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Shrinkage – a controllable cost

When Frank Winfield Woolworth opened his first nickel and dime store in 1879 Pennsylvania he decided to do things differently.

He took his sales stock out from behind the counter and put it out on open display, a move that boosted sales, cut the number of sales staff, propelled the growth of Woolworths and changed retail forever.

But there was one negative aspect, says Grant Marvin, Smith and Caughey Loss Prevention Manager, speaking at the Retail Australasia Summit held recently in Auckland.

Grant Marvin, Loss Prevention Manager, Smith and Caughey

The downside in his new approach was a dramatic increase in shop theft.

"But for him the losses due to the theft were more than outweighed by the additional sales, and reduced costs," says Marvin.

"He could justify his losses, and from that time shrinkage became a cost of business, a decision about determining what would be acceptable."

Today, growing sales is tougher than ever, causing businesses to search for ways to improve performance and focus on loss prevention.

"Reduce shrinkage and you reduce costs," says Marvin.

"The challenge is to sell more and lose less, while still creating a positive customer experience."

He says shrinkage is about operational failures – damage, wastage, theft or fraud, creating negative thoughts about dishonesty, complacency, and relationships, but these should not be allowed to taint the positive attitudes that are needed for sales.

This happened in the past, but loss prevention techniques have evolved and he says the benefits today are realised by making loss prevention and security part of organisational culture.

"First and foremost shrinkage is not solely the responsibility of the loss prevention department. The whole organisation has the ability to do something about it.

"Staff views are strongly influenced by the company culture and managers. Senior management commitment is the foundation embedded loss prevention.

"We also have organisational factors like keeping shrinkage on the agenda, about focus and vision, employing the right people, having key performance indicators associated with loss prevention, innovative thinking and a willingness to change, and data analysis. What this is all about is making loss prevention part of the culture of the company."

Dave Norton Loss Prevention Manager, Foodstuffs South Island, told the summit that technology is another key component of a successful loss prevention strategy.

"The value in technology is not to rely on it to stand alone, but to use it to support your people and to support your processes," he says.

"Unless you have the culture and processes embedded, technology is not going to give you the benefits that it could."

Norton says the strategy at Foodstuffs is to deploy systems that are multipurpose, open platform, flexible, sustainable, and are fit for the future.

An example is linking point of sale data from checkouts with CCTV images – a system that has provided huge benefits.


Dave Norton, Loss Prevention Manager, Foodstuffs, South Island

"We show staff that we have the system, and it has acted as a deterrent, and has significantly reduced some of the loss issues at point of sale."

He says exception based reporting – looking for abnormal patterns in data – is a valuable technology that gives early warning of inventory and point of sale issues.

"The additional benefits are prompt resolution of customer complaints if they say they have been given the wrong change, or been charged the wrong price. Or if people take a receipt off the floor and attempt to get a refund, we can immediately enter the receipt number into the system and link into the footage and determine if that refund is legitimate.

He also cited

"We can also use it for staff training in inventory management. Where we make a miscellaneous sale and we don't know what's been sold, we can fix up the point of sale and inventory systems with the right coding."

Electronic article surveillance (EAS) is another successful technology that has reduced theft of 'hot' product lines by up to 40 or 50 per cent in some instances.

EAS tags are automatically deactivated when the item is scanned at the checkout, so if an item is not scanned it sets off an alarm at the exit gates. In one store a green border strip on the floor set between the EAS gates denotes the exit boundary point and provides a simple psychological barrier.

"It signals 'don't step over that line if you've got something in your pocket'," says Norton. "On the first couple of days after we installed it we found there were people walking up to it and actually turning around and dumping product in the store, so this can be very effective deterrent system, if used properly."

Another trend in security is the move to higher resolution IP CCTV cameras where a single camera can now cover an area that previously required multiple analogue cameras.

"I can cover a whole car park with one camera for less cost, and zoom in to any part of the area," says Norton.

He believes video technology and integration with other security systems such as access control will only get better, and he cited thermal imaging cameras, and video analytics also showing promise for the future.

But he says technology only goes so far.

"The biggest challenge I see for retailers, is once you set a shrinkage goal, and you get shrinkage down to that goal, the issue is maintaining it there.

"What can so easily happen in retail is a shrinkage cycle, where once a retailer has achieved the low shrinkage goal, a couple of years later they are back in a high shrinkage situation. More often than not this is because of either complacency, change of management attitude, economic pressure or changed business priorities."

All the same, shrinkage may come and go in cycles in many companies as complacency follows enthusiasm in a cycle, but at the Retail Summit, after listening to Dave Norton and Grant Marvin you can make a pretty sure bet it won't be happening that way at their companies any time soon.