

EXECUTIVE SUMMARY

The 1998 National Retail Security Survey (NRSS) is the eighth annual edition in a series of nationwide empirical research studies focused on retail loss prevention and security activities. This year's report summarizes data voluntarily provided by way of anonymous questionnaire from 200 separate retail companies representing 18 different retailing markets. The retail firms participating in the survey represent virtually the entire retailing industry — with the intentional exclusion of restaurants, bars, motor vehicle dealers, auto service stations, and direct catalog sale outlets.

Measures of Loss

Each year the principal objective of the NRSS is to ascertain the level of inventory shrinkage experienced annually by various types of firms within the retail industry. Providing data from the calendar year 1997, responding firms indicated that the average inventory shrinkage rate was 1.72% of total retail sales — somewhat lower than the previous year's rate of 1.77%.

- Above average shrinkage percentages were reported by the Convenience (3.14%), Drug (2.54%), Cards, Gifts, Novelties, and Books (2.32%), Recorded Music & Video (2.14%), Women's & Children's Apparel (1.93%), Discount (1.9%), Homecenter & Hardware (1.86%), and Jewelry/Optical (1.86%) stores.
- Below average shrinkage percentages are reported by firms in the Supermarket & Grocery (1.69%), Department Store (1.6%), Toys & Hobbies (1.53%), Men's Apparel (1.4%), Other Apparel (1.28%), Sporting Goods (1.11%), Household Furnishing (0.97%), Shoes (0.92%), Consumer Electronics and Computers (0.72%), and Furniture (0.45%) market segments.
- Overall mean shrinkage percentages have remained relatively stable over the past eight years studied — oscillating from 1.79% during 1990, to 1.91% in 1991, down slightly to 1.88% during 1992, then increasing slightly to 1.95% in 1993, decreasing again in 1994 to 1.83%, up to 1.87% in 1995, down to 1.77% in 1996, and falling slightly to 1.72% in these most recently data collected representing the calendar year of 1997.

Sources of Shrinkage

A second objective of the study was to measure the perceived sources of inventory shrinkage as assessed by retail loss prevention managers.

- Loss prevention executives responding to this year's survey once again believe that employee theft is their firm's most significant source of inventory shrinkage. Specifically, responding retailers attributed 42.7% of their inventory shrinkage losses to employee theft, 34.4% to shoplifting (i.e., shop theft), 17.6% to administrative error, and 5.3% to vendor fraud.
- Compared to last year's findings, these proportions reflect an increase in both employee theft and vendor fraud, with a corresponding decreased share attributable to shoplifting (i.e., shop theft).
- The shrinkage proportion attributable to employee theft is the highest percentage (i.e., 42.7%) that we have ever observed in the seven previous surveys.
- The proportion of loss attributed to administrative error was identical to last year's level.

Corporate Commitment to Preventing Losses

We also measured the corporate commitment to loss prevention by examining the extent of resources committed to controlling losses in the retail store. Our respondents indicated that on average their loss prevention budgets equaled 0.57% of their firm's annual retail sales.

- The overall loss prevention budget breakdown was as follows: 51.9% of the dollars were allocated to payroll & benefits, 17.3% to contract services, 13.3% to "other" expenses, 12.5% to new capital purchases, and 5.1% to capital depreciation.
- This year's responding retail companies reported hiring an average of ten (9.99) loss prevention employees per \$100 million in annual sales.
- Responding firms also reported that they have assigned an average of 1.12 employees per store specifically to loss prevention duties.

Loss Prevention Strategies

To investigate how retail firms attempted to control losses, we examined a total of 65 different loss prevention strategies grouped into four major categories, namely, pre-employment integrity screening measures, employee awareness programs, asset control policies, and last, loss prevention systems.

- Five (5) of the 14 employee integrity screening measures examined (i.e., past employment verification, multiple interviews, criminal conviction checks, personal reference checks, and credit history checks) are being utilized by more than one-half of the companies surveyed. Another four (4) pre-employment screening measures (i.e., drug screening, driving history checks, paper and pencil honesty testing, and education verification) are used by at least one-third of the responding firms.
- Retail firms demonstrated considerable differences in their use of employee integrity screening measures dependent upon whether they were hiring for a management, non-management, or a professional-level job position.
- An average of 5.9 (out of 14) employee integrity screening measures were utilized by the typical responding firm, however, the exact number of pre-employment screening measures in use varied substantially across the numerous vertical retail markets represented in the study.
- For the majority of the pre-employment screening measures, a considerable number of companies indicated that they intended to increase usage in the coming year. While six (6) of the 14 measures were slated for some level of increased usage by at least 10% of the responding firms. By a considerable margin the top two screening measures to be more utilized in the coming year were criminal conviction checks and screening for illicit drug use.
- Eight (8) of the 12 loss prevention awareness programs examined (i.e., discussions during orientation, periodic loss prevention programs, bulletin boards/posters, anonymous telephone hotlines, codes of conduct, training videos, newsletters, and honesty incentives) are currently in use by more than half of the retail chains participating in this year's survey.
- An average of 6.8 (out of 12) loss prevention awareness programs are currently in use by the typical retailer, again with considerable variation noted across the various market segments.
- Every one of the 12 loss prevention awareness programs was slated for significantly increased usage by responding firms in the coming year. Periodic programs, training videos, bulletin boards/posters, discussion during orientation, honesty incentives and newsletters were the particular loss prevention awareness programs most likely to be enhanced.
- Of the four major categories of retail loss prevention strategies examined, asset control policies are clearly the most widely utilized — with all 12 being used by more than three-fifths of the respondents. Moreover, six (6) asset control policies (i.e., refund controls, void controls, interstore transfer controls, POS bar coding/scanning, employee package checks, unobserved exit controls, and controlled access to cash) were presently in use by more than three-fourths of all firms responding to the survey.
- On average, 9.1 (out of a possible 12) asset control policies were reported to be currently utilized by the typical retail firm.
- While all the asset control policies were slated for some level of increased usage in the coming year, the most technologically advanced item (i.e., point-of-sale (POS) exception reporting) was targeted for the greatest increased use during the upcoming year (37.5%).
- Over half (i.e., fourteen) of the 27 loss prevention systems examined (i.e., burglar alarms, live closed circuit television (CCTV), check approval screening systems, observation mirrors, armored car deposit pickups, cables, locks & chains, mystery/honesty shoppers, silent alarms, secured displays, plain clothes detectives, shoplifting deterrence signage, drop safes, uniformed guards, and acousto-magnetic EAS tags) were being used regularly by at least one-third of the responding retail chains.
- Over two-thirds of the respondents (i.e., 67.5%) were using some type of EAS tag in their stores.
- Sixteen percent (16%) reported stocking items which contained some brand of vendor/source EAS tag.
- An average of 10 out of 27 loss prevention systems were currently being deployed by the typical retail firm responding to our survey.
- Only four (4) of the 27 LP systems (i.e., live CCTV, mystery/honesty shoppers, check approval screening systems, point-of-sale terminals interfaced with closed circuit television (POS/CCTV)) were scheduled for increased usage in the coming year by more than 10% of the respondent firms. With few exceptions the loss prevention systems generating the greatest future interest are the more technologically sophisticated.
- By far the most popular loss prevention system to be added in the coming year was live CCTV.
- Nineteen percent (19%) of the firms planned on increasing their use of some brand of EAS tag. Sixteen percent (16%) of responding retail chains were increasing their deployment of EAS vendor/source tags.

Human Resources and Shrinkage

In a continuing effort to determine the relationship between shrinkage levels and the characteristics of the work force, a variety of human resource variables for each firm were correlated with inventory shrinkage levels.

- As was the case with each of the previous NRSS reports, this year's study again confirmed that the length of time worked by the typical dishonest employee prior to their apprehension was less than a year. In fact, this year's data indicated that the average length of time worked by the dishonest employee was an average of only 9.4 months.
- Although not a perfect relationship, we again found generally consistent evidence suggesting that higher shrinkage levels were found in those firms that also suffered above average salesperson and management turnover. With one inexplicable aberration, this year's data once again show that heavy reliance on part-time employees continues to be associated with higher inventory shrinkage levels.

Employee Theft and Shoplifting (Shop Theft)

The next section of the report solicited information on the nature of each firm's response to discovered incidents of employee theft and shoplifting (shop theft).

- Retailers reported an average of 40.9 employee theft apprehensions for every \$100 million in sales.
- These data also indicate that 16.2 criminal prosecutions and 7.6 civil demand cases for employee theft were reported for every \$100 million in sales.
- Statistics provided on the response to employee theft suggests that 42% of their internal dishonesty cases were referred for criminal prosecution, while 20% resulted in civil demand actions.
- Responding firms reported an average of 265.3 shoplifting apprehensions for every \$100 million in retail sales.
- Additionally, 129.1 prosecutions and 37.4 civil demands for shoplifting were reported for every \$100 million in sales.
- Statistics provided regarding the corporate response to shoplifting (shop theft) indicate that 57.2% of these cases are referred for criminal prosecution, while only 29.4% resulted in the use of the civil demand sanctioning alternative.

Other Crimes in the Retail Store

For the fourth year, we again asked responding firms to provide information about their experiences with conventional crime occurring in the retail store. Each respondent was presented with a list of 24 different

categories of crime and were asked to provide offense incidence data for the calendar year 1997.

Larger retail firms are naturally expected to experience more crime incidents. They may present "better" financial targets to offenders or may simply experience more crime as a function of having more stores to victimize. As such, we standardized the crime incident data to control for misleading or spurious statistical artifacts. The economic crime categories were standardized by sales volume figures. Non-economic crime categories were standardized by the number of stores within the entire chain.

- The level of discarded empty packaging found in the store is commonly used by retailers as an indirect measure of undetected shoplifting and employee theft. Retail firms reported an average of 976.8 empty packaging discoveries per \$100 million in annual sales. The most severely affected market segments by far were Recorded Music & Video and Supermarket/Grocery stores. Drug store and Cards, Gifts, and Novelty chains also experienced above average levels of empty packaging found in their stores.
- Firms experienced an average of 76.5 incidents of price tag switching per \$100 million in sales. Recorded Music & Video, Supermarket/Grocery, and Cards, Gifts & Novelties were among those segments most often victimized by price tag switching fraud.
- Firms reported an average of 121.2 EAS and dye tag removals per \$100 million in sales. Retailers in the Recorded Music & Video segment were principally affected by this form of criminal deception.
- Overall, firms experienced an average of 2.6 vendor fraud/thefts per \$100 million in sales. The most affected segments included Convenience Stores, Drug Stores, Sporting Goods, and Supermarket/Grocery.
- Firms reported an average of 43 customer refund & return frauds per \$100 million in sales. Ranking at the top of the list of affected segments were Recorded Music & Video, Supermarket/Grocery, and Cards, Gifts & Novelties.
- There were an average of 1,214 bad check incidents per \$100 million in sales reported by the survey respondents. The Recorded Music & Video, Supermarket/Grocery, Cards, Gifts & Novelties, and Drug Stores reported the highest numbers of bad checks.
- An average of 48.3 credit card fraud incidents per \$100 million in sales were reported. This problem was most problematic among Recorded Music & Video and Men's Apparel stores retailers.
- Overall, firms reported an average of 14.2 counterfeit currency incidents per \$100 million in sales.

This problem was most problematic among the Recorded Music & Video, Sporting Goods, and Convenience Store segments.

- On average, firms encountered 0.09 slip & fall artists per store location. Slip & fall artists preyed upon Supermarket/Grocery, Women's Apparel, and Convenience retailers most often.
- There were an average of 0.28 vandalism incidents reported per store location. Those firms most affected were the Recorded Music & Video, Homecenter/Hardware, and Women's Apparel sectors.
- Respondents report an average of 0.10 burglary incidents per store location. Homecenter/Hardware stores were by far the most commonly victimized by burglary. The only other retail segments at or even near the average rate of burglary were Women's Apparel and Discount Stores.
- The data show that retail firms experienced an average of 0.03 armed robberies per store. By a huge margin (i.e., six times the average) the retail sector most affected by armed robbery were Convenience Stores. Supermarket/Grocery and Shoe Store chains both had scores that were equal to the overall average per store location.
- This year retail firms reported very few vehicle (i.e., 0.001) ram raids per store location. The only segments really experiencing any significant number of these unique forms of vehicle assisted burglaries were Discount, Consumer Electronics, Homecenter/Hardware retailers.
- Thankfully violent crime is still rather rare in retail stores. Simple Assault, Aggravated Assault, Rape, Kidnapping, and Homicide data were aggregated into a single indicator of violent crime. Respondents report an average of 0.082 violent crime incidents per store. Firms from the Discount, Supermarket/Grocery, and Recorded Music & Video segments reported experiencing the most violent crime.
- On average, loss prevention executives reported 0.088 bomb threats per store location. Department Stores, Supermarket/Grocery, and Recorded Music & Video segments indicated the highest incidence of bomb threats per store location.
- Arson is still a very rare crime in retailing. There were an average of 0.002 arson incidents reported per store. The only segment reporting any significant level of arson was in Discount stores.
- Respondents report an average of 0.051 gang related incidents per store. This number was slightly up from last year's number. This year gang related problems impacted Department store and Recorded Music & Video retailers most commonly.

Average Dollar Loss Per Incident

Respondents were asked to report the average dollar loss associated with four types of crime incidents, namely, shoplifting, employee theft, armed robbery, and burglary.

- Retail firms surveyed reported losing an average of \$212.68 per shoplifting (i.e., shop theft) incident, \$1058.20 per employee theft incident, \$8,020.57 per armed robbery, and \$8,340.92 per burglary. The first three of these crimes were up significantly from the previous year.