THE DEFINITIVE LP STUDY OF NORTH AMERICA'S LEADING RETAILERS 2015

ANALYSE DATA PAYMENTS BUSINESS
CONTROLS LOSS PREVENTION STORE
SHRINK OPERATIONAL SALES ONLINE
CARD TRANSACTION CASH SECURITY

THE US RETAIL FRAUD SURVEY – 2015

FRAUD CREDIT TILL SYSTEMS REPORTING
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Providing a detailed understanding of the retail fraud and loss prevention systems, processes and strategies of North America's leading retailers

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Retail Fraud 2015 Executive Summary

The research for this report was undertaken between August and September 2015 into the systems, processes and strategies used by North America's leading retailers.

Wherever possible we conducted detailed interviews the Loss Prevention Director or Manager for each business. We also interviewed the E-Commerce Director or Manager about their online fraud prevention systems and strategies where appropriate.

This study represents 91 retailers with annual sales totalling $844.6 billion; 18% of the total North American retail sector by sales value and encompassing 102,550 stores.

We would like to thank all those loss prevention executives who participated in this research for their views, opinions and, most of all, their time. It is hoped that retailers will use the results of this survey to benchmark their performance against the rest of the industry and other retailers in their sector and thereby identify areas of opportunity for their businesses – rather than for criminals!

Retailers have expressed support for the high levels of anonymity and data security made possible by our data collection processes. This has helped considerably in facilitating the collation of commercially sensitive material to produce really useful and accurate benchmarking figures.
As we now have several years' worth of data we are able to start tracking changes and identifying industry trends. The Survey is vitally important for the industry, as it shows what people are really doing in terms of systems used, strategies adopted and key benchmarks.

In some key areas retailers were asked to list their top three choices. This year we have produced a result indicating overall levels of concern as represented by our sample. This is to give a more accurate understanding of not just what retailers are losing most sleep over, but the number of times the factor was given as one of the top three choices. The numbers are quoted in "points" as opposed to "percentages."

Key Findings

- Shrinkage levels average has remained the same as last year at 1.27% of sales. We estimate this translates to a $60.1 billion loss to the industry.
- The shrinkage rates vary by retail sector, from discount stores at 2.5% of sales to theme parks at 0.09% of sales.
- Opinion remains divided as to the best way to measure shrinkage. Still 49% use cost price, but this is down by 4 percentage points on last year.
- Most retailers still treat store and online loss prevention separately. Typically the VP of Loss Prevention focuses on stores and online shrinkage is managed separately. However, employees, customers and fraudsters do not make this distinction.

  With the growth of multi-channel retailing, where transactions cross organizational boundaries, we anticipate the wider use of a cross-functional, holistic approach to loss prevention. Retailers expect online sales to increase from 6% currently to 15% of total business over the next three years. As that happens, we expect the adoption of an increasingly "joined up" philosophy to all loss prevention; store and online.
- Overall the biggest area of store loss remains employee theft with 38% of respondents citing it as the number one area of store loss and, across first, second and third highest causes of loss, scoring 59 points. Cash theft remains in second place with 26% or respondents identifying it as their biggest area of store loss. However, Administrative and bookkeeping errors come in second with 45 points and cash theft falls into third with 40 points.
- In the UK we found that shoplifting is considered the top area of store loss. Shoplifting comes down at fourth place for North America with (11%) as the number one area of loss for respondents and scoring 30 points.
- The biggest area of online loss remains, overwhelmingly, from the fraudulent use of credit cards (66%) up from 59% last year, followed by friendly fraud (14%). They scored 48 and 35 points respectively. These are by far the two biggest areas off loss for online business across the board.
- Fully 39% (up 2% from last year) of retailers identify Analytics and Monitoring as their biggest concern, closely followed by Fraud Detection Capabilities at 27%. Their scores were 43 and 39 points respectively, closely followed by Operational Capabilities at 37 points.
- Spend on store based and online fraud prevention continues to even up. Store spend continues to fall whilst online continues to increase.

  Store fraud prevention spend has fallen from 0.6% of sales in 2013 to 0.5% last year and 0.45% this year. Meanwhile, online fraud prevention spend has increased from 0.2% of sales in 2013 to 0.3% last year and up to 0.4% this year. This reflects the continued growth in importance of online trading to retailers.
- Return fraud is costing retailers an average of 0.31% of sales this year compared to 0.25% last year.
- Some 54% of the average loss prevention team works in stores, down from 61% last year and 46% in headquarters. A higher proportion of teams are store based in North America than for the UK, a reflection of the large distances to cover and the difficulties of covering the whole chain from headquarters in North America.

- Department stores have the highest store presence for LP teams at 98%, taking over from Discount stores which held the number one position last year and theme parks continue to have all their loss prevention team based at headquarters as last year.
- Manned guards are used by 29% of retailers, up from 25% last year. On average retailers use manned guards in 6.55% of their stores. The highest use of manned guards (100%) is used in 2% of stores and 38% of retailers do not use them in any of their stores.

The benchmarking section shows key metrics for retailers in each of the retailer sections.