

The Sensormatic Global Shrink Index

Results & Executive Summary



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February 2018

Planet**Retail RNG** >

PlanetRetail RNG is a global intelligence and advisory business exclusively focused on retail. For 13 years we have been tracking over 2,000 leading retailers and built a proprietary and globally comparable macro-economic data model with over 4.5 million data points. We do this to give our clients true competitive advantage in understanding where to play and how to win.

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Planet Retail and Retail Net Group are part of Ascential plc, which transforms knowledge businesses to deliver exceptional performance.

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Retail Solutions

About Tyco Retail Solutions

Tyco Retail Solutions, part of Johnson Controls, is a leading provider of analytics-based Loss Prevention, Inventory Intelligence and Traffic Insights for the retail industry. Our solutions deliver real-time visibility and predictive analytics to help retailers maximize business outcomes and enhance the customer experience in a digitally-driven shopping world. Our more than 1.5 million data collection devices in the retail marketplace capture 40 billion shopper visits and track and protect billions of items each year. Our retail portfolio features the premier Sensormatic®, ShopperTrak® and TrueVUE™ brands, as well as a full suite of building technology solutions.

For more information, please visit TycoRetailSolutions.com, Sensormatic.com or follow us on [LinkedIn](#), [Twitter](#), and our [YouTube channel](#).

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Foreword

14 Countries, 73% of Global GDP, 80% of Global Retail Sales

Across the globe, retail business models are being transformed by engaged and digitally connected consumers. Best in class retailers are optimizing their physical stores by ensuring that operational controls are in place for growing problems such as retail shrink.

“Shrink” — otherwise known as a reduction in inventory due to shoplifting, employee theft, or other errors — impacts the bottom line. Tyco Retail Solutions is a global trusted partner, helping retailers discover new ways to control loss and leverage it as an opportunity to increase profitability.

To provide insights into the various sources and impact of shrink, Tyco commissioned PlanetRetail RNG to conduct a global study of over 1,100 key retail decision makers across 14 markets, in different sectors, with \$100+ million in annual revenue. The report, titled *The Sensormatic® Global Shrink Index*, is a culmination of research that benchmarks retailer performance globally and sheds light on other factors effecting loss prevention. Highlighting the state of retail shrink, this insightful research helps retailers better assess the challenges and solutions for making merchandise secure yet accessible to satisfy shopper demand.

According to the report, shrink cost retailers \$99.56 billion globally. Retailers from the 14 countries surveyed represent the world’s leading economies, which account for 73% of global GDP and 80% of total retail sales. These statistics highlight the magnitude of shrink’s impact on their business. Research findings show that shrink as a percentage of sales varies based on country and by vertical. It also provides an in-depth look at the sources of shrink (including Organized Retail Crime) and its biggest contributors by region.

This year’s study also took a deeper dive into how different verticals are performing and what are the shrink patterns from a regional and global perspective. As Loss Prevention’s role continues to evolve, we explore more insights into what retailers are doing globally; how they’re incentivized and measured; and what technologies and services they’re investing in to round out their loss prevention budget. We also looked at the top stolen items and brands; if retailers are source tagging; if they use or plan to use RFID technology; and what data is being mined to help combat all sources of shrink.

The disruptive future of retail includes strong brands and immersive shopping experiences. As a global Top 100 Retail influencer, I consider this important report part of my endless curiosity journey to build mutually successful futures.

Knowledge is indeed power. Check out the full report to unlock increased value in your loss prevention programs.



Tony D'Onofrio



Tony D'Onofrio
Chief Customer Officer (CCO),
Tyco Retail Solutions

Retail / Technology Industries Recognitions:

- Top 100 Global Retail Influencer List 2018 by Vend
- Top 100 Global Retail Blogs 2017 by Retail Minded
- Top 25 Retail Industry Website by Vend
- Top 25 Must Read-Retail IT Blogs 2017 by BizTech
- Top 40 European Blogs by Market Inspector
- Retail Excellence Award from Asia Retail Congress
- Social media leadership with 120,000+ followers on Linked-In
- Publisher on the “The Retail Digest” and “Digital Transformation People”
- Global speaker at technology / industry events / Retailers & Retail Board of Directors on the “The Disruptive Future of Retail”

CHAPTER 1

Introduction

Report Introduction

Miya Knights, PlanetRetail RNG Global
Technology Research Director

A total of 1,120 respondents from retailers in 14 countries participated in the study. They operate more than 229,000 stores and generated USD 1.56 trillion in sales during 2017-18^e

e - Estimate

14

Countries

Recent years have seen the rate of change within retail accelerate. This reflects both the fact retailers are responding to macroeconomic and socio-political shifts, and a technology-led transformation of the shopping journey. They are having to fight harder for growth.

13

Vertical
markets

But what about the bottom line? In tough times, retailers cannot afford to overlook the losses in blind pursuit of growth. There have been several retail theft studies carried out over the years. Yet few have examined how the challenge of shrink is tackled by retailers, as well as its impact on the bottom line.⁽¹⁾

51%

of respondents work
in a Loss-Prevention
related business role

The Sensormatic Global Retail Shrink Index is the culmination of the largest survey of senior retail executives with a view on, or role in, loss prevention carried out in recent years. It has found shrinkage rates are running higher than suggested in previous studies, at 1.82% of annual retail sales, globally. In the intervening period, major retailers have struggled to maintain positive like-for-like store growth.

74%

of respondents work at
a senior management
level or higher

Although shrinkage rates are high, the Index reveals that retailers are looking to use technology and data to prevent losses at the same time as transforming supply chain and customer-facing operations. For example, data mining tools for loss prevention are helping to drive success in reducing shrink within organizations, ranging from point-of-sale (POS) checkout data cited by 48.30%

1. Where 'shrink' refers to 'shrinkage,' defined as the loss of inventory that can be attributed to factors such as employee theft, shoplifting, administrative error and vendor or supplier losses.

respondents, damaged/removed Electronic Article Surveillance (EAS) tags (47.77%), returns to debit/credit cards (46.51%), and exception-based reports (44.38%).

Retailers now include social media monitoring among their arsenal of digital tools. Many retailers reported that the proportion of allocation for technology from loss prevention and asset protection budgets is on the rise.

Although investment is increasing to challenge further shrink rate growth, there are multiple sources of shrink for retail organizations. Shrink rates are running high, globally – as well as by country and vertical, with Italy (2.32%), and the fashion & accessories stores vertical (1.98%) topping the rankings respectively.

Although external sources such as shoplifting emerge as the largest cause of the issue, vendor/supplier loss, the behavior of internal employees and administrative loss are all contributing to the problem. For retailers, this means an increasing amount of investment is required in the loss prevention function and, although budgets are generally on the rise, in most cases the proportion of sales allocated to the loss prevention function currently stands at less than 2.00%.

Yet, with each incident of shrink costing companies anything from \$50 to thousands of dollars – adding up to nearly \$100 billion in annual lost sales globally; retail organizations should consider increasing their investments, to take advantage of new tools and technological developments to help track stock, identify threats and prevent escalating loss.

\$99.56

USD billion =

The price tag of annual retail sales losses due to shrinkage, globally ⁽²⁾

2. Based on PlanetRetail RNG global sales forecasts

About the Report

The Sensormatic Global Retail Shrink Index reports losses by: total monetary value, as a percentage of sales, country, and retail vertical. In addition, the Index provides insights into the sources of shrink and the measures retailers are using to combat it

14 Countries Researched

Region	Country
Asia Pacific (APAC)	Australia, China, India, Japan, South Korea
Europe	France, Germany, Italy, Russia, Spain, UK
Latin America (LATAM)	Brazil, Mexico
North America	United States of America

The Study

The objective of this report is to understand global shrinkage, across 14 countries, spanning four regions. It also seeks to:

- Benchmark retailer shrink performance globally
- Provide insight into the sources and impact of shrink today
- Report on data elements and tools being used by retailers to monitor and predict shrink in their businesses.

The report provides insights on the impact of global shrink rates based on macroeconomic data and retail sales, as tracked and forecast by global retail market intelligence provider, PlanetRetail RNG. These, coupled with the findings of research carried out by PlanetRetail RNG, and sponsored by Tyco Retail Solutions, constitute the most in-depth study of the sources of, solutions for, and approaches to retail shrinkage to date. All figures in the report relate to the twelve months, ending December 2017. Please note numbers may not be exact due to rounding.

Reasons for Shrinkage	
Internal/Employee theft	Employee fraud/sweet-hearting Employee theft-merchandise Employee theft-cash
External theft/ Shoplifting	Shoplifting Return fraud Organized Retail Crime
Administrative Loss	Spoilage Obsolescence Damaged goods
Vendor/Supplier Loss	

Retail verticals
Cash & Carries and Wholesale clubs
Consumer Electronics stores
Convenience & Forecourt stores
Department stores
Discount stores
Drugstores, Pharmacies & Perfumeries
Fashion and Accessories stores
Home, Garden & Auto stores
Hypermarkets & Superstores
Supermarkets & Neighborhood stores
Leisure stores
Office Equipment stores
Variety stores

Methodology

PlanetRetail RNG, in association with a third-party survey house and local panel providers, conducted an online survey of senior retail managers and executives in 14 countries, between October 10, 2017 and October 27, 2017.

The study included a detailed questionnaire, covering insights into the size and mode of respondents' retail operations, as well as the size and sources of shrinkage as a percentage of sales. The survey included questions about the size and budget of the Loss Prevention function, as well as the technologies, tools and approaches used to combat shrink. The survey design was based on a qualitative feedback gathered from Tyco Retail Solutions' clients.

The respondent base comprised a mix of retailers, operating stores across varying verticals. A total of 1,120 respondents were targeted, whose functional business roles and level of job designation, were as follows, respectively:

- Information Technology, Loss Prevention, Security, Asset Management and/or Protection, Profit Protection and/or Loss Assurance, Operations, Administration, Facilities or Investigation; serving as,
- Manager, Senior Manager, Director, Head of Department, Chief Officer, Leader, Vice President, Senior Vice President, or Non-managerial executive.

Data

The report includes country-level data across the 14 retail markets surveyed, as well as global and regional analysis. Global shrinkage figures are calculated by applying the weighted average rate of shrink as a percentage of sales to global retail sales figures forecast by PlanetRetail RNG for twelve months, to December 2017. Regional, country and vertical shrinkage figures are calculated by applying the weighted average rate of shrink as a percentage of sales to regional country and vertical retail sales in each respective country or vertical market tracked in PlanetRetail RNG's database. The reporting currency for all values in the report is US dollar (\$). Respondents were asked to report rates of shrink and the value of each shrink incident.

The Survey Questionnaire & Respondents

The survey questionnaire was translated into 12 languages and sent to respondents in 14 countries. Responses were solicited on guarantee of anonymity.

The total number of 1,120 respondents distributed across regions:

- APAC – 454
- LATAM – 145
- Europe – 419
- NA – 102

Across countries:

- Australia – 101
- Brazil – 71
- China – 100
- France – 52
- Germany – 101
- India – 101
- Italy – 102
- Japan – 101
- Mexico – 74
- Russia – 12
- South Korea – 51
- Spain – 51
- UK – 101
- US – 102

Across retail verticals:

- Cash & Carries & Wholesale clubs – 41
- Consumer Electronics stores – 123
- Convenience & Forecourt stores – 27
- Department stores – 173
- Variety stores – 233
- Discount stores – 16
- Drugstores, Pharmacies & Perfumeries – 43
- Fashion and Accessories stores – 123
- Home Garden and Auto stores – 25
- Hypermarkets & Superstores – 140
- Supermarkets & Neighborhood stores – 132
- Leisure stores – 29
- Office Equipment – stores – 15

Figure 1.1

Percentage of respondents, by functional role within their retail organization (n=1,120)

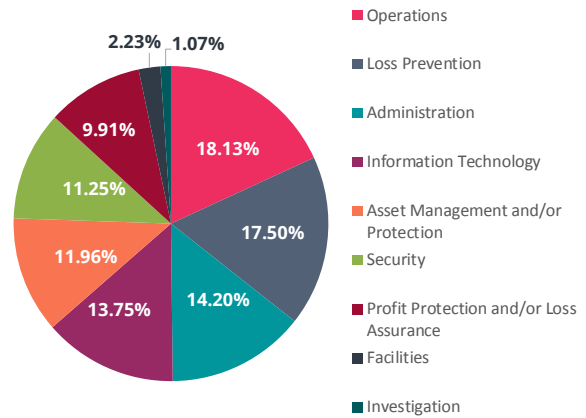
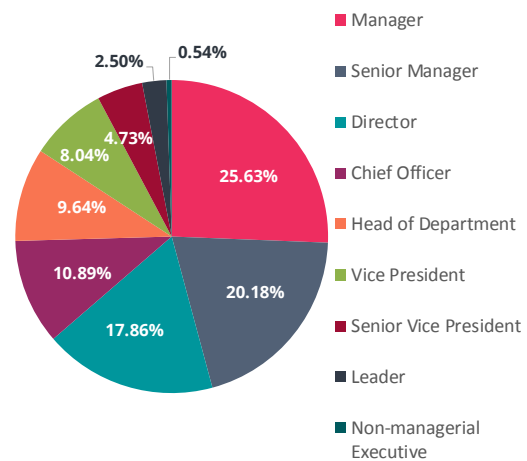


Figure 1.2

Percentage of respondents, by level of job designation within their retail organization (n=1,120)



Glossary of Key Terms

Shrinkage

‘Shrinkage’ or ‘shrink’ is the loss of inventory that can be attributed to factors such as employee theft, shoplifting, administrative error, vendor fraud, damage in transit or in-store, obsolescence and cashier errors that benefit the customer. Shrinkage is the difference between recorded inventory on a company's balance sheet and its actual inventory.

There are typically two methods of calculating shrink:

- At retail, as a percentage of retail sales. Retailers monitor billed-in or incoming costs, but not extended retail value. Inventory losses are calculated using the actual total cost of goods received versus retail sales to arrive at an end-result profit.
- At cost, as a factor of (missed gross margin) calculated as actual gross margin versus incoming gross margin. Retailers monitor incoming or billed-in gross margins based on cost with retail values and at time of physical inventory can compare optimal billed-in gross margin to against actual gross margin to determine shrink loss most accurately.

Loss Prevention Solutions

The report refers to loss prevention solutions that typically split into two categories:

- Product-level: devices attached to individual products, such as secure cable units, spider wraps, and Electronic Article Surveillance (EAS) tags, applied in-store or at source (‘source tagging’).
- Store-level: store-wide systems, such CCTV, public view monitors, alarm monitoring, security guards, facial recognition, and monitoring of specific areas, including entrance and loading bay, parking lot, and fitting room (where present).

The report also includes other IT management-based solutions that may claim part of the loss prevention budget. These include:

- Video analytics, data mining tools, exception-based reporting, access control systems, and Radio Frequency Identification (RFID) tagging for loss prevention and asset protection, among other applications.

Loss Prevention Budget

The ‘loss prevention budget’ refers to the amount a retailer spends on the purchase, implementation, deployment and maintenance of loss prevention personnel, systems and solutions to reduce shrinkage.

- Loss prevention budget research was solicited as a percentage of sales for the purposes of this report

Retail Verticals

Cash & Carries & Wholesale clubs: Cash & carries, Warehouse clubs

Consumer Electronics stores: Camera stores, Electronics stores, Electronics superstores, Electronics warehouse clubs, Household appliance stores, PC stores, PC superstores, Photo processing stores

Convenience & Forecourt stores: Convenience stores, Forecourt stores, Travel convenience stores

Department stores: Department stores, Department stores (with food hall)

Variety stores: Variety stores (food), Variety stores (non-food)

Discount stores: Discount stores, Discount variety stores

Drugstores, Pharmacies & Perfumeries: Drugstores, Drugstores/pharmacies, Nutritionals stores, Perfumeries/beauty stores, Pharmacies

Fashion and Accessories stores: Clothing stores, Jewelry stores, Shoe stores

Home Garden and Auto stores: Automotive stores, Carpet superstores, DIY stores, Garden centers, Home furnishing stores

Hypermarkets & Superstores: Discount superstores, Hypermarkets, Hypermarkets & superstores, Superstores

Supermarkets & Neighborhood stores: Delicatessens, Food departments, Frozen food stores, Neighborhood stores, Supermarkets, Supermarkets & Neighborhood stores

Leisure stores: Hobby/leisure stores, Sport/leisure stores

Office Equipment stores: Mobile phone stores, Office B2B, Office equipment stores, Office equipment superstores, Stationery stores

Cycle Counting

When an organization maintains inventory, Generally Accepted Accounting Principles (GAAP) and IRS rules require either that the complete inventory is counted on an annual basis or a perpetual counting system is implemented.

Cycle counting is a perpetual counting system where a small subset of inventory, in a specified location, is counted on a specified day. Cycle counts regularly validate the accuracy of the inventory in the system. This method of counting is popular among large scale organizations that have a large number of items in inventory and cannot be closed for a long period of time to perform an annual physical inventory count.

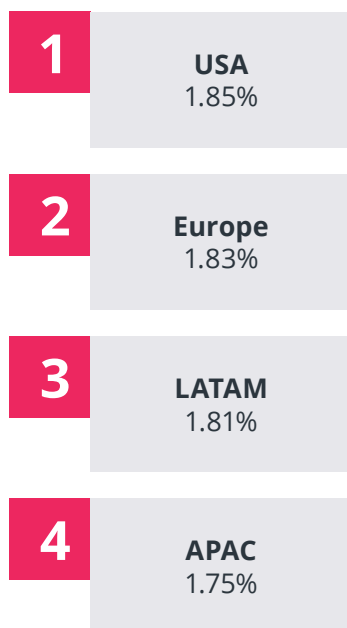
CHAPTER 2

Global Report

Global Report & Executive Summary

1,120 respondents reported a shrinkage rate of 1.82% across 14 countries and 13 retail verticals in the survey conducted during 2017-2018. The cost of shrinkage amounts to \$99.56 billion for retailers, globally.

Regional Shrinkage Rates



Global and Regional Shrinkage and Sources

Survey respondents reported that at the regional level shrinkage was highest in the USA at 1.85%, of sales during 2017 while Europe (1.83%) ranked second. The Latin American region ranked third (1.81%), followed by Asia Pacific countries (1.75%).

In context, the global average shrinkage value amounts to 21.00%⁽³⁾ of the estimated year-over-year retail sales growth generated by all retailers during 2017-2018. Therefore, profit protection and loss prevention should be at the top of every retail executive's list of strategic priorities.

Survey respondents globally (81.61%) report shrinkage represents up to 2.99% of total annual sales. While 41.43% report it represents 1.00%-1.99% of their sales, 30.18% say that it accounts for 2.00%-2.99%, and 10.00% cite less than 0.99%.

There are various 'STEIP' – Social, Technology, Economic, Industry and Policy – related drivers contributing to shrinkage rates. For example:

- Rural migration and aging populations will increase urban population densities

3. Based on PlanetRetail RNG global retail sales forecast, 2017-2018

Figure 2.1

Global Retail Shrinkage – by Region, 2017-2018⁽⁴⁾

Region	Shrinkage, 2017-2018 as a percentage (%) of sales	Shrinkage Value (\$ billion)
USA	1.85%	42.49
Europe	1.83%	29.05
Latin America	1.81%	3.99
Asia Pacific	1.75%	24.03
Global	1.82%	99.56

Figure 2.2

Global Retail Shrinkage – by Source, 2017-2018

Rank	Source	% of Total Shrinkage
1	External/shoplifting	34.34%
2	Vendor/supplier loss	24.28%
3	Internal/employee	22.95%
4	Administrative loss	18.43%

4. These calculations and all those going forward in this report are based on PlanetRetail RNG global and regional retail sales forecasts, 2017-2018

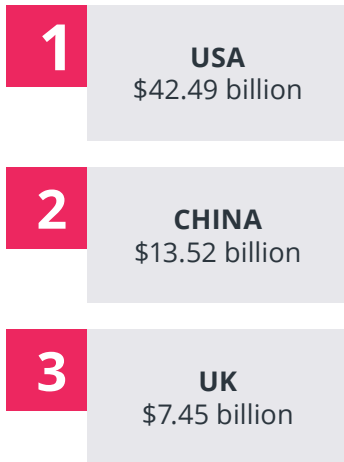
- Online shopping is becoming a powerful influencer of retailer or brand choice
- Stressed global and regional economic conditions limit disposable income
- Aging workforces put pressure on retailers to attract and retain skilled workers

STEIP drivers coupled with domestic macro indicators, such as high inflation or unemployment, contribute to higher shrinkage in some countries. Internal theft, carried out by or with employees, and administrative loss are some of the sources of shrinkage, along with vendor or supplier losses.

External theft and fraud, including organized retail crime (ORC) is the biggest source of shrink worldwide, accounting for one third of total shrink. Shoplifting and return fraud feature highly in the ranking of sources of external shrink.

ORC takes the biggest share of external shrinkage by value, because the gangs that characterize ORC operations use sophisticated methods of beating retail security measures. These include tampering with UPC product barcodes or point-of-sale (POS) equipment, like the PIN entry device (PED).

The highest shrinkage values by country



Global Shrinkage – by Country and Revenue

Respondents in Brazil reported the highest shrinkage levels; 43.66% assert that shrinkage accounts for more than 3.99% of sales (compared to 6.16% in aggregate across all countries) and 9.86% say it accounts for 3.00%–3.99% (compared to 12.23% in aggregate across all countries).

By contrast, respondents in Japan, Germany and Australia reported the lowest levels, with over three-quarters (79.21%, 76.24% and 76.24% respectively) indicating that shrink represents less than 2.00% of sales.

The USA, China and UK make up the top three highest average shrinkage sales values, accounting for 63.74% of lost sales across the 14 countries surveyed. These are the largest markets for consumer spending globally. This is despite all three rounding out those countries at the bottom of the top ten shrink rate ranking, which puts China in seventh place, the UK in eighth, and the US ninth, with relative low shrinkage rates.

European countries account for five of the top ten highest rates of those surveyed, including Italy, France, Spain, the UK and Russia from the highest to lowest respectively. Germany, however, also had the lowest shrinkage rates, at 1.43% of sales, amounting to \$6.28 billion in 2017–2018.

Despite having the lowest average shrinkage sales value (\$0.52 billion), India’s retail market reported the second highest shrink rate, at 2.13% of sales. South Korea (2.04%), another APAC country, ranks fourth overall, with Brazil (1.99%) rounding out the global top five.

The proportion of shrinkage as a percentage of sales also rises in correlation with annual turnover⁽⁵⁾ of responding operations; a third (31.93%) of respondents with a turnover above \$5 billion say shrink accounts for 3.00% or more of total sales, compared to 18.39% across the whole sample. Shrink makes up less than 1.99% of sales for 72.51% of respondents working for companies turning over \$100 million–\$249 million, compared to 49.60% for those turning over \$2.5 billion–\$4.99 billion, and 36.25% among respondents with a turnover of \$10 billion–\$24.9 billion.

5. Meaning annual sales

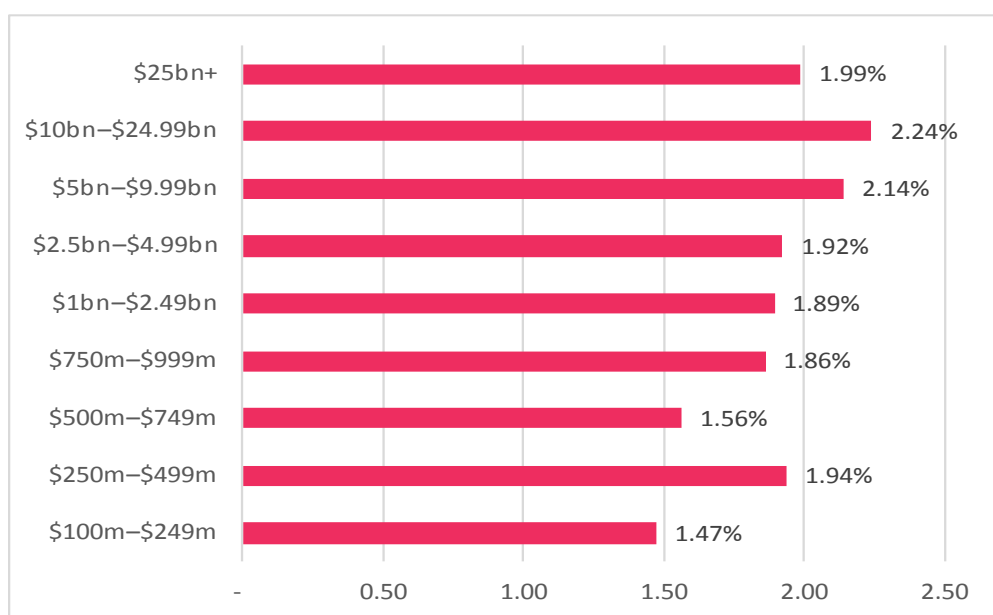
Figure 2.3

Global Retail Shrinkage - by Country, 2017-2018

Country	2017-2018S shrink as a % of sales	Shrinkage Value (USD\$ billion)	Rank, based on Shrinkage %
Italy	2.32%	2.73	1
India	2.13%	0.52	2
France	2.06%	7.30	3
South Korea	2.04%	1.56	4
Brazil	1.99%	2.34	5
Spain	1.99%	2.77	6
China	1.96%	13.52	7
UK	1.88%	7.45	8
USA	1.85%	42.49	9
Russia	1.81%	2.52	10
Mexico	1.59%	1.62	11
Australia	1.47%	2.24	12
Japan	1.44%	6.20	13
Germany	1.43%	6.28	14

Figure 2.4

Proportion of shrinkage as a percentage (%) of total annual sales



Respondents reported shrinkage across 13 retail verticals, globally. Fashion & Accessories stores recorded the highest average shrinkage as a proportion of sales. While only two of the top six verticals ⁽⁶⁾ surveyed incurred lower shrinkage than the overall global average of 1.82%.

6. The statistical respondent base was too low to calculate shrinkage rates and values in seven of the categories surveyed, globally. These were: Cash & Carry and Wholesale Clubs; Convenience & Forecourt Stores; Discount Stores; Drugstores, Pharmacies & Perfumeries; Home, Garden & Auto Stores; Leisure Stores; and, Office Equipment Stores. Vertical analysis by country is included where respondent base is stable.

The highest loss by vertical

1	<p>Fashion & Accessories stores 1.98%</p>
2	<p>Variety stores 1.85%</p>
3	<p>Department stores 1.83%</p>

Global Shrinkage – by Vertical and Value

Fashion and accessories, department and variety stores reported the highest shrinkage across all regions during 2017. The relative higher unit value of products sold in these stores could make them more attractive to thieves. Those dedicated to food, (with far bigger store sizes and sales volumes such as hypermarkets and superstores), suffer lower losses in comparison to non-food sectors.

Consumer electronics (35.32%), fashion and accessories (34.17%), and variety and department store (32.79%) sector respondents attribute the highest proportion of shrink to external sources. These most lucrative target sectors must therefore increase loss prevention and security measures as it relates to external threats, such as shoplifting and ORC.

Vendor/supplier loss contributes the most to shrinkage for hypermarket (34.61%) and supermarket (30.51%) retailers. Supermarkets and neighborhood stores recorded the lowest shrinkage levels among those polled.

Chinese drugstore, pharmacies & perfumeries reported the highest rate of shrinkage by vertical, at 3.15% of sales, followed by office equipment stores in Mexico at 3.00%. Italy had the highest number of verticals (four) in the top 10.00% of vertical shrink rates surveyed across all countries; these included home, garden and auto (2.85%); hypermarkets and superstores (2.78%); cash & carry (2.75%); and, department stores (2.55%).

Highlights from the bottom of the vertical ranking by country comprise countries reporting shrink rates of less than 1.00% per vertical. These include Indian office equipment (0.95%), German consumer electronics (0.82%), and South Korean fashion and accessories (0.81%) stores. Germany recorded the most vertical categories (5) with below average shrink rates.

Figure 2.5

Global Retail Shrinkage – by Vertical, 2017-2018

Vertical	2017-2018 Shrink as a % of sales	Shrinkage Value ⁽⁷⁾ (\$ billion)	Rank, based on Shrinkage percentage
Fashion and Accessories Stores	1.98%	4.12	1
Department Stores	1.84%	3.37	2
Consumer Electronics Stores	1.82%	4.44	3
Supermarkets & Neighborhood Stores	1.79%	8.96	4
Hypermarkets & Superstores	1.73%	24.16	5

7. Based on PlanetRetail RNG sales forecasts in each of the 13 verticals in the 14 countries polled

Hypermarket & superstore losses due to shrinkage in the countries surveyed amounts to a staggering \$24.16 billion in 2017-2018.

In addition, those working in consumer electronics (27.64%) and department stores (26.01%) are most likely to report high value organized retail crime – worth \$1,000 or more on average.

Per incident, the average monetary value of internal/employee theft is \$19.99 or less for 27.86% of survey respondents, and \$50 or less for over half of respondents (56.43%). While 28.57% reported that each internal incident is worth between \$50 and \$100, 15.00% say they value \$100 or more.

For external theft/shoplifting, the average monetary value per incident is less than \$19.99 for 24.38% of survey respondents and less than \$50 for 42.95% of respondents. While 32.41% report that each internal incident is worth \$50-99.99, 24.64% say \$100 or more.

When it comes to organized retail crime, 26.25% of survey respondents assert that the average monetary value per incident is \$500 or more, while 43.04% cite that it is between \$100-\$499 and 30.71% say it is less than \$100.

Internal/employee theft incidents are worth the most on average in China, India, Italy, Russia, South Korea and Spain – with over six in ten respondents citing the value per incident was \$50 or more. At the highest end, 28.71% in India and 26.00% in China say each incident is worth \$100 or more.

External theft/shoplifting incidents are worth the most in China, France, Italy, Russia and Spain – with over seven in ten respondents citing the value at \$50 or more. Half in China (53.00%) and Russia (50.00%) report the value per incident as \$100 or more.

Figure 2.6

Highest Shrink Rates Across Verticals and Countries 2017-2018

Rank, based on Shrinkage %	Country	Vertical	Shrinkage, 2017-2018 percentage (%) of sales
1	China	Drugstores, Pharmacies & Perfumeries	3.15%
2	Mexico	Office Equipment Stores	3.00%
3	Italy	Home, Garden & Auto Stores	2.85%
4	Italy	Hypermarkets & Superstores	2.78%
5	Mexico	Variety Stores	2.78%
6	Italy	Cash & Carry and Wholesale Clubs	2.75%
7	France	Discount Stores	2.70%
8	South Korea	Discount Stores	2.70%
9	India	Cash & Carry and Wholesale Clubs	2.67%
10	South Korea	Cash & Carry and Wholesale Clubs	2.65%
11	UK	Home, Garden & Auto Stores	2.65%
12	China	Department Stores	2.57%
13	Italy	Department Stores	2.55%
14	Russia	Discount Stores	2.55%
15	Russia	Convenience & Forecourt Stores	2.55%
16	Australia	Drugstores, Pharmacies & Perfumeries	2.55%
17	UK	Convenience & Forecourt Stores	2.55%
18	Spain	Department Stores	2.51%

In 10 out the 14 country markets surveyed, the majority of the respondents stated that their loss prevention budget is increasing.

Global Shrinkage – Loss Prevention Function

Respondents were asked how the performance of Loss Prevention function was measured and incentivized within their organizations. Between shrink performance, sales, gross margin and conversion rate, the vast majority confirmed they were incentivized according to shrink performance (69.20%). Sales came in second place (64.29%) and gross margin (62.14%) was in third. Performance is measured by the most categories in Brazil and China, with over 70.00% measuring by shrink, sales and gross margin.

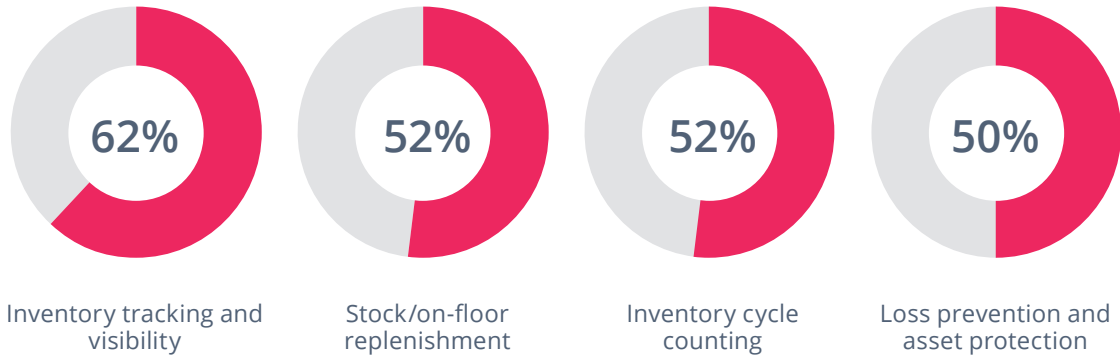
In budgetary terms, over a quarter (26.16%) of all respondents allocate between 1-1.49% of sales to the annual loss prevention and protection budget, followed by 21.52% allocating between 1.50-1.99%, and 21.43% between 0.50% and 0.99%. In 10 out of 14 markets, the majority (between 56.00% and 79.21%) of respondents said the budget is increasing. In the remaining four markets, less than half of respondents say their budget is increasing (Italy, Spain, US and Mexico).

Regarding the percentage of budgets spent on technology, 39.11% of survey respondents globally spend between 1-4.90%, 19.55% between 5-9.90%, and 20.98% between 10-24.90%. Brazil and Russia are most likely to spend the most, at 25-49.90% (as cited by 32.39% and 33.33% respectively).

China, Brazil and Spain reported selling the greatest proportion of merchandise protected by source tagging, at 47.81%, 45.13%, and 42.80% respectively. Spain (55.06%), China (50.19%) and Mexico (41.62%) recorded the highest percentages of sales merchandise tagged in-store, corresponding to some of the highest shrink rates. Electronic Article Surveillance (EAS) is a key area of investment for retail organizations; 62.05% of survey respondents globally are increasing their investment in the technology and only 10.54% do not invest in this area. Investment in CCTV (50.89%) and access control systems (52.05%) is increasing for over half of the respondents.

Figure 2.7

The most common uses for RFID – globally, 2017-2018



Global Shrinkage – Loss Prevention Capabilities

When it comes down to investing in Radio Frequency Identification (RFID) technology to monitor and track inventory in the store and throughout the supply chain, companies are most likely to be investing within 6-12 months, particularly in Australia and Brazil.

South Korea, Spain and the UK have longer investment timeframes planned for RFID: 35.29% in South Korea cite a timeframe of 18 months to 2 years, while in Spain and the UK, 43.14% and 30.69% respectively cite a 12-18-month timeframe. Respondents in Mexico (27.03%), the UK (19.80%) and US (21.57%) are the most likely to say their organization does not use RFID technology.

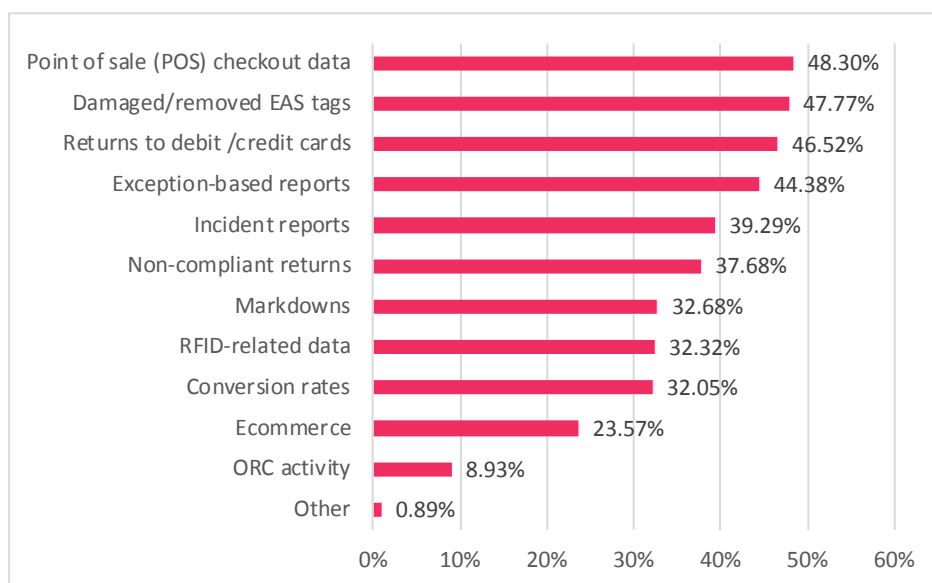
The most monitored areas for theft are stock rooms/storage areas (75.09%), the entrance/exit (67.32%) and loading bay/goods receiving/delivery area (65.54%) –this is the case across all retail store types, especially fashion, supermarkets and variety stores. Parking lots and restroom are areas most likely to be monitored at hypermarkets and variety stores.

Nearly half (47.71%) of the respondents stated that fitting rooms are monitored using technology. At the same time 44.50% said fitting rooms are attended, and 42.43% that fitting rooms are inspected for damaged or left tags. Respondents in China are the most likely to monitor and inspect their fitting rooms in these ways (58.49%, 67.92% and 66.04% respectively), followed by Italy (45.00%, 75.00% and 55.00%) and France (63.16%, 57.89% and 36.84%).

Respondents in Brazil claim to be seeing success in reducing shrink from the most number of tools, with over 55.00% selecting each category. China follows, with a majority of respondents seeing success from exception-based reports (75.00%). In the UK and the US, respondents are most likely to report success from point of sale (POS) checkout data (UK 56.44%, US 68.63%) or returns to debit/credit cards (UK 59.41%, US 52.94%); in Italy it is damaged/removed EAS tags (52.94%), and in Mexico and Russia it is incident reports (Mexico 48.65% Russia 50.00%).

Figure 2.8

Top LP raw data cited by respondents for data mining to reduce shrink



62% of respondents indicate EAS investment is increasing.

For hypermarket retailers, data mining tools used on information surrounding damaged/removed EAS tags is proving to be the most successful at reducing shrink (61.43%), for fashion stores it is POS checkout data (53.66%) and for variety stores it is exception-based reports (51.50%). Debit/credit card return are the most successful for consumer electronics retailers (51.22%), department stores (47.98%), and supermarkets (45.45%).

Social media monitoring is part of the responsibilities of the Loss Prevention function for the majority (68.48%) of respondents – notably in Japan (98.02%), Russia (91.67%) and China (91.00%). This function monitors social media platforms for threats to stores (73.40%), merchandise theft/black-market (72.10%), brand protection (64.15%) and potential protest groups/boycotts (54.24%).

CHAPTER 3

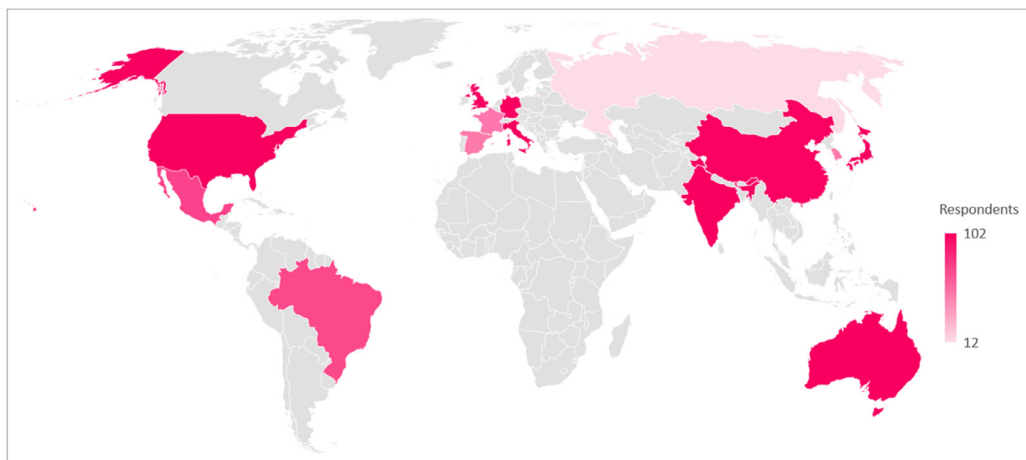
Regional Report

Regional Report Introduction

Regional shrinkage rates and values largely follow the size and maturity of modern retail markets represented by the data gathered across the 14 countries.

Figure 3.2.2

Retail Shrinkage – by Country, 2017-2018



Regional Shrinkage

The regional shrinkage rates and values are largely in line with the size and maturity of modern retail markets represented by the data gathered across the 14 countries. The USA has the largest consumer market and dominates with a shrink value of \$42.49 billion.

Europe and APAC follow closely behind each other, amassing \$29.05 billion and \$24.03 billion of losses due to shrink during 2017–2018.

Global shrink as a percentage of annual sales stands at 1.82%. The USA's shrink rate exceeds the global shrinkage rate at 1.85%, followed by Europe (1.83%); while LATAM (1.81%) and APAC (1.75%) come in lower than the global shrink rate.

The regional reports illustrate a wide range of results, including shrinkage by source, most stolen items, loss prevention budgets and solutions, and in-depth vertical analysis down to country level (where data from the survey responses is available).

Regional Report Europe

Shrinkage in Europe was 1.83% of sales in 2017–2018. The region also includes country markets with some of the highest and lowest shrinkage rates, globally.

European Shrinkage

During 2017–2018, shrinkage across retail stores in Europe stood at 1.83% of revenue. The region also features both some of the highest and lowest shrinkage rates as a percentage of sales among the country markets included in the study.

German retailers reported the lowest shrinkage at 1.43%, which was also the lowest global rate. The European country with highest shrinkage rate was Italy at 2.32%, which also put it top of the global ranking list for shrink rate.

Figure 3.2.1

European Retail Shrinkage, 2017-2018

Region	2017-2018
Europe	1.83%
Global	1.82%

Figure 3.2.2

European Retail Shrinkage – by Country, 2017-2018

Country	2017-2018	Regional Rank (1 = Highest, 6 = Lowest)	Shrinkage by Value (\$USD billion)
Italy	2.32%	1	2.73
France	2.06%	2	7.30
Spain	1.99%	3	2.77
UK	1.88%	4	7.45
Russia	1.81%	5	2.52
Germany	1.43%	6	6.28

European Shrinkage, by Vertical

With the highest regional shrink average, it follows that Europe also had some of the highest consolidated shrinkage rates by vertical, well above the equivalent average global rates (where comparative data was available). The European vertical with the highest reported levels of shrinkage were discount stores, at 2.24% of sales during 2017–2018. The lowest were office equipment stores, at 1.04%.

Respondents operating discount stores in France and Russia reported the highest shrink levels, at 2.70% and 2.55% respectively. As referenced earlier, in the Global Report, Italy featured prominently among the top 10 of verticals affected by shrinkage across all countries surveyed globally. It ranked third with its home,

garden auto stores rate of 2.85%, fourth with its hypermarkets & superstores at 2.78% and Italian cash & carry and wholesale clubs took sixth place. Second to Italy, the UK reported high shrink rates for home, garden and auto stores (2.65%) both regionally and globally.

By comparison, German retail verticals had some of the lowest rates of shrink, in line with its overall low global shrinkage ranking. Other European verticals of note with lower than average shrinkage rates were French home, garden and auto stores, at 1.25% of sales, and Russia, with only 1.20% of sales lost each in its department and variety stores (compared to the global average of 1.83% of sales lost in department stores and 1.85% in variety stores).

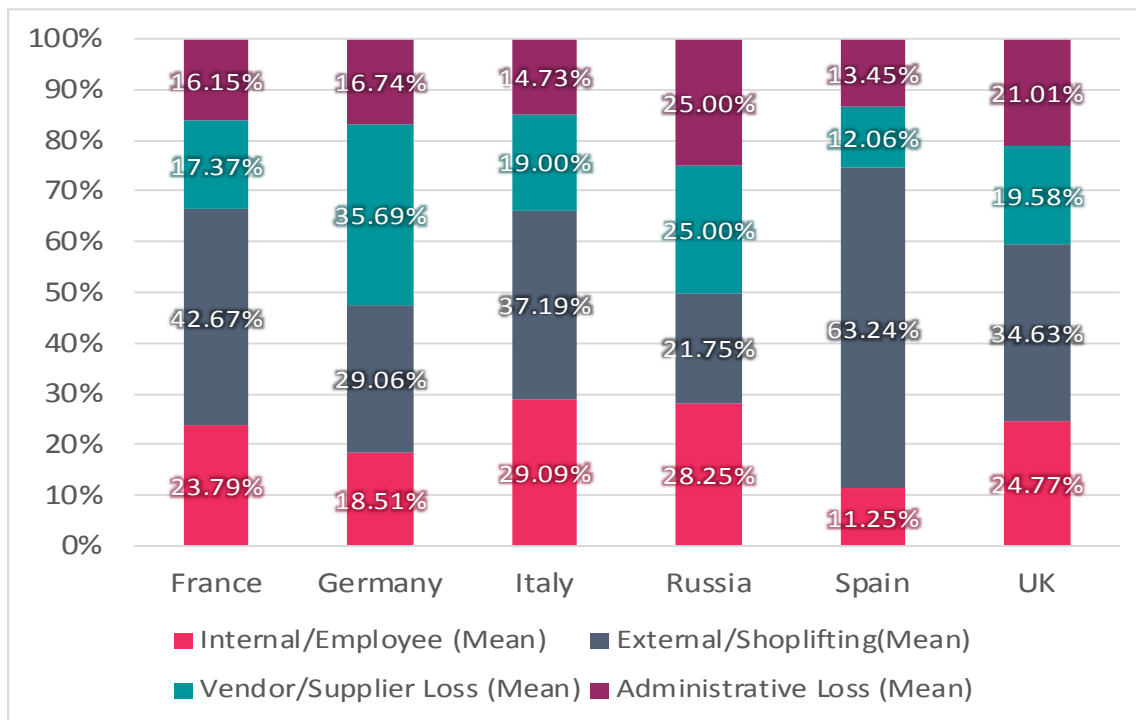
Figure 3.2.3

European Vertical Shrink Rates, 2017-2018

Vertical	Shrinkage, as a % of revenue 2017-2018	Rank (1 = Highest, 13 = Lowest)
Discount Stores	2.24%	1
Convenience & Forecourt Stores	2.05%	2
Cash & Carries and Wholesale Clubs	2.01%	3
Hypermarkets & Superstores	1.94%	4
Fashion & accessories stores	1.92%	5
Variety stores	1.92%	6
Home, Garden & Auto Stores	1.75%	7
Supermarkets & Neighborhood Stores	1.75%	8
Department Stores	1.71%	9
Drugstores, Pharmacies & Perfumeries	1.71%	10
Consumer Electronics Stores	1.66%	11
Leisure Stores	1.36%	12
Office Equipment Stores	1.04%	13

Figure 3.2.4

European Retail Shrinkage – Sources, 2017-2018



European Shrinkage, by Source

Italian retailers recorded the highest losses due to shrinkage as a percentage of revenue for the region during 2017-2018 – also the highest, globally – at \$2.73 billion. It was followed in the regional ranking by France, with a 2017-2018 shrinkage value of \$7.30 billion. France came in fourth place (behind the USA, China and the UK), globally according to total revenue lost.

Internal/employee theft incidents were most costly on average in Italy and Spain within Europe – with over six in ten respondents citing the value at \$50 or more. Vendor/supplier loss was the biggest contributor of shrink in Germany, at 35.69% of total annual shrinkage.

Just as in other regions, external sources/ shoplifting were the biggest shrinkage contributors. Shoplifting emerged as a significant issue in Spain, accounting for 63.24% of total shrinkage. Similarly, in France, shoplifting accounts for 42.67% – well above the global average of 34.34%.

In every European country except Germany, the average value of an internal/employee theft incident runs higher than the global average of \$59. Internal/employee theft was highest in Italy.

External theft, including shoplifting (other than ORC) follows a similar pattern when comparing the European countries surveyed to the global average. Italy tops the regional ranking with each incident of this type costing an average of \$100.16.

The highest average value of ORC incidents of shrink in this region was in Italy, at \$1,678.85, which was closely followed by France at \$1,625.65. This is the case despite both Italian and French respondents identifying shoplifting as the biggest overall contributor to shrinkage, with ORC ranked third (behind return fraud) in Italy, and second in France.

European Loss Prevention

European retailers are above the global average of merchandise tagged both at source, by the manufacturer or supplier, and in-store, suggesting room for improvement, particularly when viewed against the region high overall shrink rates.

In Europe, alarm monitoring (88.00%), CCTV (87.83%), and video analytics (87.00%) were cited as the most popular loss prevention tools. By contrast, those least likely to be used were EAS (82.00%), exception-based reporting (80.67%) and facial recognition (77.17%).

The average loss prevention budget reported across the region was 1.51% of revenue. This was slightly below the global average of 1.62%. German respondents represented the most frugal spenders, at just 1.14% of revenue. While Italians spent the highest percentage of revenue at 1.95%.

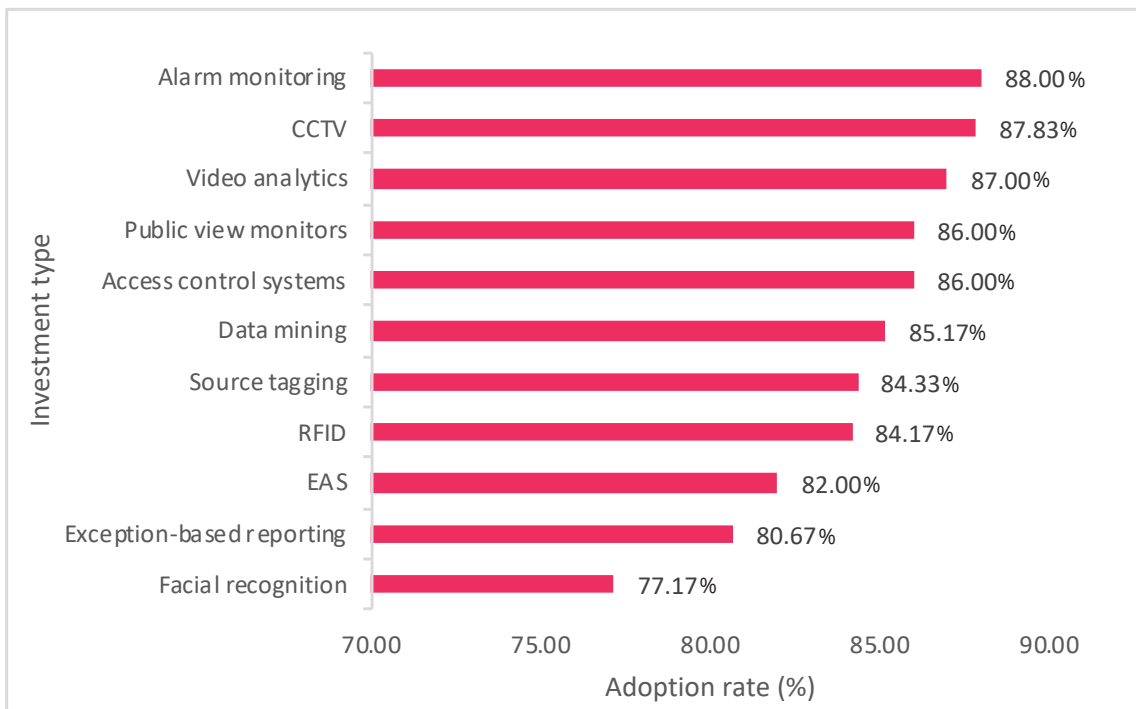
Figure 3.2.5

European Retail Tagging, as a percentage of merchandise sold, 2017-2018

Region	Source Tagging	In-store tagging
Europe	32.42%	35.33%
Global	31.97%	34.40%

Figure 3.2.6

European Loss Prevention and Asset Protection budget investment by type, 2017-2018



France – highlights

Shrinkage levels were above average in France. External sources accounted for 42.67% of shrink (well above the global average); – shoplifting was most prevalent here (52.00%), among all the countries surveyed. This follows the fact that French retailer respondents reported relatively low levels of EAS, source or in-store tagging despite being fifth or sixth place when it came to loss prevention budgets and technology spending.

France was, however, well above the global average when it comes to using technology to monitor fitting rooms (63.16%), as well as having them attended (57.89%). It was slightly below the 42.43% global average when it comes to fitting rooms that are inspected for damaged or left tags (36.84%). France should look to increase its use of tagging, either at source or in-store.

Figure 3.2.7

France – key data, 2017-2018		France – key data, 2017-2018	
Rate of shrinkage (% of revenue)	2.06%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Inventory tracking & visibility	65.38%
Variety stores	2.25%	Loss Prevention Budget (% of revenue)	1.67%
Lowest rate of shrink by retail vertical (% of revenue)		Increasing	71.15%
Consumer electronics stores	1.60%	Technology Spend	16.70%
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	23.79%	1. Source tagging	96.15%
External theft/shoplifting (including ORC)	42.67%	- budget increasing	51.92%
Vendor/supplier loss	17.37%	2. CCTV	92.31%
Administrative loss	16.15%	- Budget increasing	55.77%
Average monetary value in USD of each type of shrink incident		3. Alarm monitoring	92.31%
Internal/employee theft	\$71.21 USD	- Budget increasing	44.23%
External theft/shoplifting (other than organized crime)	\$98.00 USD	Social monitoring (% adoption)	59.62%
Organized retail crime	\$1625.65 USD	Loss Prevention function reports to	
Rate of tagging (% of merchandise)		1. CEO	40.38%
Source tagging	40.30%	2. CIO	25.00%
In-store tagging	40.35%	3. Board of Directors/Head of finance (each)	11.54%
		Loss Prevention top performance measure	
		Shrink % of revenue	78.85%

Germany – highlights

Given the country’s relatively low shrinkage rate, German retailers are the only European retailers likely to allot just 0.50–0.99% of sales to the annual loss prevention budget. They also report marginally higher comparative levels of investment in tagging, both at source and in-store, as well as regular inventory and cycle counting.

Given its favorable position at the bottom of the global and regional shrink and expenditure rankings, any increase in loss prevention budgets and technologies is likely to have a greater positive impact on the causes and impact of shrinkage next year than in any other country around the world.

Figure 3.2.8

Germany – key data, 2017-2018		Germany – key data, 2017-2018	
Rate of shrinkage (% of revenue)	1.43%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Inventory tracking & visibility	64.36%
Variety stores	2.09%	Loss Prevention Budget (% of revenue)	1.14%
Lowest rate of shrink by retail vertical (% of revenue)		Increasing	60.40%
Consumer electronics stores	0.82%	Technology Spend	6.09%
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	18.51%	CCTV	96.04%
External theft/shoplifting (including ORC)	29.06%	- budget increasing	65.35%
Vendor/supplier loss	35.69%	Public view monitors	91.09%
Administrative loss	16.74%	- budget increasing	35.64%
Average monetary value in USD of each type of shrink incident		Video analytics	88.12%
Internal/employee theft	\$32.73 USD	- budget increasing	35.64%
External theft/shoplifting (other than organized crime)	\$36.15 USD	Social monitoring (% adoption)	81.19%
Organized retail crime	\$245.96 USD	Loss Prevention function reports to	
Rate of tagging (% of merchandise)		1. Head of Store Operations	49.50%
Source tagging	26.51%	2. Head of Facilities	20.79%
In-store tagging	30.40%	3. CIO	11.88%
		Loss Prevention top performance measure	
		Sales	72.28%

Italy – highlights

Italy fares worst of all the countries surveyed in terms of rates of shrink and average incident values, both regionally and globally. Therefore, any increase in loss prevention budgets or spending on those technologies that respondents said were most effective at combating shrink, i.e. alarm monitoring, CCTV, and public view monitors, can only help Italian retail shrinkage. However, when asked if their loss prevention budgets were increasing, decreasing or remaining the same compared to last year, 37.25% of Italian respondents indicated that budgets would decrease this year.

Those Italian retailers operating hypermarkets and superstores reported high shrink rates. The only area where these retailers fare poorly in terms of technology investment to combat shrink is in source tagging and in RFID investment. In contrast to other countries, when asked how the performance of the Loss Prevention function is measured and incentivized, over half (62.75%) of the Italian retailer respondents indicated gross margin was a key measure, as opposed to sales or revenue.

Figure 3.2.9

Italy – key data, 2017-2018		Italy – key data, 2017-2018	
Rate of shrinkage (% of revenue)	2.32%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Stock/on-floor replenishment	53.92%
Hypermarkets & superstores	2.78%	Loss Prevention Budget (% of revenue)	1.95%
Lowest rate of shrink by retail vertical (% of revenue)		Decreasing	37.25%
Fashion and accessories stores	1.65%	Technology Spend	21.17%
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	29.09%	EAS	97.06%
External theft/shoplifting (including ORC)	37.19%	- budget increasing	49.02%
Vendor/supplier loss	19.00%	Video analytics	95.10%
Administrative loss	14.73%	- no change in budget	37.25%
Average monetary value in USD of each type of shrink incident		CCTV	94.12%
Internal/employee theft	\$73.53 USD	- budget increasing	45.10%
External theft/shoplifting (other than organized crime)	\$100.16 USD	Social monitoring (% adoption)	58.82%
Organized retail crime	\$1678.85 USD	Loss Prevention function reports to	
Rate of tagging (% of merchandise)		1. CEO	49.02%
Source tagging	26.51%	2. Head of Finance	21.57%
In-store tagging	41.33%	3. Board of Directors/Head of store operations (each)	11.76%
		Loss Prevention top performance measure	
		Gross margin	62.75%

Spain – highlights

At 1.99% Spain reported a shrinkage rate well above the European average. Shoplifting is a significant issue in Spain (and even worse than in France) – accounting for 63.24% of total shrinkage, which is well above the global average of 34.34%. Spain (along with India and the UK), however, have longer investment timeframes planned for deploying RFID-based loss prevention systems, i.e. beyond 12 months.

Given its shrinkage ranking position of 6th out of 14, it is positive that Spanish respondents are most likely to report to the Board of Directors (33.33%). A lower proportion report to the CEO, suggesting there is room for the majority of Spanish retailers to escalate issues related to shrink more consistently with higher levels of senior operational management, and not just the Board.

Figure 3.2.10

Spain – key data, 2017-2018		Spain – key data, 2017-2018	
Rate of shrinkage (% of revenue)	1.99%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Stock/on-floor replenishment	76.47%
Department stores	2.51%	Loss Prevention Budget (% of revenue)	1.42%
Lowest rate of shrink by retail vertical (% of revenue)		Increasing	45.10%
Leisure stores	1.45%	Technology Spend	8.43%
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	11.25%	CCTV	94.12%
External theft/shoplifting (including ORC)	63.24%	- Budget increasing	45.10%
Vendor/supplier loss	12.06%	Access control systems	92.16%
Administrative loss	13.45%	- Budget increasing	57.86%
Average monetary value in USD of each type of shrink incident		Alarm monitoring	92.16%
Internal/employee theft	\$66.36 USD	- Budget increasing	45.10%
External theft/shoplifting (other than organized crime)	\$97.94 USD	Social monitoring (% adoption)	52.94%
Organized retail crime	\$844.35 USD	Loss Prevention function reports to	
Rate of tagging (% of merchandise)		1. Board of Directors	33.33%
Source tagging	42.80%	2. CEO	31.37%
In-store tagging	55.06%	3. Head of Finance	15.69%
		Loss Prevention top performance measure	
		Shrink performance	78.43%

United Kingdom – highlights

Despite having some categories affected worse by shrink than those in other countries, the UK fares relatively well with an overall global shrink ranking of 8th out of 14. Considering Apple, Samsung and Duracell were among the top brands stolen, as cited by UK respondents, it follows that consumer electronics stores are the worst affected retail vertical in this country.

UK respondents were the most likely in Europe to say their organization does not use RFID technology at all (18.81%), while 30.69% of respondents cited the longest investment timeframe of 12–18 months in its use by the loss prevention function. They were also (alongside their US counterparts) most likely to report the successful use of POS checkout data in identifying shrinkage.

Figure 3.2.11

UK – key data, 2017-2018		UK – key data, 2017-2018	
Rate of shrinkage (% of revenue)	1.88%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Stock/on-floor replenishment	50.50%
Consumer electronics stores	2.32%	Loss Prevention Budget (% of revenue)	
Lowest rate of shrink by retail vertical (% of revenue)		Increasing	64.36%
Variety stores	1.51%	Technology Spend	
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	24.77%	CCTV	93.07%
External theft/shoplifting (including ORC)	34.63%	- Budget increasing	48.51%
Vendor/supplier loss	19.58%	Access control systems	92.08%
Administrative loss	21.01%	- Budget increasing	46.53%
Average monetary value in USD of each type of shrink incident		Alarm monitoring	90.10%
Internal/employee theft	\$57.31 USD	- Budget increasing	45.54%
External theft/shoplifting (other than organized crime)	\$71.86 USD	Social monitoring (% adoption)	
Organized retail crime	\$1045.99 USD	55.45%	
Rate of tagging (% of merchandise)		Loss Prevention function reports to	
Source tagging	31.22%	1. CEO	27.72%
In-store tagging	30.01%	2. Head of Store Operations	22.77%
		3. CIO	21.78%
		Loss Prevention top performance measure	
		Shrink performance	69.31%

Regional Report LATAM

Shrinkage in Latin America was 1.81% of sales in 2017–2018. This was the second–lowest rate of shrinkage by region, as well as below the global average, and featured two of the smaller addressable markets of those surveyed.

Latin American Shrinkage

During 2017–2018, shrinkage across retail stores in Latin America (LATAM) stood at 1.81% of sales. This was the second–lowest rate of shrinkage by region, as well as below the global average.

This low shrink rate was achieved despite the variance between the two countries surveyed – retail sales per capita are high compared to the rest of Latin America, but lower than developed countries. This indicates that Mexico is positioned better than Brazil.

Figure 3.3.1

Region	2017-2018
LATAM	1.81%
Global	1.82%

Figure 3.3.2

Latin American Retail Shrinkage – by Country, 2017-2018

Country	2017-2018, % of sales	Rank, based on Shrinkage %	Shrinkage Value (\$USD billion)	Rank, based on Shrinkage Value
Brazil	1.99	5	2.34	10
Mexico	1.59	11	1.62	12

Latin American Shrinkage, by Vertical

Featuring both relatively high and low shrinkage rates as a percentage of sales respectively, Brazil and Mexico reported few of the highest consolidated shrinkage rates by vertical that could be considered well above the equivalent average global rates (where comparative data was available). The Latin American vertical with the highest reported levels of shrinkage were office equipment stores, at 3.00% of sales during 2017–2018.

Respondents operating office equipment (2.70%) and variety stores (2.78%) in Mexico reported the highest shrink levels, which runs contrary to the total shrinkage rate of 1.59% across all verticals in that country. The higher overall shrinkage rate in Brazil is reflected in comparatively high rates

among all verticals where data was available. Five of nine verticals studied came in at over 2.00%, with department stores and leisure stores (2.35% each), followed by fashion and accessories stores (2.22%).

Discount stores in Mexico have some of the lowest rates of shrink (1.25%), in line with its overall low global shrinkage ranking. Other Latin American verticals of note with lower than average shrinkage rates were Mexican hypermarkets and supermarkets (1.15%) and cash & carries and wholesale clubs (1.45%). The latter Mexican vertical is in stark contrast to the 2.13% of sales that its counterparts reported were lost in Brazilian cash & carries and wholesale clubs.

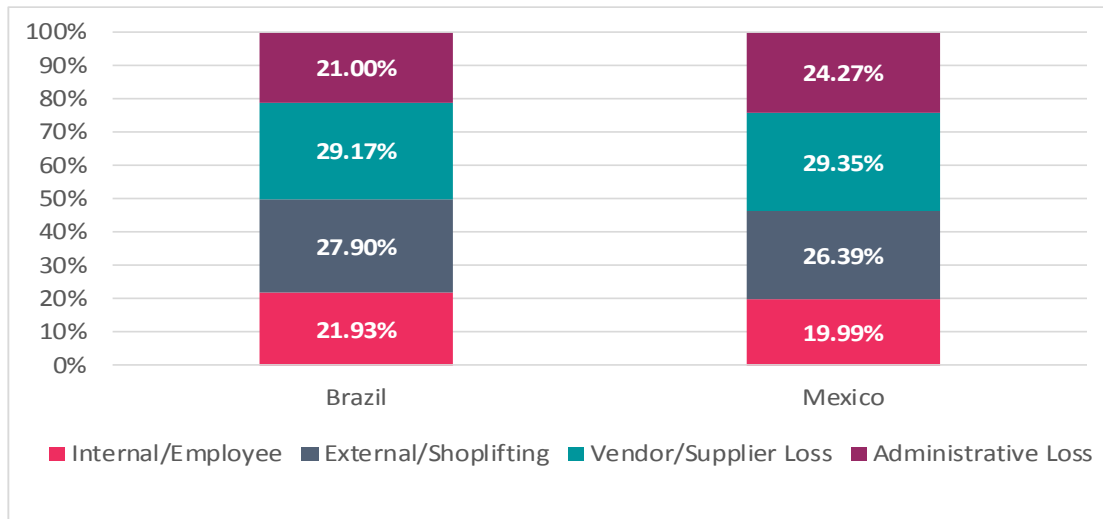
Figure 3.3.3

Latin American Vertical Shrink Rates, 2017-2018

Vertical	Shrinkage, as a % of revenue 2017-2018	Rank (1 = Highest, 13 = Lowest)
Office Equipment Stores	3.00%	1
Fashion and Accessories Stores	2.52%	2
Variety Stores	2.52%	3
Leisure Stores	2.21%	4
Supermarkets & Neighborhood Stores	1.98%	5
Department Stores	1.88%	6
Cash & Carries and Wholesale Clubs	1.82%	7
Home, Garden & Auto Stores	1.81%	8
Drugstores, Pharmacies & Perfumeries	1.75%	9
Consumer Electronics Stores	1.66%	10
Convenience & Forecourt Stores	1.61%	11
Hypermarkets & Superstores	1.35%	12
Discount Stores	1.25%	13

Figure 3.3.4

Latin American Retail Shrinkage – Sources, 2017-2018



Latin American Shrinkage, by Source

Vendor/supplier loss was cited as the top overall contributor to shrink among both Brazilian (29.17%) and Mexican respondents (29.35%), which was at odds with most of the other countries surveyed. Vendor/Supplier loss was closely followed by external losses, including shoplifting, which averaged 27.15% across both countries.

Administrative loss was notably higher in Mexico, at 24.27% of all losses, compared to 21.00% in Brazil. Internal losses, including employee theft, have the least impact in Mexico (19.99%) at a rate that is well below the global average (22.95%). In comparison, internal loss (21.93%) placed third among all shrinkage losses in Brazil.

Looking at the sources of external losses, return fraud led the way, with 41.67% indicating it is the biggest contributor. This is closely followed by shoplifting.

ORC made the second most significant contribution to shrink in the LATAM region, across all responses. Employee theft of merchandise was the leading cause of internal losses (cited by 44.83% in the region), followed by employee sweet-hearting (35.66%) and the theft of cash (15.86%).

Looking at individual LATAM markets, in terms of value, each type of incident in Brazil and Mexico is just above the global average, except for those related to ORC in Mexico, which are valued at \$904.93 each, compared to \$1,269.96 globally. This, however, is at odds with Brazil where the equivalent incident value is much higher, at \$1,730.52. The value of external incidents (other than those related to ORC) is otherwise lower in Brazil than in Mexico.

Latin American Loss Prevention

The survey found little correlation between the two Latin American country respondents regarding inventory visibility. The majority of retailers in the region were most likely to take inventory across their entire stores once a month, in line with the global average.

Again, when it comes to cycle counting specific departments, Brazilian respondents report doing this with a higher frequency, at once a week, compared to those in Mexico, whose preference here is more likely to be once a month. Frequently targeted products included clothing, alcohol and consumer electronics, such as tablet computers, mobile phones and digital cameras. While Nike, Nestle, Hershey’s, Unilever, LG, Apple and Samsung were among the most often cited brands.

Latin American retailers rank above average when it comes to the proportion of merchandise sold that is tagged both at source, by the manufacturer or supplier, and in-store. This correlates to a high percentage of respondents from the region (97.24%) reporting that Alarm monitoring is seen as the most successful loss prevention tool, followed by public view monitors (96.50%) and EAS (95.86%), proving to be useful Loss Prevention tools and deterrents.

Most retailers in the region also said their EAS investment was increasing, alongside RFID. But loss prevention and security was only the second most popular application of RFID technology here, behind inventory tracking and visibility.

Figure 3.3.5

Latin American Retail Tagging, as a percentage of merchandise sold

Region	Source Tagging, 2017-2018	In-store tagging, 2017-2018
Latin America	43.84%	41.24%
Global	31.97%	34.40%

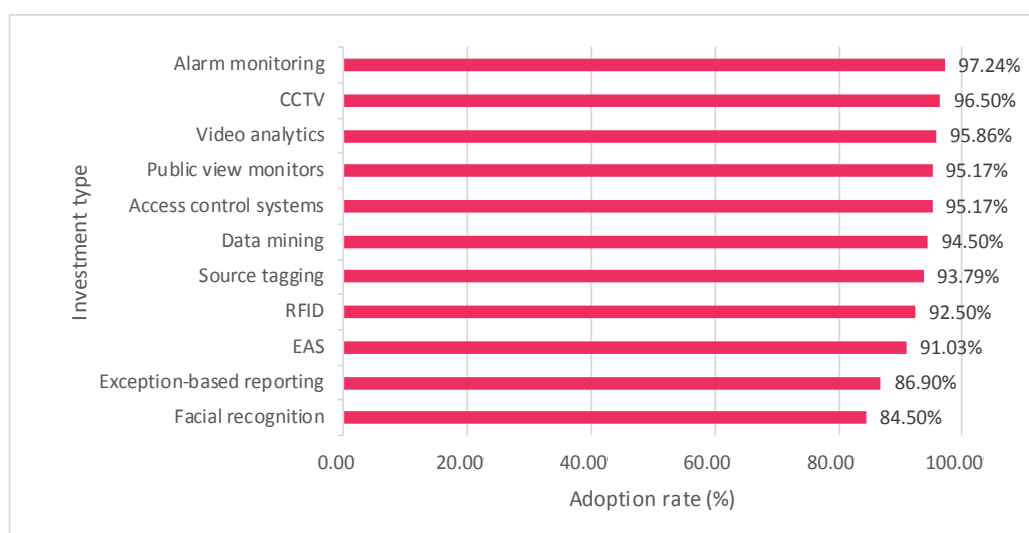
Looking at social media monitoring, the regional average using it for loss prevention was 60.69%, where those in Brazil were more than twice as likely than their counterparts in Mexico to do so. Threats to store was the most likely area of focus for social media monitoring, followed by merchandise theft and black-market activities.

Technology spending on loss prevention in general was pushed higher in the region by Brazil. It also topped the global ranking in terms of average share of loss prevention technology spending. With Mexico ranked 10th in the global investment standings, the region spends 19.94% of its loss prevention and asset protection budget on technology, higher than the 15.77% global average.

As an overall percentage of sales, the loss prevention budgets across the region averaged 1.98%. But, again, this is made up of the extreme of Brazil, spending the most, at 2.54% and Mexico spending comparatively much less, at 1.43% of sales.

Figure 3.2.6

Latin America Loss Prevention and Asset Protection budget investment by type, 2017-2018



Brazil – highlights

Respondents in Brazil report some of the highest shrinkage levels; 43.66% assert that shrink accounts for more than 3.99% of sales (compared to 6% across all countries) and 9.86% say it accounts for 3.00%–3.99% (compared to 12.23% across all countries). Overall, it ranks fifth, at an average rate of 1.99% of sales, and 10th in terms of sales value, at \$2.34 billion⁽⁸⁾.

Return fraud is ranked as the top contributor to external sources of shrink in Brazil (48.57%)

– the highest proportion cited globally, according to respondents by country. By contrast, ORC incidents have the lowest value at 26.76% in Brazil, where they are worth less than \$49.99. Respondents in Brazil claim to be seeing success from the most number of tools, with over 55.00% selecting each category. Unlike its regional counterpart (Mexico), the Brazilian Loss Prevention function is most likely to report into the Head of Store Operations.

8. See Figure 2.3: Global shrink index ranking table

Figure 3.3.7

Brazil – key data, 2017-2018		Brazil – key data, 2017-2018	
Rate of shrinkage (% of revenue)	1.99%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Inventory tracking & visibility	78.87%
Variety stores	2.29%	Loss Prevention Budget (% of revenue)	2.54%
Lowest rate of shrink by retail vertical (% of revenue)		Increasing	69.01%
Hypermarkets & superstores	1.53%	Technology Spend	26.70%
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	21.93%	Public view monitors	97.18%
External theft/shoplifting (including ORC)	27.90%	- Budget increasing	76.06%
Vendor/supplier loss	29.17%	Alarm monitoring	97.18%
Administrative loss	21.00%	- Budget increasing	71.83%
Average monetary value in USD of each type of shrink incident		EAS	95.77%
Internal/employee theft	\$59.41 USD	- Budget increasing	76.05%
External theft/shoplifting (other than organized crime)	\$61.92 USD	Social monitoring (% adoption)	84.51%
Organized retail crime	\$1730.52 USD	Loss Prevention function reports to	
Rate of tagging (% of merchandise)		1. Head of Store Operations	32.39%
Source tagging	45.13%	2. Board of Directors	28.17%
In-store tagging	40.91%	3. CEO	19.72%
		Loss Prevention top performance measure	
		Shrink performance	81.69%

Mexico – highlights

Respondents in Mexico reported an average shrink rate that places it 11th in the shrinkage rate ranking, and amounts to \$1.62 billion in sales during 2017-2018. Vendor/supplier loss is the biggest contributor of shrink in Mexico, accounting for 29.35%. While administrative loss is the smallest source of shrink on average globally, Mexico has the highest proportion of all losses due to shrinkage, at 24.27%. Shoplifting is the biggest contributor to external losses in Mexico (50.68%).

Less than half of respondents say their budget is increasing and over half say it is static. Respondents in Mexico are also the most likely to say their organization does not use RFID technology (27.03%). However, half (48.65%) say incident reports are the most successful tool in combating shrink. Similar to half of the markets studied, the Mexican Loss Prevention function is most likely to report to the CEO (cited by 59.46%).

Figure 3.3.8

Mexico – key data, 2017-2018		Mexico – key data, 2017-2018	
Rate of shrinkage (% of revenue)	1.59%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Inventory tracking & visibility	47.30%
Variety stores	2.78%	Loss Prevention Budget (% of revenue)	1.43%
Lowest rate of shrink by retail vertical (% of revenue)		No change	50.00%
Hypermarkets & superstores	1.15%	Technology Spend	13.18%
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	19.99%	1. Alarm monitoring	97.30%
External theft/shoplifting (including ORC)	26.39%	- budget increasing	58.11%
Vendor/supplier loss	29.35%	2. EAS	95.95%
Administrative loss	24.27%	- budget increasing	68.92%
Average monetary value in USD of each type of shrink incident		3. Public view monitors	95.95%
Internal/employee theft	\$60.43 USD	- budget increasing	51.35%
External theft/shoplifting (other than organized crime)	\$73.95 USD	Social monitoring (% adoption)	37.84%
Organized retail crime	\$904.93 USD	Loss Prevention function reports to	
Rate of tagging (% of merchandise)		1. CEO	59.46%
Source tagging	42.33%	2. Board of Directors	13.51%
In-store tagging	41.62%	3. Head of Finance	12.16%
		Loss Prevention top performance measure	
		Shrink performance	71.62%

Regional Report USA

Shrinkage in the USA was 1.85% of sales in 2017-2018. The country also accounted for the greatest losses, as the largest consumer market worldwide.

USA Shrinkage

During 2017-2018, shrinkage across retail stores in the USA accounted for 1.85% of sales, slightly above the global average (1.82%). Although this sees the country ranked ninth in terms of a percentage of sales, its position as the largest global consumer market means this translates into the highest losses based on shrinkage value.

Respondents in the USA reported losses that add up to a staggering \$42.49 billion USD of sales forecast during 2017-2018 – almost half the total across all country markets surveyed. While this justifies its study as a region, it also affords the opportunity to dive deeper into the sources of shrink in the USA, as well as the tools used by loss prevention to combat it.

Figure 3.4.1

USA Retail Shrinkage, 2017-2018

Region	2017-2018
USA	1.85%
Global	1.82%

Figure 3.4.2

USA Retail Shrinkage, 2017-2018

Country	2017-2018	Global Rank (14 = Lowest, 1 = Highest)	Shrinkage by Value (\$USD billion)
USA	1.85%	9	42.49

USA Shrinkage, by Vertical

Representing a regional shrink rate that is trending only slightly higher than the global average, it follows that the USA is also characterized by relatively high shrinkage rates in verticals that dominate the retail space (where comparative data was available). Where half of the six globally comparable verticals exceeded average shrinkage rates, the USA vertical with the highest reported rate of shrinkage were fashion and accessories stores, at 2.43% of sales during 2017–2018.

In looking at the highest and lowest USA vertical shrinkage rates, the fact the USA trends in direct opposition to the global averages suggests retailers here have successfully tackled shrink in those under most threat. For example, the shrinkage rate for consumer electronics stores globally during 2017–2018 was 1.93%. But it was

1.84% in the USA. By contrast those categories with some of the largest sales areas per store trend above average, at 1.90% in the USA versus 1.52% globally for supermarkets and 1.71% for hypermarkets, compared to 1.63% globally.

The study suggests retailers operating in the USA are aware of what categories are most under threat. But they should not lose focus on those that lend themselves to larger formats and potentially lower unit-value products, such as food, in comparison to consumer electronics stores for instance. Cash & carries and wholesale clubs featured among the lowest category shrink rates in the USA, where the nature of their closed membership may act as a deterrent in this country.

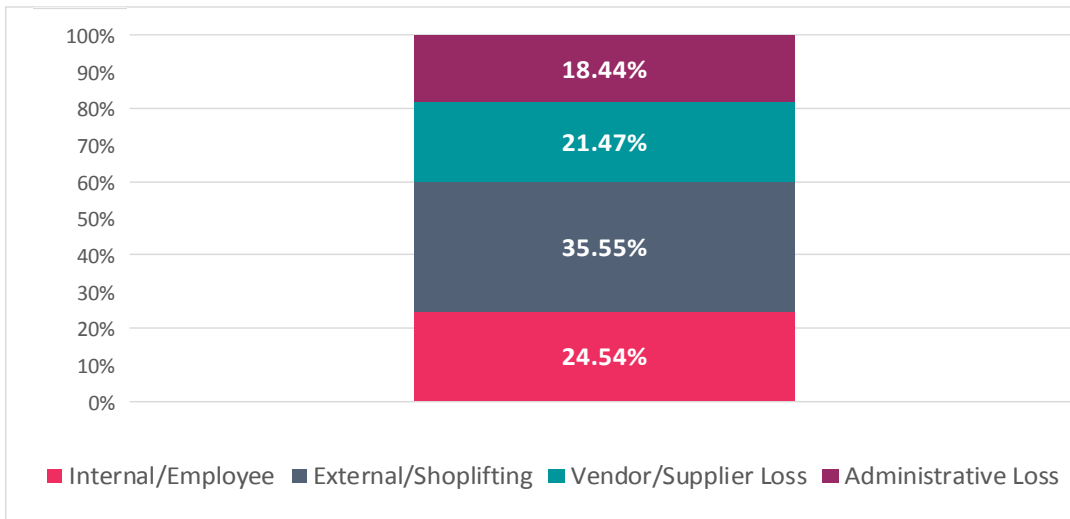
Figure 3.4.3

USA Vertical Shrink Rates, 2017-2018

Vertical	Shrinkage, as a % of revenue 2017-2018	Rank (1 = Highest, 12 = Lowest)
Fashion and Accessories Stores	2.43%	1
Convenience & Forecourt Stores	2.05%	2
Home, Garden & Auto Stores	2.05%	3
Drugstores, Pharmacies & Perfumeries	2.03%	4
Variety Stores	1.95%	5
Supermarkets & Neighborhood Stores	1.90%	6
Consumer Electronics Stores	1.84%	7
Department Stores	1.80%	8
Hypermarkets & Superstores	1.71%	9
Cash & Carries and Wholesale Clubs	1.61%	10
Leisure Stores	1.43%	11
Office Equipment Stores	1.26%	12

Figure 3.4.4

USA Retail Shrinkage – Sources, 2017-2018



USA Shrinkage, by Source

As already referenced, the headline finding for the USA in this study is the sheer size of shrinkage as a proportion of sales. External sources, including shoplifting make up the largest percentage of those losses, at 35.55% of lost sales, slightly above the global average. Internal shrinkage (24.54%), including employee theft, was the second largest source, followed by vendor and supplier losses (21.47%) and administrative losses making up the smallest percentage, at 18.44%. The shift towards higher external shrink rates makes a strong argument for the use of loss prevention tools to address external shrinkage.

Considering the sources of external shrink in the USA, shoplifting was the top ranked contributor to losses, cited by 51.49% of respondents, followed by return fraud chosen by 26.00% and ORC ranked third by 20.00%.

Employee theft of merchandise was the largest overall contributor to shrinkage losses attributable to internal sources in the USA, according to 41.58% of respondents. This was followed by employee fraud, including sweet-hearting, cited by 33.66% and theft of cash by employees ranked third, as highlighted by 13.73%.

Given the high total value of losses due to shrinkage in the US, it is unsurprising that the value of all incidents trends above their global average, by source. The average value of each ORC incident in the USA during 2017-2018, for example, was \$1,401.68 (or \$131.72 more than the

global average). Other external incidents, including shoplifting, amounted to \$89.80 (or \$16.86 more than the global average) compared to all other countries surveyed.

Internal sources, including employee theft, were worth \$12.75 more in the USA, at \$71.75, compared to the rest of the world. The products most likely to be stolen from stores in the USA included clothing, cosmetics, jewelry and confectionery, as well as consumer electronics. GUESS, Gap, Revlon, and consumer electronics brands such as Apple (and Beats), Samsung and Sony were among those targeted most.

The high proportion of respondents whose retail organizations' most recent annual revenues were above \$1 billion in the USA make it worthwhile to examine the country's sources of loss by revenue. When comparing USA retailers in the lowest annual revenue bracket (of \$100-249 million) to their larger counterparts (with revenues ranging from \$1-2.49 billion up to \$25 billion and above), it was found that smaller retailers were more vulnerable to employee theft of merchandise and sweet-hearting, where the average value of such an incident was between \$50 and \$75, as opposed to between \$25 and \$50 for larger retailers.

USA Loss Prevention

USA retailers fall below the global average of merchandise tagged both at source, by the manufacturer or supplier, and in-store, suggesting room for improvement, particularly when viewed against its regionally representative, higher-than-average overall shrink rate.

After EAS, the next most popular is alarm monitoring, followed by access control systems, exception-based reporting and CCTV. While facial recognition is least popular among respondents from the USA, followed by RFID and public view monitors. Highlighting RFID, the rate of adoption here was lower (76.47%) than in any other country market. Perhaps this is because its usage runs contrary to prevailing trends. RFID was more likely to be used for inventory tracking and visibility first from a global perspective, followed by loss prevention and asset protection. However, the majority (62.75%) of USA respondents say loss prevention and asset protection is the dominant use case, with inventory tracking and visibility taking second place, as cited by 53.92%.

USA retailers could also look to use social media monitoring more, as only 49.02% say they currently do. Respondents from the USA are most likely to report success from POS checkout data or returns to debit or credit cards in terms the most useful IT-based sources of data.

Figure 3.4.6

USA Loss Prevention and Asset Protection budget investment by type, 2017-2018

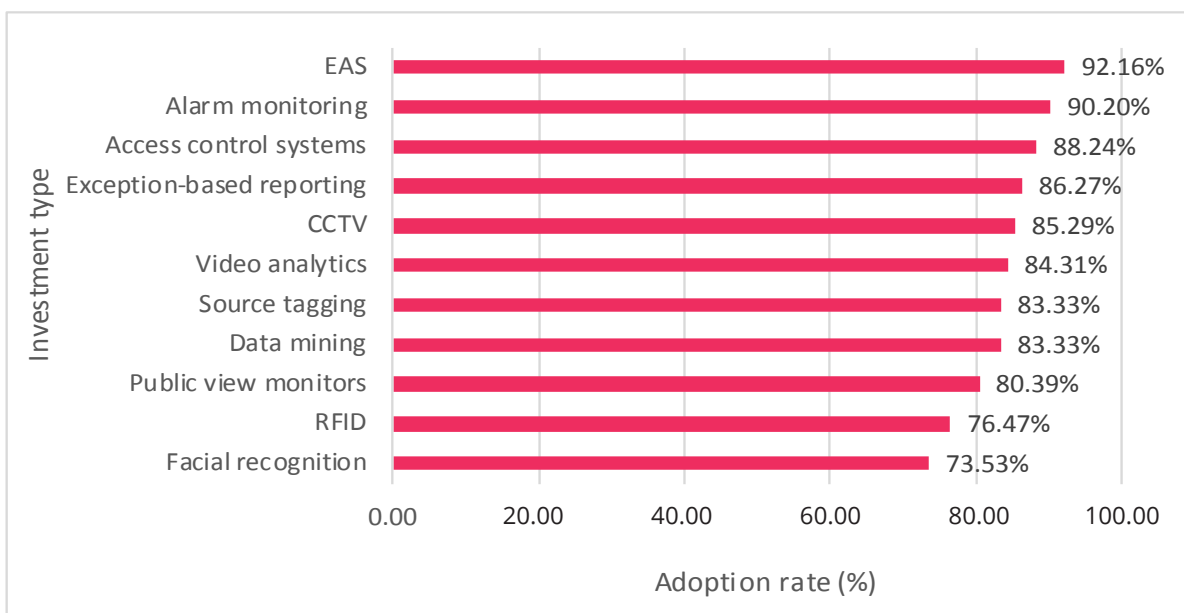


Figure 3.4.5

USA Retail Tagging, as a percentage of merchandise sold

Region	Source Tagging, 2017-2018	In-store tagging, 2017-2018
USA	29.11%	31.70%
Global	31.97%	34.40%

With a shrink rate ranked ninth and the highest value shrinkage overall, the average loss prevention budget in the USA put it fifth in terms of the top spending country markets (1.72% of sales). Respondents in the USA say they spend 17.17% on technology, again ranking it fifth in terms of technology investment by country market. This compares at slightly less than parity with the overall global average (16.12%) of loss prevention budgets.

Respondents from the USA say the loss prevention function is most likely to report into the Head of Store Operations.

United States of America – highlights

Figure 3.4.7

USA – key data, 2017-2018		USA – key data, 2017-2018	
Rate of shrinkage (% of revenue)	1.85%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Loss prevention & asset protection	62.75%
Fashion and accessories stores	2.43%	Loss Prevention Budget (% of revenue)	1.72%
Lowest rate of shrink by retail vertical (% of revenue)		Increasing	46.08%
Offices equipment stores	1.26%	Technology Spend	17.17%
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	24.54%	1. Alarm monitoring - budget increasing	90.20% 40.20%
External theft/shoplifting (including ORC)	35.55%	2. EAS - budget increasing	92.16% 53.92%
Vendor/supplier loss	21.47%	3. Public view monitors - budget increasing	80.39% 37.25%
Administrative loss	18.44%	Social monitoring (% adoption)	49.02%
Average monetary value in USD of each type of shrink incident		Loss Prevention function reports to	
Internal/employee theft	\$71.75 USD	1. Head of Store Operations	37.25%
External theft/shoplifting (other than organized crime)	\$89.80 USD	2. CIO	22.55%
Organized retail crime	\$1401.68 USD	3. CEO	13.73%
Rate of tagging (% of merchandise)		Loss Prevention top performance measure	
Source tagging	29.11%	Shrink performance	80.39%
In-store tagging	31.70%		

Regional Report

APAC

Shrinkage in Asia Pacific was 1.75% of sales in 2017–2018. The region also features one country market among those with the highest rates, globally, as well as in terms of sales.

Asia-Pacific Shrinkage

During 2017–2018, shrinkage across retail stores in the Asia-Pacific (APAC) region stood at 1.75% of revenue. The region also features one of those with the highest shrinkage rates as a percentage of sales, globally, as well as in terms of total sales lost among all country markets.

Japanese retailers reported the lowest shrinkage at 1.44%, which was also the second lowest rate behind Germany, globally. The APAC country with highest shrinkage rate was India at 2.13%, putting it second to Italy at the top of the global ranking.

Figure 3.5.1

Asia-Pacific Retail Shrinkage, 2017-2018

Region	2017-2018
APAC	1.75%
Global	1.82%

Figure 3.5.2

Asia-Pacific Retail Shrinkage – by Country, 2017-2018

Country	2017-2018	Regional Rank (1 - Highest, 5 - Lowest)	Shrinkage by Value (\$USD billion)
India	2.13%	1	0.52
South Korea	2.04%	2	1.56
China	1.96%	3	13.52
Australia	1.47%	4	2.24
Japan	1.44%	5	6.20

Asia-Pacific Shrinkage, by Vertical

APAC's average regional shrink rate fell below that of the global average; however, the region did not, escape recording some of the highest consolidated shrinkage rates by vertical (where comparative data was available). The APAC vertical with the highest reported levels of shrinkage were drugstores, pharmacies and perfumeries, at 2.62% of sales during 2017-2018. The lowest were convenience & forecourt stores, at 1.43% of sales.

Respondents operating drugstores, pharmacies and perfumeries in China reported the highest vertical shrink level, globally, at 3.15%. As referenced in the Global Report earlier, China also featured predominantly across the top 10% of verticals affected by shrinkage across all countries

surveyed. Shrinkage across cash & carries and wholesale clubs in the region was also notably high, in India and South Korea (2.67% and 2.65%, respectively).

Japanese supermarkets & neighborhood stores as well as cash & carries and wholesale clubs reported some of the lowest regional shrinkage rates, at 1.26% and 1.30% respectively. Japan joins Australia in being the APAC countries with the lowest shrinkage rates. Australia featured four verticals with the lowest regional shrink, including variety stores (1.31%), department store (1.32%), fashion and accessory stores (1.33%), and hypermarket & superstores (1.33%).

Figure 3.5.3

Asia-Pacific Vertical Shrink Rates, 2017-2018

Vertical	Shrinkage, as a % of revenue 2017-2018	Rank (1 = Highest, 13 = Lowest)
Drugstores, Pharmacies & Perfumeries	2.62	1
Leisure Stores	2.13	2
Consumer Electronics Stores	2.02	3
Office Equipment Stores	2.01	4
Department Stores	2.00	5
Discount Stores	1.83	6
Hypermarkets & Superstores	1.63	7
Supermarkets & Neighborhood Stores	1.61	8
Cash & Carries and Wholesale Clubs	1.61	9
Home, Garden & Auto Stores	1.59	10
Variety Stores	1.51	11
Fashion and Accessories Stores	1.51	12
Convenience & Forecourt Stores	1.43	13

Figure 3.5.4



Asia-Pacific Shrinkage, by Source

Chinese retailers reported the highest losses due to shrinkage as a percentage of revenue for the region during 2017–2018 – also the second highest, globally – at \$13.52 billion, also being the second largest retail market worldwide after the USA. It is followed in the regional ranking by Japan, with a 2017–2018 shrinkage value of \$6.20 billion – putting it in sixth place, globally, according to total revenue lost.

South Korea is the only APAC country where internal shrink, such as employee theft, is the biggest contributor of shrink. Here, internal shrinkage sources account for 28.55% of total losses, compared to 26.73% for external. Nearly half (46.94%) in South Korea said employee merchandise theft is the top contributor to this type of source. Employee fraud/sweet-hearting is also a prominent contributor to internal shrink, with 40.82% in South Korea citing it as the top contributor.

Vendor/supplier loss is the biggest average contributor to shrink in the APAC region, at

30.95% of shrinkage – a higher average proportion than reported by any other region. But external sources, including shoplifting, follow closely, at 29.79%. Japan leads on vendor/supplier loss in the region at 35.57%, as this country's largest shrink contributor.

In the region, return fraud is ranked as the top contributor in Australia (42.68%), Japan (42.42%), India (41.58%), and China (35.71%), while ORC is the top contributor in South Korea (39.13%).

In terms of the impact of shrink, internal/employee theft incidents are worth the most on average in China, India, and South Korea in the region – with over six in ten respondents citing the value at \$50 or more. At the highest end, 28.71% in India and 26.00% in China say each incident is worth \$100 or more. With external theft/shoplifting incidents half in China (53.00%) report the value per incident as \$100 or more. More than one quarter (26.00%) of Chinese respondents also reported that organized retail crime incidents are valued at \$5,000 or more.

Asia-Pacific Loss Prevention

With a smaller proportion of modern (versus traditional) retailing in this region, it follows that this region has some of the lower proportions of security tagged inventory (compared to other regions like LATAM). APAC retailers could do more to collaborate with manufacturers for source tagging. But they appear to be compensating with in-store tagging, at a higher rate than the global average.

Japan has the lowest declared percentage of sourced-tagged (19.04%) and store-tagged (21.68%) merchandise. By contrast, Chinese retailers are the biggest users of source tagging (47.89%) and the second biggest users of in-store tagging (50.19%). The region's top stolen products include jeans and cosmetics; the top stolen brands include Cadbury, Apple and Puma.

In APAC, public view monitors (91.60%), CCTV (89.60%), and EAS (88.80%) were cited as the most popular, successful loss prevention tools. By contrast, those least likely to be used were exception-based reporting (83.04%), facial

Figure 3.5.5

Asia-Pacific Retail Tagging, as a percentage of merchandise sold, 2017-2018

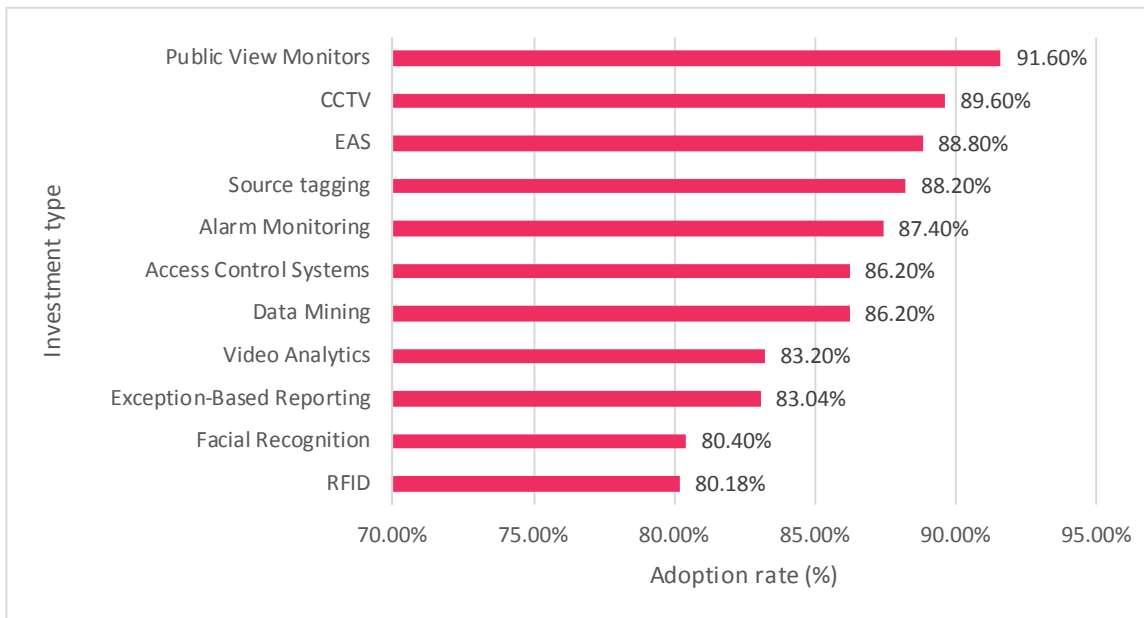
Region	Source Tagging, 2017-2018	In-store tagging, 2017-2018
Asia Pacific	34.33%	36.75%
Global	31.97%	34.40%

recognition (80.40%) and RFID (80.18%). But the region outstripped most globally, even when it came to those least used tech tools.

The average loss prevention budget reported across the region was 1.50% of revenue, below the global average of 1.62%. Japanese respondents allocate the least, at just 1.16% of sales, followed by Australia (1.18%). By contrast, those in China, India and South Korea spend near or above average, at 1.77%, 1.72% and 1.58% of sales, respectively.

Figure 3.5.6

Asia-Pacific Loss Prevention and Asset Protection budget investment by type, 2017-2018



Australia – highlights

Australia reported some of the lowest rates of shrinkage of all the countries surveyed. This amounts to \$2.24 billion in losses, which ranks 12th globally in terms of shrinkage value. With relatively low-level losses, return fraud ranked as the top contributor from external sources in Australia, cited by 42.68%.

The loss prevention function in Australia is the most likely in the region to report into the Head of Store Operations. They allot just 0.50-0.99% of their sales (according to 44.55%) to the LP budget. While most respondents (85.15%) protected less than half of their merchandise with source tagging, a high proportion (45.54%) of respondents in the country say less than 9.90% of their merchandise is protected in this way.

Figure 3.5.7

Australia – key data, 2017-2018		Australia – key data, 2017-2018	
Rate of shrinkage (% of revenue)	1.47%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Inventory tracking & visibility / Inventory cycle counting (each)	71.29%
Convenience & forecourt stores	2.45%	Loss Prevention Budget (% of revenue)	1.18%
Lowest rate of shrink by retail vertical (% of revenue)		Increasing	74.26%
Variety stores	1.31%	Technology Spend	7.53%
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	24.37%	1. EAS	98.02%
External theft/shoplifting (including ORC)	27.39%	- budget increasing	72.28%
Vendor/supplier loss	34.16%	2. Public view monitors	92.08%
Administrative loss	14.09%	- budget increasing	51.49%
Average monetary value in USD of each type of shrink incident		3. Access control systems	89.11%
Internal/employee theft	\$30.36 USD	- budget increasing	57.43%
External theft/shoplifting (other than organized crime)	\$31.68 USD	Social monitoring (% adoption)	69.31%
Organized retail crime	\$402.38 USD	Loss Prevention function reports to	
Rate of tagging (% of merchandise)		1. Head of Store Operations	42.57%
Source tagging	20.62%	2. Head of Facilities	23.76%
In-store tagging	40.91%	3. Head of Finance	12.87%
		Loss Prevention top performance measure	
		Sales	83.17%

China – highlights

China ranked 7th among the shrinkage rates of all the countries surveyed. But its size and rapidly growing modern retail base meant it was only second to the USA in terms of total losses. The findings suggest Chinese retailers, in department stores particularly, should focus on reducing opportunity for high-value incidents. Internal/employee theft incidents are at their highest on average in China, where 26% say each incident is worth \$100 or more.

External theft/shoplifting incidents are worth the most here, with over half in China (53.00%) reporting the value per incident as \$100 or more. And 26.00% of Chinese respondents reported that ORC incidents cost \$5,000 or more. Of the respondents seeing success from the most number of tools, China features highly, with 75.00% of respondents highlighting the use of exception-based reports.

Figure 3.5.8

China – key data, 2017-2018		China – key data, 2017-2018	
Rate of shrinkage (% of revenue)	1.96%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Inventory tracking & visibility	79.00%
Department stores	2.57%	Loss Prevention Budget (% of revenue)	1.77%
Lowest rate of shrink by retail vertical (% of revenue)		Increasing	56.00%
Convenience & forecourt stores	1.01%	Technology Spend	26.68%
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	17.17%	1. Public view monitors	96.00%
External theft/shoplifting (including ORC)	33.99%	- no change in investment	42.00%
Vendor/supplier loss	29.50%	2. EAS	94.00%
Administrative loss	19.34%	- Budget increasing	70.00%
Average monetary value in USD of each type of shrink incident		3. Source tagging	94.00%
Internal/employee theft	\$77.14 USD	- Budget increasing	65.00%
External theft/shoplifting (other than organized crime)	\$113.32 USD	Social monitoring (% adoption)	91.00%
Organized retail crime	\$3613.24 USD	Loss Prevention function reports to	
Rate of tagging (% of merchandise)		1. CEO	39.00%
Source tagging	47.81%	2. Head of store operations	22.00%
In-store tagging	50.19%	3. Head of finance	13.00%
		Loss Prevention top performance measure	
		Sales	81.00%

India - highlights

India's relatively low modern retail base meant the value of losses was the least out of all the countries surveyed. Nevertheless, with total retail banner sales in the country predicted to grow at a five-year compound annual growth rate (CAGR) of 13.68% to 2022, Indian retailers would do well to focus on return fraud (cited by 41.58%), when it comes to stemming external losses. The highest proportion worldwide (29.96%) say each internal/employee theft incident is worth \$100 or more.

Mobile phones, electronics and accessories featured highly among those products most targeted, and Dell, LG, Apple and Sony were among the top cited brands, alongside Adidas and Nike. Cash & carries, drugstores, and fashion and accessories stores were also the verticals with the highest reported shrink rates in the country.

Figure 3.5.9

India - key data, 2017-2018		India - key data, 2017-2018	
Rate of shrinkage (% of revenue)	2.13%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Inventory tracking & visibility	66.34%
Cash & carries & wholesale clubs	2.67%	Loss Prevention Budget (% of revenue)	1.72%
Lowest rate of shrink by retail vertical (% of revenue)		Increasing	79.21%
Supermarkets & neighborhood stores	1.22%	Technology Spend	24.91%
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	26.96%	1. CCTV	95.05%
External theft/shoplifting (including ORC)	33.70%	- budget increasing	66.34%
Vendor/supplier loss	20.50%	2. Source tagging	93.07%
Administrative loss	18.84%	- budget increasing	58.42%
Average monetary value in USD of each type of shrink incident		3. Public view monitors	91.09%
Internal/employee theft	\$78.78 USD	- budget increasing	58.42%
External theft/shoplifting (other than organized crime)	\$84.98 USD	Social monitoring (% adoption)	60.40%
Organized retail crime	\$1813.08 USD	Loss Prevention function reports to	
Rate of tagging (% of merchandise)		1. CEO	35.64%
Source tagging	32.90%	2. CIO	32.67%
In-store tagging	36.59%	3. Head of Store Operations	13.86%
		Loss Prevention top performance measure	
		Shrink performance	73.27%

Japan – highlights

Respondents in Japan reported the second lowest shrink rate by country. As the second largest APAC market by Gross Domestic Product (GDP), the value of this shrinkage sees it ranked sixth of those countries surveyed. Vendor/supplier loss is the biggest contributor of shrink in any country in the region, at 35.57% of all losses. Return fraud is ranked as the top contributor from external sources in Japan, like India, accounting for 42.42% of such incidents.

Consumer electronics stores reported the highest shrinkage rate by category in Japan, at 2.21% of sales. And Japanese respondents were most likely (98.02%) to include social media monitoring as part of the responsibilities of the Loss Prevention function, with a focus on brand protection, threats to store, and merchandise theft or black-market activities. Japan allots just 0.50–0.99% of their sales to the LP budget.

Figure 3.5.10

Japan – key data, 2017-2018		Japan – key data, 2017-2018	
Rate of shrinkage (% of revenue)	1.44%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Stock/on-floor replenishment	44.55%
Consumer Electronics Stores	2.21%	Loss Prevention Budget (% of revenue)	1.58%
Lowest rate of shrink by retail vertical (% of revenue)		Increasing	74.26%
Supermarkets & Neighborhood Stores	1.26%	Technology Spend	15.83%
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	25.29%	1. RFID	83.00%
External theft/shoplifting (including ORC)	21.93%	- budget increasing	75.00%
Vendor/supplier loss	35.57%	2. Access control systems	82.18%
Administrative loss	17.20%	- Budget increasing	53.47%
Average monetary value in USD of each type of shrink incident		3. Data mining tools	83.00%
Internal/employee theft	\$33.55 USD	- Budget increasing	67.00%
External theft/shoplifting (other than organized crime)	\$39.69 USD	Social monitoring (% adoption)	98.02%
Organized retail crime	\$299.35 USD	Loss Prevention function reports to	
Rate of tagging (% of merchandise)		1. Head of Facilities	33.66%
Source tagging	19.04%	2. Head of Store Ops	19.80%
In-store tagging	21.68%	3. Head of Finance	16.83%
		Loss Prevention top performance measure	
		Gross Margin	68.32%

South Korea – highlights

Respondents from South Korea reported a relatively high shrink rate that put it fourth in the global ranking. It ranked 13th in terms of shrinkage value however. Perhaps this is because South Korea is the only country in the region where internal sources, such as employee theft, are the biggest contributor of shrink. Internal sources, i.e. employee merchandise theft, account for 28.55% of the total in South Korea with an individual incident value of \$50 or more, compared to 26.73% for external sources, i.e. shoplifting.

Meanwhile, employee fraud/sweet-hearting was a prominent contributor to external shrink, with 40.82% in this country citing it as the top contributor. ORC accounted for 39.13% of external sources. But South Korean retailers source tag only 26.67% (rank 10th) and in-store tag 25.69% (rank 12th) of merchandise. They also spend a relatively low 1.58% (rank 9th) of revenue on the Loss Prevention budget, where discount, cash & carry, and variety stores suffered the highest shrink rates (at 2.70%, 2.65% and 2.49%, respectively).

Figure 3.5.11

South Korea – key data, 2017-2018		South Korea – key data, 2017-2018	
Rate of shrinkage (% of revenue)	2.05%	Most popular RFID application	
Highest rate of shrink by retail vertical (% of revenue)		Inventory tracking & visibility	58.82%
Variety stores	2.49%	Loss Prevention Budget (% of revenue)	1.58%
Lowest rate of shrink by retail vertical (% of revenue)		Increasing	74.51%
Fashion and accessories stores	0.81%	Technology Spend	13.90%
Sources of shrink (% of revenue)		Top 3 Loss Prevention solutions (% adoption)	
Internal fraud/employee theft	28.55%	1. Alarm monitoring	90.20%
External theft/shoplifting (including ORC)	26.73%	- budget decreasing	43.14%
Vendor/supplier loss	23.90%	2. EAS	88.24%
Administrative loss	20.82%	- budget increasing	60.78%
Average monetary value in USD of each type of shrink incident		3. CCTV	88.24%
Internal/employee theft	\$65.58 USD	- budget increasing	47.06%
External theft/shoplifting (other than organized crime)	\$65.32 USD	Social monitoring (% adoption)	80.39%
Organized retail crime	\$672.71 USD	Loss Prevention function reports to	
Rate of tagging (% of merchandise)		1. CIO	37.25%
Source tagging	26.67%	2. Head of Finance	23.53%
In-store tagging	25.69%	3. CEO	21.57%
		Loss Prevention top performance measure	
		Sale	58.82%

CHAPTER 4

Vertical Report

Vertical Report

The study asked respondents to identify their mode of retail operations by vertical, gathering data on across 13 categories.

Introduction

Respondents operating variety stores, hypermarkets & supermarkets, department stores, supermarket & neighborhood stores and consumer electronics stores made up the top five largest groups of respondents by vertical, respectively. They represent 82.50% of all respondents and some of the biggest (\$10–25 billion and more) in most recent annual revenue) retailers in the world. All global vertical shrink rates quoted are calculated using comparable data, when available.

Drugstores, pharmacies & perfumeries, discount stores, and fashion & accessories stores rank as the top three verticals, by rate of shrinkage as a percentage of sales (see Figure 4.1). Shrinkage in fashion and accessories stores, at 1.98% of sales, is the most globally representative vertical impacted by shrink across all respondents. This amounts to \$4.12 billion when applied to all retailers operating in this vertical across the country markets included in the study. Variety stores, at a cost of \$4.08 billion is the second most globally representative vertical. Finally, department stores round out the global top three, with a total cost in shrinkage losses to this vertical of \$3.97 billion during 2017–2018.

Figure 4.1

Global Vertical Shrink Rates, 2017-2018

Vertical	Shrinkage, as a % of revenue 2017-2018	Rank (1 = Highest, 13 = Lowest)
Drugstores, Pharmacies & Perfumeries	2.12%	1
Discount Stores	2.06%	2
Fashion and Accessories Stores	1.98%	3
Home, Garden & Auto Stores	1.87%	4
Convenience & Forecourt Stores	1.86%	5
Variety Stores	1.85%	6
Department Stores	1.83%	7
Consumer Electronics Stores	1.82%	8
Supermarkets & Neighborhood Stores	1.79%	9
Hypermarkets & Superstores	1.73%	10
Cash & Carries & Wholesale Clubs	1.69%	11
Leisure Stores	1.55%	12
Office Equipment Stores	1.28%	13

Cash & Carries & Wholesale Clubs

Formats include: Cash & carries, Warehouse clubs

While respondents from cash & carries and wholesale clubs were represented in 10 of the 14 countries included in the study and so do not represent globally comparable results, the shrinkage rates that were reported were nevertheless relatively high. The vertical positioned at 11th place in the global sector rankings. Shrinkage rates are most affected by employee fraud/sweet-hearting (46.34%) internally, and ORC (30.00%) externally. The average ORC incident is valued at \$300-\$399.

Figure 4.2

Cash & Carries & Wholesale Clubs Shrinkage, 2017-2018

Country	Shrinkage as a % of sales, 2017-2018	Global Rank (1 = Highest, 14 = Lowest)
Italy	2.75%	1
India	2.67%	2
South Korea	2.65%	3
Brazil	2.13%	4
France	2.10%	5
UK	1.71%	6
China	1.65%	7
US	1.61%	8
Mexico	1.45%	9
Japan	1.30%	10
Australia	-	-
Germany	-	-
Russia	-	-
Spain	-	-

Consumer Electronics Stores

Formats include: Camera stores, Electronics stores, Electronics superstores, Electronics warehouse clubs, Household appliance stores, PC stores, PC superstores, Photo processing stores

Respondents from consumer electronics stores were represented in all the countries included in the study. The resulting global shrinkage rate of 1.82% of annual sales during 2017-2018 was relatively high. The average incident involving employee merchandise theft is valued at \$20-\$24.99. Inventory is most likely taken once a week. And the popular technologies used to protect stores in this vertical were EAS, source tagging and alarm monitoring.

Figure 4.3

Consumer Electronics Stores Shrinkage, 2017-2018

Country	Shrinkage as a % of sales, 2017-2018	Global Rank (1 = Highest, 14 = Lowest)
UK	2.32%	1
Italy	2.25%	2
Japan	2.21%	3
Australia	2.06%	4
South Korea	2.01%	5
Russia	1.98%	6
China	1.90%	7
US	1.84%	8
Spain	1.75%	9
India	1.71%	10
Brazil	1.60%	11
France	1.60%	12
Mexico	1.60%	13
Germany	0.82%	14

Convenience & Forecourt Stores

Formats include: Convenience stores, Forecourt stores, Travel convenience stores

While respondents from convenience & forecourt stores were gathered from 9 of the 14 countries included in the study, and so do not represent globally comparable results, the shrinkage rates that were reported were nevertheless high. Countries most impacted in this vertical were Russia, UK and Australia. The most prevalent sources of shrinkage were employee fraud/sweet-hearting (32.00%), and externally, shoplifting (46.15%) was followed closely by ORC (43.48%).

Figure 4.4

Convenience & Forecourt Stores Shrinkage, 2017-2018

Country	Shrinkage as a % of sales, 2017-2018	Global Rank (1 = Highest, 14 = Lowest)
Russia	2.55%	1
UK	2.55%	2
Australia	2.45%	3
South Korea	2.17%	4
US	2.05%	5
Japan	1.61%	6
Mexico	1.61%	7
Germany	1.25%	8
China	1.01%	9
Brazil	-	-
France	-	-
India	-	-
Italy	-	-
Spain	-	-

Department Stores

Formats include: Department stores, Department stores (with food hall)

Respondents from department stores were represented in all the countries included in the study. The resulting global shrinkage rate of 1.83% of annual sales during 2017-2018 rank it 7th globally, where the sector has historically employed high levels of source tagging, due to the higher average value of its merchandise. The study confirmed 41.62% of retailers in this vertical in-store or source tagged the majority (between 50-100%) of its merchandise, which was well above the 26.61% average across all verticals. The source of the highest value average incident is shoplifting and is valued between \$50 - \$74.99. And the most popular tools used to protect stores in this vertical were CCTV, alarm monitoring and source tagging.

Figure 4.5

Department Stores Shrinkage, 2017-2018

Country	Shrinkage as a % of sales, 2017-2018	Global Rank (1 = Highest, 14 = Lowest)
China	2.57%	1
Italy	2.55%	2
Spain	2.51%	3
Brazil	2.35%	4
India	2.15%	5
France	1.92%	6
South Korea	1.80%	7
US	1.80%	8
UK	1.78%	9
Japan	1.36%	10
Mexico	1.33%	11
Australia	1.32%	12
Russia	1.20%	13
Germany	1.15%	14

Discount Stores

Formats include: Discount stores, Discount variety stores

While respondents from discount stores were gathered from 9 of the 14 countries included in the study, and so do not represent globally comparable results, the shrinkage rates that were reported were notably high in some countries. These include France and South Korea. Unlike most of the other verticals, the most prevalent source of internal shrinkage was employee theft of merchandise (50.00%), with shoplifting cited by half (50.00%) of the respondents operating in this vertical as the top external source of shrinkage.

Figure 4.6

Discount Stores Shrinkage, 2017-2018

Country	Shrinkage as a % of sales, 2017-2018	Global Rank (1 = Highest, 14 = Lowest)
France	2.70%	1
South Korea	2.70%	2
Russia	2.55%	3
Australia	2.45%	4
UK	2.10%	5
Germany	1.90%	6
Japan	1.45%	7
Mexico	1.25%	8
US	0.15%	9
Brazil	-	-
China	-	-
India	-	-
Italy	-	-
Spain	-	-

Drugstores, Pharmacies & Perfumeries

Formats include: Drugstores, Drugstores/pharmacies, Nutritional stores, Perfumeries/beauty stores, Pharmacies

While respondents from drugstores, pharmacies & perfumeries were gathered from 11 of the 14 countries included in the study, and so do not represent globally comparable results, the shrinkage rates that were reported were particularly high in some countries. In fact, respondents from China operating drugstores, pharmacies & perfumeries reported the highest country market-level shrinkage rate across all verticals. Employee theft of merchandise emerged as the top source of internal shrinkage (51.35%), while ORC was cited as the top external source by 37.84%.

Figure 4.7

Drugstores, Pharmacies & Perfumeries Shrinkage, 2017-2018

Country	Shrinkage as a % of sales, 2017-2018	Global Rank (1 = Highest, 14 = Lowest)
China	3.15%	1
Australia	2.55%	2
Italy	2.45%	3
India	2.25%	4
US	2.03%	5
Japan	1.98%	6
UK	1.88%	7
Mexico	1.75%	8
South Korea	1.70%	9
Spain	1.52%	10
Germany	1.42%	11
Brazil	-	-
France	-	-
Russia	-	-

Fashion and Accessories Stores

Formats include: Clothing stores, Jewellery stores, Shoe stores

Although respondents from fashion and accessories stores were gathered from 13 of the 14 countries included in the study, they represent sufficient global comparison. The resulting global shrinkage rate of 1.98% of annual sales during 2017-2018 was one of the highest (ranked third). The study found that retailers operating in this vertical are most affected by employee theft of merchandise, internally, with external ORC following close behind, when considering all sources of shrink. The popular technologies used to protect stores in this vertical were source tagging, alarm monitoring, and access control systems. They were also most likely to use RFID for inventory tracking and visibility.

Figure 4.8

Fashion and Accessories Stores Shrinkage, 2017-2018

Country	Shrinkage as a % of sales, 2017-2018	Global Rank (1 = Highest, 14 = Lowest)
US	2.43%	1
India	2.38%	2
Brazil	2.22%	3
France	2.00%	4
Spain	2.00%	5
Mexico	1.81%	6
UK	1.79%	7
Japan	1.69%	8
Italy	1.65%	9
China	1.45%	10
Germany	1.45%	11
Australia	1.33%	12
South Korea	0.81%	13
Russia	-	-

Home, Garden and Auto Stores

Formats include: Automotive stores, Carpet superstores, DIY stores, Garden centres, Home furnishing stores

While respondents from home, garden and auto stores were gathered from 10 of the 14 countries included in the study, and so do not represent globally comparable results, the shrinkage rates that were reported were high in some countries. Italy is the stand out country market affected in this vertical. Employee merchandise theft was by far the most often cited source of internal shrink, while just under one third (32.00%) say shoplifting is the top cause of shrinkage from external sources.

Figure 4.9

Home, Garden and Auto Stores Shrinkage, 2017-2018

Country	Shrinkage as a % of sales, 2017-2018	Global Rank (1 = Highest, 14 = Lowest)
Italy	2.85%	1
UK	2.65%	2
Mexico	2.07%	3
US	2.05%	4
Spain	1.65%	5
China	1.63%	6
Brazil	1.60%	7
France	1.25%	8
South Korea	1.25%	9
Germany	1.10%	10
Australia	-	-
India	-	-
Japan	-	-
Russia	-	-

Hypermarkets & Superstores

Formats include: Discount superstores, Hypermarkets, Hypermarkets & superstores, Superstores

Although respondents from hypermarkets & superstores were gathered from 13 of the 14 countries included in the study, they represent sufficient global comparison. The resulting global shrinkage rate of 1.73% of annual sales during 2017-2018 was comparatively low, seeing it place 11th in the verticals ranking. The study found that retailers operating in this vertical are most affected by employee theft of merchandise internally, with shoplifting emerging as the top source of external shrinkage. The most popular technologies used to protect stores in this vertical were public view monitors, EAS and CCTV.

Figure 4.10

Hypermarkets & Superstores Shrinkage, 2017-2018

Country	Shrinkage as a % of sales, 2017-2018	Global Rank (1 = Highest, 14 = Lowest)
Italy	2.78%	1
Spain	2.41%	2
South Korea	2.23%	3
France	2.20%	4
UK	2.10%	5
India	1.98%	6
China	1.74%	7
US	1.71%	8
Brazil	1.53%	9
Japan	1.42%	10
Australia	1.33%	11
Germany	1.21%	12
Mexico	1.15%	13
Russia	-	-

Supermarkets & Neighborhood Stores

Formats include: Delicatessens, Food departments, Frozen food stores, Neighborhood stores, Supermarkets, Supermarkets & Neighborhood stores

While respondents from supermarkets & neighborhood stores were gathered from 11 of the 14 countries included in the study, and so do not represent globally comparable results, the shrinkage rates that were reported were high in European countries, including the UK and France, as well as Mexico. The top sources of internal and external shrinkage were shoplifting (44.72%) and employee theft of merchandise (44.44%), respectively. The most popular loss prevention tools cited by those operating in this vertical, were public view monitors and CCTV. Least popular were facial recognition and RFID.

Figure 4.11

Supermarkets & Neighborhood Stores Shrinkage, 2017-2018

Country	Shrinkage as a % of sales, 2017-2018	Global Rank (1 = Highest, 14 = Lowest)
UK	2.06%	1
France	1.99%	2
Mexico	1.98%	3
China	1.95%	4
Italy	1.82%	5
Australia	1.51%	6
US	1.90%	7
Germany	1.26%	8
Japan	1.26%	9
India	1.22%	10
South Korea	0.85%	11
Brazil	-	-
Russia	-	-
Spain	-	-

Variety Stores – highlights

Formats include: Variety stores (food), Variety stores (non-food)

Respondents from variety stores were represented in all the countries included in the study. The resulting global shrinkage rate of 1.85% of annual sales during 2017–2018 was relatively high, with respondents from Italy, South Korea and Brazil emerging as the worst affected. The study also found that retailers operating in this vertical are most affected by employee theft of merchandise internally, and shoplifting externally. The most popular technologies used to protect stores in this vertical were public view monitors, CCTV and alarm monitoring.

Figure 4.12

Variety Stores Shrinkage, 2017-2018

Country	Shrinkage as a % of sales, 2017-2018	Global Rank (1 = Highest, 14 = Lowest)
Italy	2.44%	1
South Korea	2.40%	2
Brazil	2.35%	3
France	2.25%	4
Germany	2.09%	5
India	2.00%	6
US	1.95%	7
Spain	1.93%	8
UK	1.51%	9
Japan	1.48%	10
China	1.45%	11
Mexico	1.33%	12
Australia	1.31%	13
Russia	1.20%	14

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