% of retailers experienced increased shoplifting, but employee theft rose also with 19.5% of retailers experiencing more attempted thefts by disloyal employees than in 2008. Retail crime moved up the agenda, noted by the media as well as retail executives.

Many commentators saw the economic recession as the cause of these additional problems for retailers, although it is important to note that globally only one-third of Loss Prevention managers thought this was the key factor, although it was 47.5% in North America.

GRTB 2010
But now that most countries are heading out of the recession, with several quarters of economic growth which will this mean for retail crime? One might think that crime will fall, but levels of unemployment in most countries are still much higher than they were two years ago and there is little confidence that economic growth will be robust. So will crime fall, will it stay the same, or will it continue to rise?
The 2010 edition of the Global Retail Theft Barometer will answer those questions unambiguously, based on results from the 42 countries now surveyed.

But while we wait for its publication, what conclusions can we derive from the previous publications in this series?

We look first at recent global figures and then at ten year’s figures for Europe.

**Global Shrink Rates 2006-2009**

Figure 1 shows the shrink rates for the main regions from 2006 to 2009, where they are available. Although the studies of North America and Asia-Pacific did not start until 2007, we always ask for the previous year’s data so a run of data from 2006 can be used.

Figure 1

The first thing to note is the universal increase that occurred almost everywhere in 2009.

Figure 1 shows that in North America, shrink rates since 2006 have had a ‘floor’ (or minimum level) of 1.48% of sales, but there was an upward spikes in 2007 (to 1.52%) and in 2009 shrinkage rose to 1.60%.

Europe shows a constant upward progression from 1.23% in 2006 to 1.33% in 2009.

Shrink in Asia-Pacific has been moving in the opposite direction to Europe. There has been a downward trend in the average shrinkage rate from 1.30% in 2006 to 1.19% in 2008, only disrupted by the jump in 2009 to 1.24%.

There is insufficient data to comment on Latin American experience.

In Figure 1, therefore, we see different regional levels in shrink rates and different trends over a period of time. The results by country vary even more significantly,
which means that we cannot really talk in terms of ‘a normal’ pattern or rate of shrinkage affecting all retailers in all countries.

**European Shrinkage Rates: A Retrospective**

We now have ten years of data for Western Europe (including the 2000 figures collected in the 2001 survey). What do these tell us about any patterns of crime and shrinkage? Although these patterns relate to Europe the issues are much wider.

Figure 2 shows the average shrinkage rate in Western Europe as a percentage of sales for the period 2000 to last year, 2009. We only have full data for a decade in Western Europe.

In the year 2000, the average shrinkage rate for Europe was 1.40% (Figure 2) and by 2009 the average shrinkage rate was 1.33%.

**Figure 2**

It is possible to ascertain at least three main patterns.

Average shrinkage rates in 2009 were lower than 2000, in spite of last year’s sharp rise in shrink and crime.

The second pattern is a ‘wave’ of shrink rates between 2000 and 2005. Staring at 1.40%, average shrinkage rates rose to a peak of 1.45% before falling back to 1.24% in 2005.

A more recent trend starts in 2006, from a low point of 1.23% rising year-by-year to 1.33% in 2009. At this stage, we cannot know whether shrink will continue to rise as high as the 1.45% seen in the previous ‘wave’. But we can note that although the average shrinkage rate has risen for four years in succession, it is still lower than at any time between 2000 and 2004.

This is good news and it is produced by the efforts and imagination of retail loss prevention departments and the investment in lower crime that retail businesses
have made over the years. The peak years of shrink, based on the 10 years of this study, seem to be periods of lower economic activity, although as noted in GRTB 2009 this can only explain part of the growth in shrinkage.

Swimming Against the Trend
A further pattern, which we see only in the raw data, is the variation between retail corporations. Even when percentage shrinkage rates are rising apparently universally, there are always between one-quarter and one-third of retailers that stand apart from this trend because their shrinkage falls or at least remains stable. There may be a number of reasons for this: good long-term strategy, superior management, consistent funding of loss prevention, good training and recruitment, an open approach to innovation, well-considered investment programmes, good fortune - or all of these – but the point is that for a proportion of retail corporations there seems to be nothing inevitable about the ebbs and flows of the shrinkage trade cycle.

Loss Prevention Spending and Shrinkage
One of the most important loss prevention topics is, ‘How much should I spend on loss prevention and security?’ We know from the GRTB that retailers in different countries spend different amounts on loss prevention. At a country level loss prevention expenditure in 2009 was 0.14% of retail sales (Japan), 0.26% in the UK, 0.37% in France or 0.41% in the U.S. There are a number of countries in Asia-Pacific that spend, in comparative terms, rather less on loss prevention (as a percentage of sales) than other countries, but have low levels of shrinkage. Similarly some of the countries that spend most on loss prevention experience above-average levels of shrinkage.

But it is no surprise that retail corporations that spend most of loss prevention are likely to be facing the biggest crime and shrinkage problems. If they spent less on loss prevention, their costs of crime and shrinkage might be even higher. Retail corporations that manage to avoid high shrink losses naturally do not feel the urge to increase their loss prevention spending.

The amount retailers have to spend on loss prevention is not unlimited of course and the amount available may be reduced when businesses are in difficulties, as we saw in 2009. It is obviously very difficult to prove the exact impact of retail loss prevention spending, because there is obviously not a simple relationship between high loss prevention spend and low shrinkage. In addition, we know that some high-spending companies may obtain mediocre shrinkage results from their loss prevention budgets and others seem to do better with much less. The differences between these types of impact are normally put down to ‘good management’ but there are other reasons as well.

So the Centre for Retail Research has studied not the absolute amount or percentage spending on loss prevention, but the change in spending. We wanted to examine whether retail corporations that expand their loss prevention spending reduce their shrinkage. In the same way, we looked at whether cutting spending on loss prevention allow shrinkage to rise?

Figure 3 is based on 10 years of data and shows that changes in loss prevention spending do have an impact on upon shrinkage levels. At this stage, this work is an exploratory exercise and in GRTB 2010, the data will be extended to include this year’s figures and to model the relationship between changes in loss
prevention spending, both employees and equipment, and shrinkage levels. It explains almost two-thirds of the change in shrinkage, although we caution that this so far only a preliminary study.

Figure 3

The analysis is not based solely upon Figure 3 of course. There has been much technical regression analysis, which is not published here. The regression line is downward-sloping from left to right showing that increased loss prevention expenditure is associated with reduced shrinkage. Note that we are not arguing that one causes the other, simply that there is such a relationship and that it is consistent with the evidence that we have.

There is evidence from the data that retailers look for very a fast payback on their loss prevention spending. We tested whether LP spending in one year reduces shrinkage in the following year; it does but the major impact is in the current trading year. The comments that one hears from retailers about needing required paybacks on investment of between four to eight months are not fictitious!

Obviously we are not arguing from this analysis that the essence of successful loss prevention is simply to spend a great deal of money. Loss prevention budgets have to be allocated well, decisions made carefully, and the process needs to be managed excellently based on current useable information about the business. Loss prevention spending is part of this process and we have shown that there is a statistically-significant relationship between increases in loss prevention spending and reductions in shrinkage.

The Role of Good Management
The last point is probably the most important point. Good management and great leadership that sets high standards based on a coherent strategy is fundamental to the work of loss prevention. Every country and area has regional and national differences that affect shrink rates, such as the local levels of criminality, the legal/criminal justice system, crime opportunities, the quality of loss prevention investment, and the effectiveness of crime prevention. Good
management and the random element that we call ‘luck’ need to be there, always attentive to growing problems, directing, leading and taking responsibility for overcoming the loss prevention problems facing the retail business.

**GRTB 2010**
The new survey of 42 countries, including Russia for the first time, will be published in Autumn. There will be a great deal of interest in the new shoplifting trends, whether shrink has continued to rise, and about global levels of loss prevention spending.