



CONSUMER MARKETS

# Global Retail Loss Prevention Survey 2009

KPMG INTERNATIONAL



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#### **Foreword**

Are retailers losing more than they should through stock shrinkage? It is a question that KPMG has been researching for several years now. And we believe the evidence is growing that shrinkage rates are higher than they need to be.

Shrinkage or stock loss has always been a feature of retail business. Many companies have learned to live with losses caused by damage, theft, and counting errors. But are they complacent?

This survey suggests they are. Shrinkage rates of up to 3 percent of sales represent a very large loss of profit, yet our survey shows that over 90 percent of companies remain satisfied with their management of stock shrinkage.

Perhaps most interesting of all, much of this stock loss may be due to internal errors, caused by poor design and implementation of processes. This survey has confirmed what KPMG member firms have already found through working with companies on this issue: internal error is a much bigger contributor to stock loss than many

companies suppose. While retailers concentrate their efforts on reducing loss through theft, as much as half of their losses may actually be attributable to errors in the ways they manage their physical inventory.

The conclusion has to be that many retailers are making losses that are needless. Companies that want to cut those losses will need to look hard at their internal processes as well as at their vulnerability to external losses – as the survey argues, it is the diagnosis of causes that remains the missing link when it comes to reducing shrinkage.

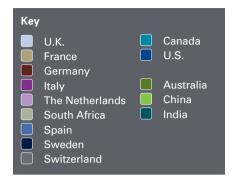
But for companies that make that effort, there are clear gains to be made. Cutting shrinkage goes straight to the bottom line and, in today's tough retail conditions, the prospect of real loss reduction is just too important to ignore.

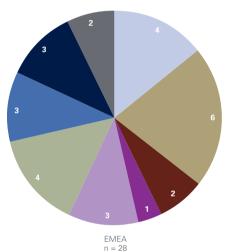


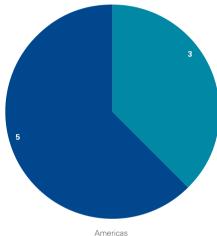
Mark Larson Global and U.S. Head of Retail KPMG in the U.S.

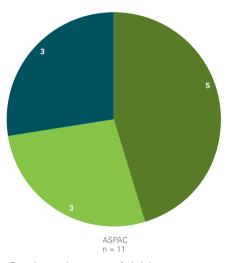
### Survey methodology

KPMG has been conducting research on retail companies' organizational responses to shrinkage for the last four years.









In 2005, KPMG conducted a survey of 27 large retailers in the Asia Pacific region (ASPAC), including Australia, Hong Kong, India, Japan and New Zealand. That survey found that Asia Pacific retailers experienced shrinkage rates of 0-2 percent of sales (mostly calculated at cost) and that most companies considered shrinkage to be an irreducible cost of doing business.

The present survey builds on the 2005 research, with a larger global sample of companies and an expanded questionnaire. In all, 47 leading global retailers participated in the present survey:

- 28 from the Europe, Middle East and Africa region (EMEA)
- 8 from the Americas, and
- 11 from the Asia Pacific region.

Companies participated in a telephone interview with Verdict, a leading retail research organization, in the autumn of 2008; further discursive interviews were conducted in February and March 2009. Companies were asked 24 questions covering the extent of shrinkage in the business, strategies for managing shrinkage, the use of internal and external resources devoted to reducing shrinkage, and future plans.

Responses on the extent of shrinkage were broadly in line with the earlier KPMG research and with other published survey results: most companies (43 out of a survey sample of 47) reported shrinkage in the range of 0-3 percent of sales. However, three companies reported significantly higher shrinkage levels, at 4.5 percent or more of sales (one declined to answer). These results have been recorded in the graphical presentation of results, but for the purposes of interpretation, the high results are treated as statistical outliers.

Results on the extent of shrinkage are calculated by companies themselves, and have not been adjusted to a single cost basis; the questionnaire results show that around 60 percent of companies in Asia Pacific and EMEA calculate shrinkage at cost and the remainder calculate shrinkage at retail prices; in the Americas, the majority of companies (75 percent) calculate shrinkage at retail prices.

#### **Executive summary**

KPMG's Global Retail Loss Prevention Survey 2009 seeks to establish how large retail organizations currently define shrinkage, how they respond organizationally to the challenge now, and how they plan to respond in the future.

#### **Effects and causes**

- The majority of companies surveyed worldwide – 94 percent – estimate shrinkage as a percentage of turnover in the 0-3 percent range.
- Companies believe that more than half of all shrinkage is caused by theft, and that approximately a third is caused by process failure.
- Companies have a high level of satisfaction with their own shrinkage control performance – 96 percent believe their performance on shrinkage control is average or better.

#### Setting policy, measuring loss

- Many companies worldwide (and all companies in the Asia Pacific region) report that shrinkage is a board-level issue.
- All retailers in the KPMG survey say they consider to have a clear definition of shrinkage; companies are also likely to report that they have a formal written policy on shrinkage (87 percent).

 Almost all companies report having a dedicated team to review and monitor loss, and the majority of companies (88 percent) said they set shrinkage targets. However, reporting lines of responsibility were found to be extremely diverse, with 21 different responsible officers cited.

### Working with employees and suppliers

- A large proportion of companies use pay incentives linked to loss prevention, with companies in the Americas most likely to use incentives.
- Half or more companies report giving specific training on the shop floor and in warehouse operations; however, less than half of companies (43 percent) give loss prevention training to management.
- Although the majority of companies
  (68 percent) say they collaborate with
  suppliers to reduce shrinkage, when
  asked whether detailed data on the total
  amounts and likely causes of shrinkage
  are shared with suppliers, only a minority
  of companies overall (38 percent) say
  they do this.

#### **Investing in loss prevention**

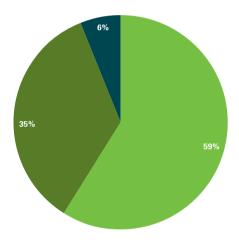
- Technology, training and in-store security are the key investments that companies have made to combat shrinkage – over 90 percent of companies have invested in all three areas. Companies are much less likely to invest in advice and other services from third party providers – less than half of companies use third party providers.
- Companies say that future actions to manage shrinkage will focus on employee integrity. Process improvements are considered almost as significant.
- Companies are disinclined to believe that adoption of RFID (Radio Frequency Identification) will be significant. Most companies (57 percent) believe that implementing RFID is too expensive.

Overall, KPMG finds that the proportion of loss attributable to process error is much higher than estimated in other surveys and analyses: the key finding of this survey is that process failure is a very significant contributor to overall retail shrinkage, but that companies find process failure more difficult to address than outright theft.



### How much shrinkage?





The great majority of companies worldwide - 94 percent - estimate shrinkage as a percentage of turnover in the 0-3 percent range.

This figure is consistent with previous KPMG research on the issue, and with other published research. For example, research by the Centre for Retail Research<sup>1</sup> found, in a survey of retailers in 36 countries, that total shrinkage (including internal and external errors) accounted for 1.34 percent of sales (with shrinkage adjusted to retail prices where necessary).

In the KPMG survey, companies in the Americas and Asia Pacific region give almost exactly the same estimates of shrinkage, with three quarters of companies estimating it at 0-1.5 percent of turnover and a quarter estimating it at 1.5-3 percent. Companies

in the EMEA region estimate higher levels, but this higher figure is entirely accounted for by the three retailers that estimate shrinkage at 4.5 percent or over. While such high levels of loss are entirely possible, for the purposes of this survey, those results are treated as statistical outliers and loss is considered to be in the 0-3 percent range.

It should be noted that these estimates of loss do not distinguish between companies that calculate loss at retail price and those who use cost price accounting. Less than half of companies in EMEA and the Asia Pacific region calculate loss at retail price (41 percent and 40 percent respectively). Retail price accounting is more widely used in the Americas, where three quarters of companies calculate loss at retail prices. Since the use of retail price accounting is not correlated with estimated levels of loss

in the KPMG survey results, we could conclude that retailers in the Americas are effectively reporting the best levels of stock loss control, while retailers in EMEA are reporting the worst.

Overall estimations of the level of shrinkage are indicative but not conclusive. The levels of shrinkage experienced by retailers in different sectors differs considerably: food retailers typically experience low levels of shrinkage, compared to sectors such as DIY (Do it Yourself) goods and car parts. Irrespective of sector, retailers also differ widely in what they include in their definition of shrinkage, and there is no commonly accepted definition of what retail shrinkage includes.

"In my experience, most data in companies is anecdotal," says Mark Larson, global head of retail at KPMG in the U.S. "What companies need is definition."

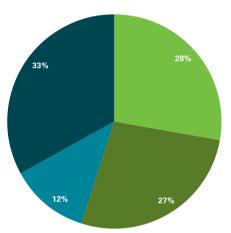
<sup>1</sup> The Global Retail Theft Barometer 2008: 2

Centre for Retail Research, November 2008

# Causes of shrinkage

Overall, companies believe that more than half of all shrinkage is caused by theft, and that approximately a third is caused by process failure. This is roughly consistent with KPMG firms' advisory experiences in diagnosing the causes of shrinkage in retail companies (see page 21 for an account of one such project in a U.K. national retailer with over 100 stores).

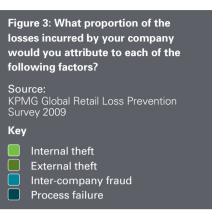


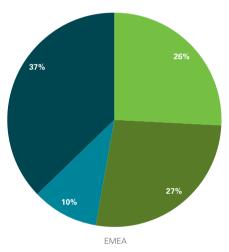


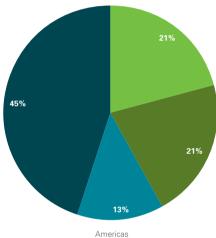


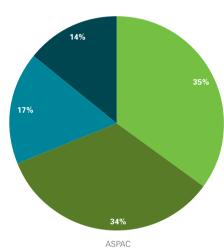
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# Causes of shrinkage by region









There are striking regional differences between retailers' ascriptions of the causes of shrinkage. Companies in the Asia Pacific region believe that almost 70 percent of loss is due to theft, divided almost equally between internal and external theft; they are very reluctant to ascribe loss to internal process failure (only 14 percent do so). Companies in the Americas ascribe a much lower proportion of loss to theft, and believe almost half of loss (45 percent) is due to internal process failure. EMEA companies' interpretations are closer to the Americas results.

Overall, KPMG finds that the proportion of loss attributable to process error is much higher than estimated in other surveys and analyses. For example, the 'Global Retail Theft Barometer' research by the Centre for Retail Research estimates that 77.7 percent of all shrinkage is attributable to internal and customer theft, while only 16.5 percent is attributable to internal errors, and 5.8 percent to external errors. However, KPMG's survey responses and KPMG firms' advisory experiences in diagnosing the

causes of shrinkage in real companies suggest that error is responsible for a much larger proportion of shrinkage (see page 21 for an account of one real-world KPMG diagnosis of the causes of retail shrinkage).

However, KPMG firms' retail specialists agree that diagnosing causes of shrinkage is challenging for all companies. "Analysis of causes is the missing link," says Brian Connell, a supply chain advisor with KPMG in the U.K.

"There is an issue around visibility," adds Helen Dickinson, head of retail with KPMG in the U.K. "You need visibility in order to identify causes and remedies, and to assess whether you are below or above the norm for your sector. This helps prioritize how urgently you need to invest in rectifying the problems."

Many retailers focus first on internal theft, because retailers typically have large numbers of junior employees and a large staff turnover. Yet companies also acknowledge that process failure – stock errors due to

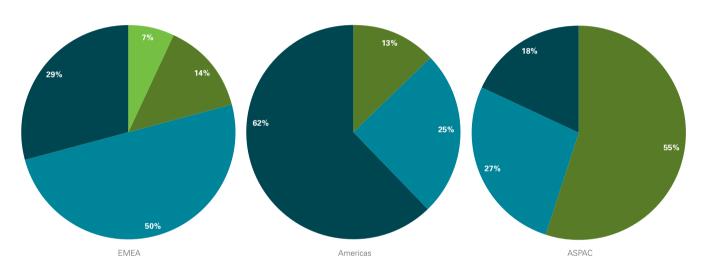
poor process design and poor adherence to processes – can be at least as great a contributor to shrinkage. Some retail specialists argue that its impact is greater than top-line figures suggest, because process failure generates an opportunity cost of not having appropriate, in-date inventory in the right place at the right time.

"Many retailers focus their efforts on internal and external theft, when the main issue is often process failure," says George Svinos, KPMG's head of retail in the Asia Pacific region. "But process failure is difficult to address, because you have to look at the whole retail process and that is a very large and complex issue."

Ultimately, certainty over the causes of shrinkage may not be fully obtainable. "You can never know exactly what proportion of loss comes from different sources," says Hervé Chopin, head of retail for the EMEA region at KPMG. "There will always have to be a degree of extrapolation: companies need to be aware that their data is incomplete."

# Is confidence misplaced?





Overall, the great majority of companies (96 percent) believe their performance on shrinkage control is average or better, and 73 percent think it is satisfactory or best practice. This represents a high level of satisfaction. Yet regional differences are striking: more than 60 percent of companies in the Americas consider they achieve best practice in loss control, and none considers its performance poor (a result consistent with those companies' low estimates of stock loss when responses are adjusted for greater use of retail price accounting in the Americas). Satisfaction with performance

is lower in Asia Pacific and in EMEA - two companies in the EMEA region were the only retailers to consider their performance poor.

The responses indicate a relatively high level of satisfaction with loss control performance. Yet specialists caution that stock shrinkage at levels of up to 3 percent of turnover indicates a very significant loss to the bottom line and that, in today's recessionary environment, the loss is likely to increase. "Most retailers understand that during a recession their loss levels are likely to rise," says Helen Dickinson. "But a recession also

means that there is pressure not to spend money and, given the significance of loss, for some retailers that could be a false economy."

Many retailers also assume that shrinkage is exceptionally difficult to reduce, say retail specialists. "Retailers tend to treat shrinkage as an inevitable cost of doing business," says George Svinos. "Really that is odd when you have something as significant and controllable as shrinkage, why on earth would you not do whatever you could to address it?"

### **Setting policy, measuring loss**

### A board-level issue?

Overall, companies report that shrinkage is a board-level issue. The small percentage of retailers who say that shrinkage is not addressed at board-level is accounted for by one company in the Americas, and two companies in EMEA. Every retailer surveyed in the Asia Pacific region said that stock loss was a board-level issue.

Despite the near-consensus that shrinkage should be discussed at board-level, retailers may still treat policymaking on the issue in a wide variety of ways, and may not develop a company-wide approach, say retail specialists. "It all depends on the size of the company, and the nature of its organization," says Mark Larson. "In a large internationalized company, the issue of stock loss tends to be a country issue. In a national group, it is more likely to be a board issue."

#### Figure 5: Has loss prevention been discussed at board-level within your company and prioritized as a key action or initiative? Source: KPMG Global Retail Loss Prevention Survey 2009 Key Yes Partially

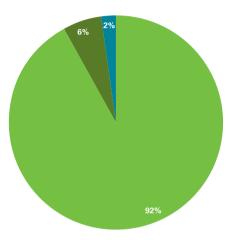


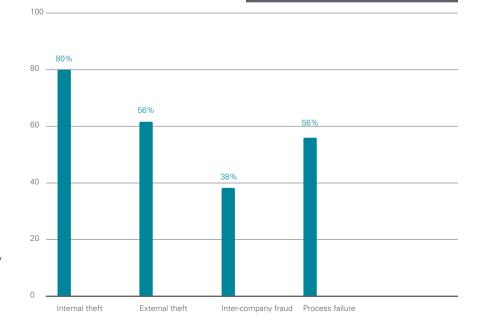
Figure 6: For companies that define shrinkage: what does this include?

KPMG Global Retail Loss Prevention Survey 2009

# What counts as shrinkage?

All retailers in the KPMG survey say they consider to have a clear definition of shrinkage - the results in figure 6 therefore include all companies in the survey. Perhaps surprisingly, companies are highly selective over what they include in their definitions of shrinkage, with almost half of companies (44 percent) not including external theft, and nearly two thirds of companies (62 percent) not including inter-company fraud. Overall, companies are more focused on internal issues (internal theft and process failure), than on externally-driven loss (external theft and inter-company fraud).

Companies are also likely to report that they have a formal written policy on shrinkage (87 percent report that they do), with companies in the Americas most likely to have a formal policy, and Asia Pacific companies least likely to have such a policy.



# Resources to tackling shrinkage

Almost all companies report having a dedicated team to review and monitor loss: only two companies in the EMEA region reported that this was not the case. Such teams are also likely to be of significant size. In nearly 80 percent of cases, companies say their teams are in excess of 15 people.

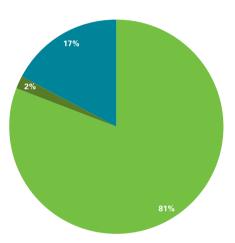
While there is near-consensus on the need for teams to monitor loss, there is no such consensus on how they should be organized and to whom they should report. "The results show that ownership and accountability for shortage is an area that needs work," says Hervé Chopin. "Typically, a financial metric will be agreed upon, but accountability for hitting that target is not clearly assigned."

This is reflected in the very wide range of reporting lines that companies describe. Almost half (46 percent) of companies have teams reporting to the CFO, the supply

chain director, or the commercial director; but in the rest of cases, reporting lines to 18 different officers were cited, such as the CEO, the head of audit, the logistics director, as well as the sales manager and head of warehouse.

"Such a large spread of reporting lines shows the lack of ownership of the issue, and the fact that [loss control] is an under-represented driver of value," says Brian Connell. It may also reflect a lack of definition and communication in the company, believes Mark Larson. "Often there is no single document," he says. "Procedures tend to be disseminated through various documents that may be addressed to shop floor managers, or financial controllers, or internal audit staff, or technical security staff. This goes to the heart of the organizational challenge of stock loss: there is no one key actor."







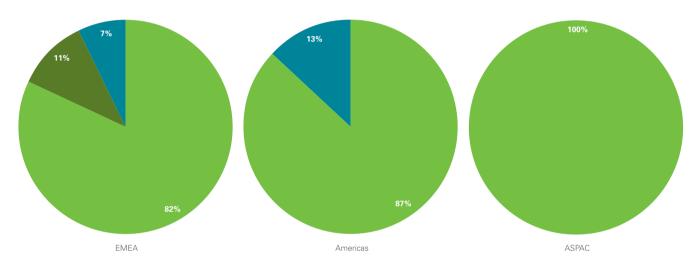
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# Are targets set?

Overall, the majority of companies (88 percent) set shrinkage targets; only three companies in the EMEA region report that they do not do so. Of those companies that do set targets, unsurprisingly most also measure shrinkage and match performance against targets although it is surprising that again, one EMEA company reports that it does not do so.

Those companies that do measure performance against pre-determined targets are most likely to use monthly performance tracking (used by 38 percent of companies), although weekly, quarterly and annual tracking is also used.

### Figure 8: Does your company set annual targets for shrinkage? **Source:** KPMG Global Retail Loss Prevention Survey 2009 Key Yes Partially





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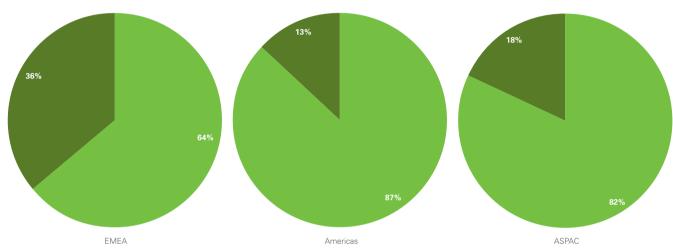
### Working with employees

# Using incentives

A strikingly large proportion of companies report pay incentives linked to loss prevention, with companies in the Americas most likely to use incentives (87 percent), closely followed by Asia Pacific companies (82 percent). Companies in the EMEA region are significantly less incentivized (64 percent), consistent with EMEA companies being less likely to set shrinkage targets and to measure performance against targets.

The business areas with key performance indicators used to drive incentivization are typically the retail shop floor, warehouse, and management (more than two thirds of companies in each case). Only 35 percent of companies use performance indicators in the buying function.

Figure 9: Does your company incorporate into its employee remuneration structure incentives related to loss prevention? KPMG Global Retail Loss Prevention Survey 2009 Key Yes





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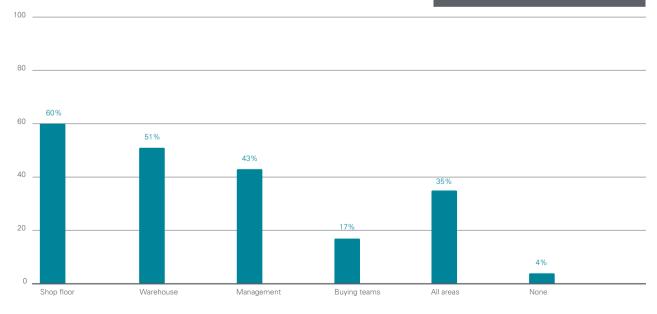
The business areas where companies report the use of key performance indicators are closely mirrored by the business areas where companies are most likely to give training in loss prevention. Half or more of the companies surveyed report giving specific training on the shop floor and in warehouse operations; however, less than half of companies (43 percent) give loss prevention training to management, and less than a fifth to buying teams. Companies in the Americas are markedly more likely to train frequently, with three guarters of companies reporting monthly or quarterly training cycles, whereas half of companies in the Asia Pacific region and almost half (42 percent) in EMEA train annually.

Retail specialists point out that the simplest forms of training are often the most neglected, and they argue that stock counting – a typical source of shrinkage through error – is a case in point. "Stock counts can be highly inaccurate," says Brian Connell. "Stock counting is often the least effective job done in a retail business."

Nick Boyd, a retail professional at KPMG in the U.K., adds that "counting stock is important, but can be quite difficult – for most retailers, large amounts of stock are moving in and out all the time, and many stores are open for extended hours right across the week. Stock is typically counted by department, at the beginning of the day or most likely at the end of the day, when people are tired and looking forward to getting home – one reason why so many errors are generated."

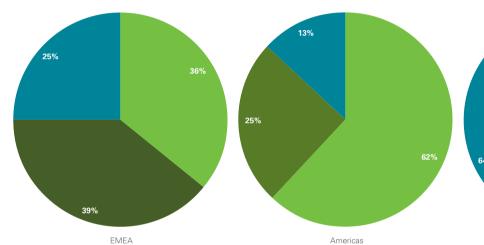
Figure 10: Which areas of your business have received or will receive training on loss prevention?

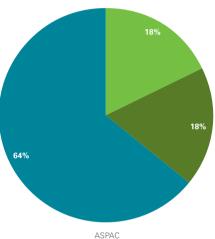
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# Connecting with suppliers







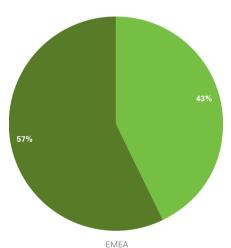
Although the majority of companies (68 percent) say they collaborate with suppliers to reduce shrinkage, there are significant regional differences. Companies in the Americas report a clear preference for working with suppliers; retailers in the EMEA region appear least likely to do so, with 39 percent reporting no collaboration with suppliers.

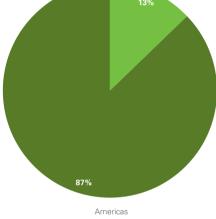
The minority of companies reporting no collaboration at all with suppliers is significantly large. "We find that companies strongly believe that losses deriving from suppliers are marginal – although that is not necessarily true," says Mark Larson. That perception is confirmed by KPMG in the U.K.'s work with retailers that has found that shrinkage attributable to suppliers can represent a significant proportion of total stock loss (see page 21).

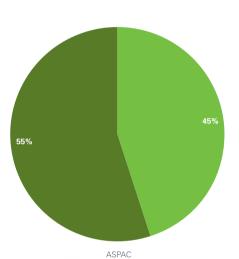
"As well as reviewing delivery processes, there are clear opportunities to address shrinkage by collaborating with manufacturers on issues like packaging," adds George Svinos. "For example, the day that manufacturers started putting pens and pencils in blister packs, theft of those items fell, and the sales increased dramatically."

### The data void

### Figure 12: Do you share [detailed shrinkage data] with your suppliers? KPMG Global Retail Loss Prevention Survey 2009 Key Yes







When asked whether detailed data on the total amounts and likely causes of shrinkage are shared with suppliers, only a minority of respondents (38 percent) say they do this. And in contrast to the results in figure 11, retailers in the Americas are least inclined to share detailed data with suppliers - only 13 percent of companies in the Americas are willing to share such data, compared with over 40 percent of companies in Asia Pacific and EMEA.

It is clear that companies remain sensitive to sharing stock loss data and remedies. Companies may be reluctant to share information with suppliers because those suppliers also work with direct competitors, and companies do not wish to give competitors access to their own solutions. George Svinos comments "in my experience, there are many companies in large conglomerates that not only prefer not to share data externally, they don't even want to share it within their own group."



#### **Investing in loss prevention**

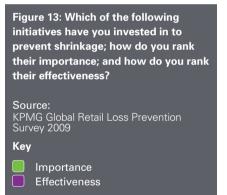
### Investing in loss control

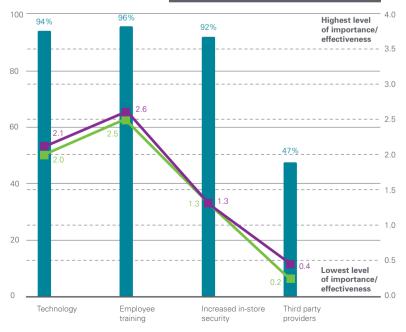
Technology, training and in-store security are the key investments that companies have made to combat shrinkage - over 90 percent of respondents have invested in all three areas. Companies are much less likely to invest in advice and other services from third party providers – less than half of companies use third party providers. When these areas of investment are matched against the priority the company ascribes to them, in-store security emerges with a relatively low priority compared to the high propensity of companies to invest in training and technology. When the areas of investment are matched against the effectiveness the company ascribes to them, it similarly emerges that training is considered by companies to be the most effective approach to loss control, although this is followed closely by technology. In-store security is considered markedly less effective, and third party providers are considered effective or most effective by only five companies in the KPMG survey.

The propensity to invest in certain areas of loss prevention depends in part on the characteristics of the retail business. Retailers with strong systems-based businesses, with less product in-store, are more likely to invest in technology solutions; companies with very large product ranges on shelves are more likely to invest in training.

Retail specialists also comment that implementation of IT solutions is often a weakness in tier 2 retail businesses. "Retailers are interested in buying and selling," says Nick Boyd. "For some, it is only a generation or two since they ran market stalls, so it can be quite difficult to get smaller retailers to focus on data analysis, and implementation of IT systems."

This is confirmed by comments made by some retailers participating in the survey. "The information I get from my staff is much better than the information I get from technology," said one retail executive. "Technology takes time to understand. It takes time to understand the IT systems and time to understand the information you get from them."





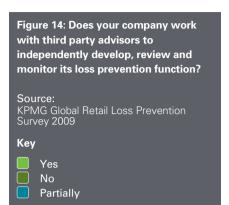
# Using third party advisors

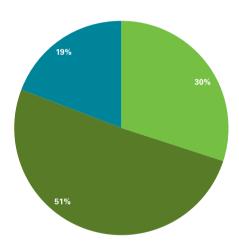
Half of all participants in the survey do not use third party providers in an advisory or other service function to tackle shrinkage. Half do use third party providers to some extent; companies in the EMEA region were most likely to use third party providers extensively (36 percent of companies), and Asia Pacific companies least likely to do so (18 percent).

When asked whether loss prevention software has been purchased from an external vendor or developed in-house, or neither, retailers in the Americas were most likely to use external providers (62 percent of companies), followed closely by Asia Pacific (55 percent of companies).

Significantly, EMEA companies were much less likely to buy from external suppliers (only 25 percent), and much more likely not to use loss prevention-related software at all (29 percent).

The relatively low level of take-up of third party solutions to shrinkage challenges may lie partly in the way retailers organize their response to shrinkage. "The fact is that responsibility for shrinkage is widely disseminated," says Hervé Chopin. "That is one reason why retailers do not work with third party advisors when they could. Another reason is that third party providers often fail to propose an integrated package of responses."







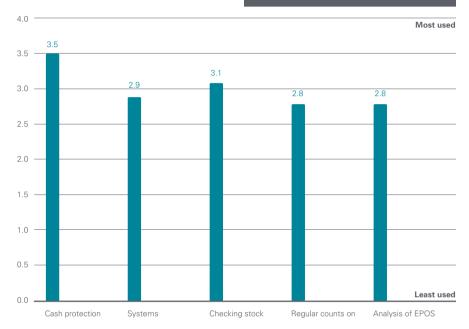
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# Current process approaches

Among internal processes for loss control, cash protection remains the priority, followed by stock checking. IT-focused processes, such as systems checks and analysis of EPOS (Electronic Point of Sale) data, are less likely to be used intensively.

Figure 15: Please rate to what extent each of the following measures is currently used within your company to address shrinkage

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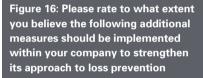


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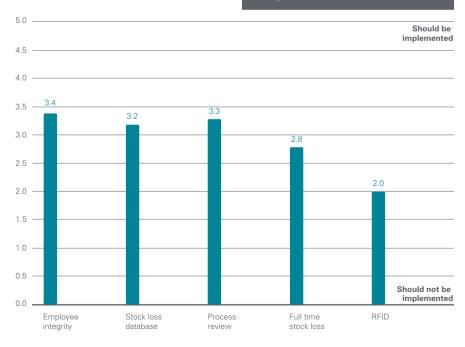
# Future approaches

Respondent companies believe that the quality of staff will be at the heart of future actions to manage shrinkage. Employee integrity - ensuring integrity on employment and supporting it – is considered the most important future action companies will take. Process improvements are considered almost as significant, but companies are disinclined to believe that adoption of RFID (Radio Frequency Identification) will be significant (see page 20 for more on RFID). Of 47 companies, 13 considered RFID introduction to be a significant future action, but only four considered it very significant.

Companies participating in the survey frequently commented that ensuring employee integrity and providing employee training were the most cost-effective ways of limiting loss. One believed that best practice should emphasize "the training of employees and staff, not only so they get an awareness of shrinkage, but also an awareness of different procedures inside the company." Another said "the biggest challenge is hiring honest employees - and keeping them honest," while a third added "getting employees to buy in to the loss prevention process is one of the major challenges."



KPMG Global Retail Loss Prevention Survey 2009



### RFID - Why not?

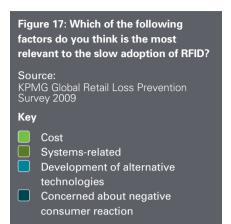
# What is blocking RFID?

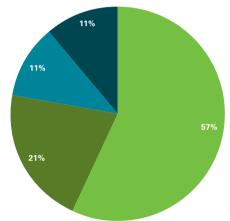
Most companies (57 percent) believe that implementing RFID is too expensive. A further 21 percent cite systems-related concerns, which may themselves also be cost concerns as some companies see the integration of RFID into legacy IT systems as representing a prohibitive cost. A significant 11 percent of companies are concerned about adverse consumer reactions. Regional responses were similar to the overall result.

High expectations of better loss prevention through widespread adoption of RFID have not been fulfilled, and the cause appears to be a combination of high costs and retailer disinclination to engage rapidly with new IT solutions. The results of the survey show clearly that cost is the biggest issue: some

retail specialists consider this an indication that RFID will eventually be adopted widely. "The citing of RFID cost suggests that it is only a matter of time before cost drops and adoption accelerates," says Brian Connell. "When that happens, RFID will be a significant driver of loss prevention."

"It is true that the biggest issue with RFID is cost, but we may also see a step change soon," believes George Svinos. "You may see retailers following the example of Wal-Mart which required their top 100 suppliers to use RFID. But the main potential at this stage may be at box or crate level rather than on individual products."







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#### Real loss, real causes

### Real-world shrinkage

Recently, KPMG in the U.K. diagnosed the causes of stock loss in a U.K. retailer that was reporting shrinkage rates of 2.5 percent of turnover. The company wanted to know what was really causing stock loss before investing in remedial action.

The company was a medium-sized national retailer with over 100 stores and 5,000 employees. The project involved extensive data-gathering visits to 18 of those stores, and interviews with area managers and logistics partners. The result was that KPMG was able to create a detailed diagnostic of the real causes of stock loss.

By tracking the movements of stock, interviewing staff and comparing store performances, it became clear that the causes of stock loss were almost equally shared between process failure and 'real losses', which comprised damage and theft.

Theft accounted for only 0.68 percentage points of the 2.5 percent total loss. Handling damage accounted for almost as much – 0.63 percentage points. Losses due to process failure were ascribed both to process design and to poor adherence to controls, and it was among the process failures that the single largest cause of loss – stock management – was found, accounting for 0.64 percentage points of total loss.



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### Real-world shrinkage continued

Many of the remedies for these losses were simple and effective for different causes of loss. More effective wrapping of stock delivered on pallets, for example, could both reduce damage and remove an opportunity for theft by staff and logistics workers. Stock count errors could often be ascribed to insufficient resources for the counting process, and simple timing of counts - stock counts at the end of the working day tend to be less accurate.

KPMG found that loss can be diagnosed and remedied using direct comparison between stores. "If you have one store that is performing 30 percent better than other stores, and all other factors are equal, then you have a clear case for sharing best practice," says Nick Boyd.

KPMG also found that training and experience were important factors in determining levels of stock loss. "In one retailer, we found that the length of a store manager's experience correlated with stock loss: the more experienced, the less loss," says Nick Boyd. "The conclusion has to be that the quality of induction and training of staff is a key factor in limiting loss."





#### **Conclusion**

Overall, KPMG finds that the proportion of loss attributable to process error is much higher than estimated in other surveys and analyses: one of the key findings of this survey is that process failure is a very significant contributor to overall retail shrinkage, but that many companies find process failure more difficult to address than outright theft.



#### Conclusion continued

Process failure most often consists of a large number of cumulative errors, compounded by insufficient staff training. As KPMG's Nick Boyd comments "there are a lot of simple changes that can have a significant impact on loss. But you also have to change people, and that is not so easy."

However, companies are in agreement that better training is the key to improving shrinkage rates. "Employee training is fundamental - they are on the front line," says one large retailer that participated in the KPMG survey. Another says "employees are most important because there are so many of them. If you get ownership by the employees and make them accountable, then shrinkage falls."

A lack of accountability for, and ownership of, the issue of shrinkage is evidenced by the very wide range of reporting lines in retail companies. This may itself reflect a lack of training, believes KPMG's Hervé Chopin. "A key point for loss prevention is that it should actually be the responsibility of everyone in the company, and that requires formalized procedures, backed by training," he says.

Companies may also have to address the design of their stock management processes, as well as the use of those processes. Says Brian Connell of KPMG "where there is a high level of shrinkage, one implication is that the company has a weak set of controls."

Many companies believe that shrinkage is an inevitable cost of doing business, and that investments designed to reduce shrinkage offer only limited return. One large retailer that participated in the survey comments "budget and cost are the principal obstacles," and KPMG's Nick Boyd concedes that "it can be very difficult to make a business case for investments based on the perceived causes of shrinkage."

However, the perceived causes of shrinkage may not be the true causes: errors in the design and implementation of stock control processes may be just as important as direct theft. Improving design and implementation requires commitment and understanding from management that may be more oriented towards sales than to fine-tuning business processes. As KPMG's Mark Larson comments "retail management is often too far removed from the front line: they are not sufficiently involved and not sufficiently proactive."



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Designed by Roundel

Publication name: Global Retail Loss Prevention

Survey 2009

Publication number: RDL-1955 Publication date: April 2009 Printed on recycled material